# SM INVESTMENTS CORPORATION




We Build to Serve Millions


2012
ANNUAL REPORT

# We Build to Serve Millions

For more than fifty years, one company stood strong amidst the highs and lows of the Philippine economy. Successfully branching out from a small shoe store into a wide range of services, now including retail stores, destination malls, consumer and corporate banking, urban residences, countryside leisure properties, office buildings, exhibit halls, hotels, resorts, and an arena, SM's excellence and innovation has improved the lives of millions it now serves nationwide.

A catalyst of growth and progress wherever it goes, SM brings with it new jobs, business opportunities, and increased revenues for local governments. And SM does more than lift the lifestyles of the communities it serves. Through its various socio-civic projects, SM also provides free college education, medical services, farmers' training, and socialized housing.

With the Philippines now on a wave of sustained economic growth, SM will further expand its businesses to create a better Philippines, and help bring greater progress for present and future generations.

At SM, we build to serve millions.

SM INVESTMENTS CORPORATION

## RETAIL OPERATIONS

- SM RETAIL, INC.
  - NON-FOOD RETAIL
    - SM DEPARTMENT STORE
  - FOOD RETAIL
    - SM SUPERMARKET
    - SM HYPERMARKET
    - SAVEMORE

## HOTELS & CONVENTIONS

- SM HOTELS AND CONVENTIONS CORPORATION
  - TAAL VISTA HOTEL
  - RADISSON BLU HOTEL CEBU
  - PICO SANDS HOTEL
  - SMX CONVENTION CENTER
    - PASAY
    - DAVAO

## MALL OPERATIONS

- SM PRIME HOLDINGS, INC.



## BANKING

- BDO UNIBANK, INC.
- CHINA BANKING CORPORATION

## PROPERTY

- RESIDENTIAL
  - SM DEVELOPMENT CORPORATION
- COMMERCIAL
  - COMMERCIAL PROPERTIES GROUP
- LEISURE
  - COSTA DEL HAMILO, INC.

INVESTMENTS CORPORATION

# Our Vision

We envision SM to be a Filipino brand that is world-class. We see SM as a market leader that constantly innovates to provide best-value products and services to its millions of customers.

# Our Mission

To achieve world-class standards, SM shall adhere to long-held corporate values of hard work, focus, and integrity.

To meet the ever-changing needs of customers, SM shall take the lead in constantly innovating its products and services.

To become an employer of choice, SM shall develop its employees into professionals who are highly motivated to excel in their respective fields of service.

To generate sustainable growth and optimal returns, SM shall exercise prudence in resource management based on its vision and principles of good corporate governance.

To assist and nurture the communities in which it operates, SM shall progressively build on its role as a responsible corporate citizen through its various civic and environmental programs.

## Core Values

VISION • LEADERSHIP • INNOVATION • FOCUS • HARD WORK • INTEGRITY • PRUDENCE

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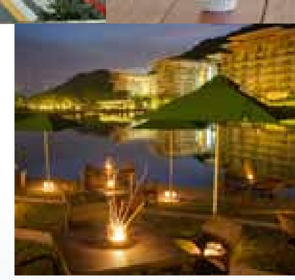



50
42
59
park inn
SM
CITY
GENERAL SANTOS
SM

HENRY SY, SR. | *Chairman*
HENRY T. SY, JR. | *Vice Chairman*
TERESITA SY-COSON | *Vice Chairperson*

# WE ARE VERY PLEASED TO REPORT THAT SM INVESTMENTS CORPORATION (SM) CONTINUED TO EXCEED ITS TARGETS IN 2012. THE COMPANY'S NET INCOME GREW BETTER-THAN-EXPECTED BY 16.3% TO PHP24.7 BILLION AS GROWTH WAS BROAD-BASED AND MAINLY DRIVEN BY THE MALLS, PROPERTY, RETAIL AND BANKING BUSINESSES WHICH GENERATED STRONG RESULTS. REVENUES LIKEWISE EXPANDED BY 12% TO PHP223.9 BILLION.

The banking business, made up of BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), accounted for 34.4% of SM's total consolidated net income. BDO posted a record net income of Php14.3 billion which grew sharply 36%. BDO was also able to capitalize on market opportunities as it raised over US$1 billion from a stock rights offering (SRO), the largest single SRO deal in Philippine market history. On the other hand, China Bank reported a consolidated net income of Php5.03 billion, fuelled by a 29% growth in loans that was faster than the industry's growth.

The retail operations through SM Retail, Inc. contributed 28.1% to SM's total earnings. SM Retail recorded an increase in net income by 12.5% to Php6.6 billion and continued to expand stores with innovative store designs.

The mall operations, through SM Prime Holdings, Inc., accounted for 22.9% of SM's total earnings. SM Prime's net income grew by 16.3% to Php10.5 billion, with revenues higher by 14.2% to Php30.7 billion. In 2012, SM Prime opened five malls in the Philippines, and one mall in China, bringing our total mall network to 51 malls. Our expansion into China continues to be on track as we focused on key cities such as Chongqing, Xiamen, Jinjiang, Chengdu and Suzhou. We continue to see China as a source of long-term growth.

Property development contributed 14.6% to SM's consolidated income led by the remarkable performance of SM Development Corp. (SMDC) For the full year, SMDC's consolidated net income rose 17.5% to Php4.9 billion. This is on the back of strong growth from revenues from real estate sales which grew 33.3% to Php21.6 billion as our residential offerings continued to be warmly received by the market.

SM's Board and Management also remains committed to its central strategy to create synergies and deliver optimal returns to investors. Our company's market capitalization as of December 28, 2012 grew by 54.1% to Php549.5 billion, a result of a similar run up in your company's share price to Php882 per share. Our recent citations from various independent award-giving bodies are affirmations of our efforts towards excellence. These demonstrations of investor and industry confidence motivate us to strive even harder in delivering value to you who have supported us throughout the years.

Beyond our commitment to deliver growth is an even stronger desire to support bigger and better communities which will not only cater to our customers' needs but transform dreams into realities for each community. SM does more than lift the lifestyles of the communities it serves. It empowers communities as partners in caring for the environment. Through SM Foundation, SM also provides free college education, medical services, farmer training, and socialized housing as it builds to serve millions even beyond the communities it operates in.

Through our dedicated team of professionals, our company plans to deliver solid growth as we expand through our core businesses. Our company's strong business model and prudent management are key factors in SM's dominance across its business segments. Our core values of vision, leadership, innovation, focus, integrity, hard work and prudence drive us forward to seek new opportunities for profitable growth.

But more than this, our company has been given a unique opportunity to serve. With the Philippines now on a wave of sustained economic growth, SM will further expand its business to create a better Philippines, and help bring greater progress for present and future generations. We thank you, our shareholders, partners and investors for your faith in us. We are inspired and driven by your untiring support.

**HENRY SY, SR.**
Chairman

**HENRY T. SY, JR.**
Vice Chairman

**TERESITA SY-COSON**
Vice Chairperson

# THE COUNTRY'S ECONOMIC PERFORMANCE IN 2012, AS WELL AS ITS POSITIVE GROWTH OUTLOOK HAS ATTRACTED RENEWED INTEREST FROM THE INTERNATIONAL INVESTMENT COMMUNITY. GIVEN THE SCALE OF OUR CORE BUSINESSES, THEIR EXPOSURE TO THE COUNTRY'S CONSUMPTION-DRIVEN ECONOMY, AND THEIR LONG TRACK RECORD OF PERFORMANCE, SM IS NOW WIDELY REGARDED BY BOTH DOMESTIC AND INTERNATIONAL INVESTORS AS THE LEADING PROXY FOR THE PHILIPPINE GROWTH STORY.

SM's increased visibility among foreign investors has helped fuel the dramatic appreciation of SM shares, which rose 51.4% to Php882 per share by year end 2012. While we believe that part of the buying support was a vote of confidence on the Philippines, the outperformance of SM shares vs. the PSEi, which grew by only 34.0%, affirms our conviction that our overall strategy serves the needs of a broad spectrum of Philippine society through our core businesses, namely, banking, retail, malls, property development, and more recently, hotels and conventions.

It was also against this backdrop of a favorable operating environment that we achieved strong revenue and earnings growth during the year. For the full year of 2012, our consolidated net income increased 16.3% to Php24.7 billion, on consolidated revenues of Php223.9 billion, 12.0% higher than in 2011. Operating income rose 26.6% to Php46.9 billion, for an operating margin of 20.9%, while EBITDA rose 24.2% to Php54.9 billion, for an EBITDA margin of 24.5%. This compares with operating and EBITDA margins of 18.5% and 22.1% in 2011, respectively.

At year-end, our balance sheet remained sound, with a gearing ratio of 33% net debt to 67% equity. Our net worth rose 17.7% to Php261.6 billion, while total assets increased 25.1% to Php561.8 billion. To support SM's expansion in the near to medium term, we undertook a number of funding activities during the year, issuing US$250.0 million in convertible bonds, US$500.0 million in straight bonds, and Php15.0 billion in peso-denominated bonds. Another funding initiative during the year was an equity top-up placement, which raised US$150.0 million. From all these, SM raised a total of US$1.26 billion in 2012. Part of the proceeds went into subscribing to new shares issued by BDO. The rest went into refinancing and our capex program.

Among our core businesses, our banks, namely, BDO and China Bank accounted for the largest share of our consolidated net income, contributing 34.4%. Our retail operations contributed the second largest share with 28.1%, while our mall and property development operations provided 22.9% and 14.6% respectively.

## Banking

In spite of a low interest rate environment, BDO's net income grew sharply by 35.6% to Php14.3 billion. The bank generated net interest income of Php36.2 billion, 7.2% more than in the previous year. The growth of net interest income is noteworthy, considering the external pressures brought on to margins by the low-interest rate environment. In response to these pressures, the bank aggressively expanded its customer loan portfolio, with particular emphasis on the corporate middle market and the consumer market, which offer higher margins. As a result, the bank's customer loan portfolio grew 14.7% to Php769.0 billion To manage its funding costs, the bank increased its base of low-cost deposits, ending the year with total deposits of Php931.6 billion, an increase of 8.5% from 2011.

Total non-interest income rose 16.9% to Php24.4 billion, as the bank aggressively expanded its fee-based businesses, and realized substantial gains on its investment portfolio. BDO's nonperforming loan (NPL) ratio declined to 2.8%.

China Bank, meanwhile, posted a net income of Php5.0 billion, for a return on equity of 12.4%. The bank's performance was driven by a 29.0% increase in loans to Php198.0 billion, an expansion which tempered the impact of declining margins due to the low interest rate environment. Loan growth was achieved across market segments, as loans expanded 36%, 28%, and

27%, in the commercial, consumer, and corporate segments, respectively. Earnings were also boosted by trading and securities gains, which increased by 98.6% to Php2.9 billion. Supporting the expansion of the bank's loan portfolio was the expansion of the bank's total deposits, which grew 25.8% to Php272.0 billion.

The bank instituted tighter controls during the year, leading to a 10.5% drop in its non-performing loans to Php5.0 billion which, in turn resulted in an reduction of its NPL ratio to only 2.1% and an improvement in its loan loss coverage ratio to 148.7%, which is among the best in the industry. At year-end, the bank maintained its strong capital position, with a Tier 1 capital adequacy ratio (CAR) of 15.2% and a total CAR of 16.0%.

## Retail

Benefitting from strong consumer demand last year, SM Retail posted a 12.5% growth in net income to Php6.6 billion, on total sales of Php159.5 billion, up 7.6% over sales in 2011. As in recent years, growth was driven by SM Retail's continued expansion of its various store formats, particularly that of its relatively compact, stand-alone SaveMore stores. SaveMore stores are SM Retail's primary vehicle for tapping the country's vast consumer market, which remains largely underserved by organized retail, and as such, offers tremendous opportunities for growth moving forward, while achieving higher economies of scale.

SM Retail achieved a 4.1% net margin. Of the group's net income, 27% was contributed by the non-food group, which consists of SM Department Stores, while 73% came from the food group, which is made up of SM Supermarkets, SM Hypermarkets, and SaveMore stores. Forty-four percent of SM Retail's sales were contributed by the non-food group, while 56% came from the food group.

In 2012 SM Retail opened a total of 34 stores, of which 18 were SaveMore stores. The remaining stores were 5 SM Department Stores, 7 SM Hypermarkets, and 4 SM Supermarkets. At year-end, SM Retail had a total of 202 stores, consisting of 46 SM Department Stores, 37 SM Supermarkets, 37 SM Hypermarkets, and 82 SaveMore stores.

## Malls

Also benefitting from increased consumer spending last year, SM Prime delivered very strong results, as its net income beat expectations with a growth of 16.3% to Php10.5 billion. Revenues rose 14.2% to Php30.7 billion, arising from same-stores sales growth of 8% and from further expansion. EBITDA meanwhile, rose 12.1% to Php20.7 billion, for an EBITDA margin of 67.3%.

Further contributing to SM Prime's overall performance were SM Prime's China operations, which delivered a 24.1% growth in net income to Php1.1 billion. Revenues grew 24.0% to Php2.5 billion as strong demand for space in our China malls allowed us the flexibility to raise our rental rates accordingly.

Reflecting its strategy of provincial expansion, SM Prime opened five new malls in key provincial centers, which added about 500,000 square meters (sqm) of gross floor area (GFA). This expanded SM Prime's total GFA in the Philippines by 10% to 5.6 million sqm. At year-end, SM Prime owns and operates 46 Philippine malls, which house a total of 13,549 tenants, and attract an average daily foot-traffic of over 3.5 million.

SM Prime's expansion in China involved opening the 149,080 square meter SM Chongqing, its fifth in the country after the success of its malls in Chengdu, Jinjiang, Xiamen, and Suzhou. By opening malls in second or third tier cities like Chongqing, where incomes are rising rapidly and where competition is low, SM Prime has successfully replicated its Philippine strategy of expanding in emerging cities. With the opening of SM Chongqing, SM Prime's GFA in China now stands at 794,252 sqm, a 23% increase from 2011. The SM Malls in China are home to 1,723 tenants, and are visited by 200,000 customers daily.

## Property

Our property arm, SM Land generated revenues from real estate sales of Php25.8 billion, an increase of 29.5% from 2011. Net income from real estate operations rose 21.4% to Php6.2 billion. SM Land has interests in residential, commercial, and leisure development.

Seventy-six percent of its net income from real estate operations were derived from SM Land's residential unit, SM Development Corporation (SMDC). In 2012, SMDC's consolidated net income amounted to Php4.9 billion, up 17.5% year-on-year. Of the total, net income from real estate operations alone amounted to Php4.7 billion, for a 16.4% increase from 2011. Revenues from real estate sales jumped by a robust 33.3% to Php21.6 billion, reflecting the company's construction progress, while EBITDA amounted to Php5.6 billion, for a 26.0% EBITDA margin.

The market continued to give SMDC projects a warm reception, as can be seen from pre-sales, which rose 20.8% to Php31.7 billion. In addition to SMDC's sustained sales and marketing efforts, one factor that contributed to the strong take up of SMDC projects was the low mortgage rates during the year. In 2012, SMDC launched two new projects, Grace Residences and Breeze Residences, as well as expansion towers in three of its existing projects, adding a total of 6,878 units of new inventory.

SM Land's commercial properties group followed through on the success of its OneE-comCenter office development as it completed the construction, and launched its 107,862 sqm TwoE-comCenter at the Mall of Asia Complex. TwoE-comCenter, which also caters to business process outsourcing (BPO) companies, was fully occupied at year-end.

In line with its goal of becoming a major player in office leasing and commercial development, the group began the construction of its 125,716 sqm GFA ThreeE-comCenter, also at the Mall of Asia Complex, as well as that of its SM Cyber West office building project in Quezon City. These projects aim to meet the sustained demand for office space from the country's fast growing BPO sector. In addition, the group is developing Sky Ranch, a 5-hectare mixed-use entertainment and leisure complex in Tagaytay City.

In the leisure segment, Costa del Hamilo is exploring opportunities to further develop SM's 5,900-hectare Hamilo Coast property, as it winds up selling the remaining inventory in its fully-completed mixed-use leisure complex in Pico de Loro.

## Hotels and Conventions

SM Hotels and Conventions Corporation had a good year, delivering a 29.3% growth in combined revenues worth Php1.4 billion and a net income of Php36.2 million. The hotels, namely, Pico Sands in Nasugbu, Batangas, Taal Vista Hotel in Tagaytay City and the Radisson Blu in Cebu, saw their combined revenues increase 38.5% to Php957.1 billion, due largely to rising occupancy rates and increased business from corporate meetings. Meanwhile, the conventions business achieved a 12.3% growth in combined revenues worth Php421.8 million. 2012 saw the opening of SMX Convention Center Davao, the second SMX Convention Center to be introduced following the success of its flagship at the Mall of Asia Complex. At year-end, SM's conventions business maintained its position as a leading player in the industry, offering more than 29,000 sqm of convention and exhibit hall space in Pasay, Davao, at SM Megamall, and SM City Cebu.

2012 was undoubtedly a very good year for SM. We would not, however, have been able to deliver such a strong performance without having learned from, and adapted to, the often difficult circumstances under which we have operated in the past. Our 2012 results show just how far we have come in terms of developing our capabilities in each of our core businesses.

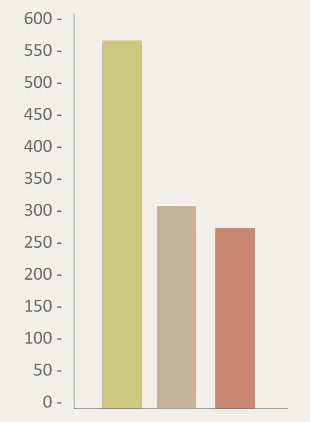
## Looking Ahead

We approach 2013 with greater optimism, given the bright economic prospects of the country. For 2013, we have estimated our capital expenditure to be at a record level of Php65.0 billion. With core businesses that lead their respective industries, we believe that we are well placed to pursue the endless opportunities that the future presents. As the Philippines shines brighter, we anticipate greater competition in the areas we thrive. That said, we have no room for complacency.

On that note, I sincerely thank you all for your continued confidence and support, which has enabled us to build SM into what it is today.

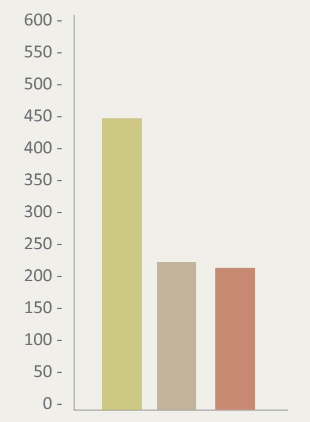
**HARLEY T. SY**
President

## 2012 in Php Billion



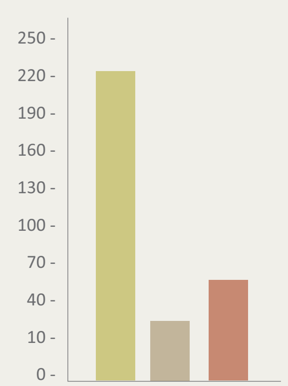

- Total Assets 561.80
- Total Liabilities 300.16
- Stockholder's Equity 261.64

## 2011 in Php Billion



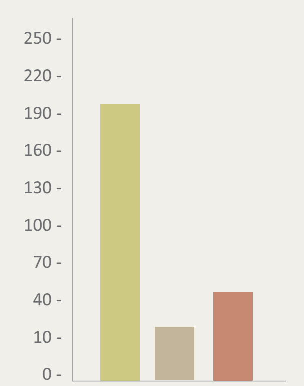

- Total Assets 449.06
- Total Liabilities 226.78
- Stockholder's Equity 222.29

## 2012 in Php Billion



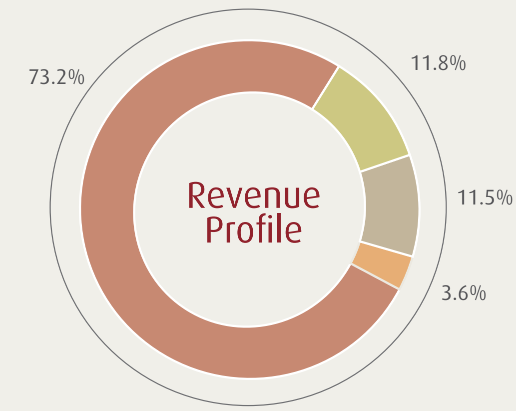

- Revenues 223.88
- Net Income 24.67
- EBITDA 54.93

## 2011 in Php Billion




- Revenues 199.92
- Net Income 21.22
- EBITDA 44.21

- Retail Merchandising
- Commercial Centers
- Real Estate
- Banks




- Retail Merchandising
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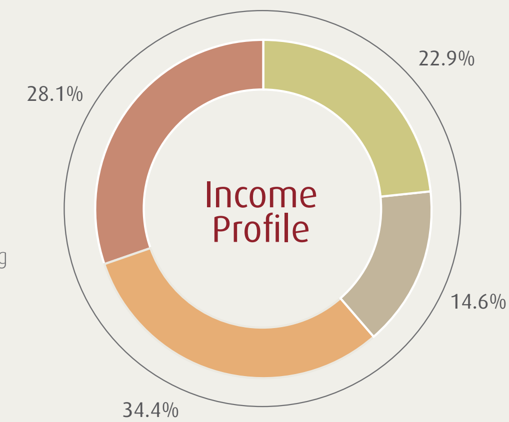
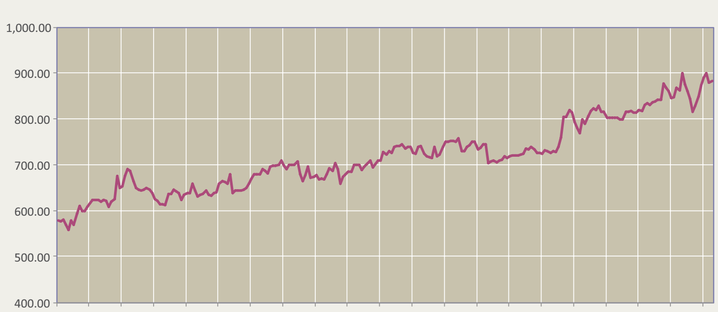



## SHARE PRICE CHART (January to December 2012)




| BALANCE SHEET HIGHLIGHTS | 2012 | % Chg |
|---|---|---|
| Total Assets | 561.80 | 25% |
| Current Assets | 145.89 | 44% |
| Non-current Assets | 415.92 | 20% |
| Current Liabilities | 105.09 | 32% |
| Non-current Liabilities | 195.07 | 33% |
| Total Liabilities | 300.16 | 32% |
| Stockholders' Equity | 261.64 | 18% |
| Book Value per Share (Php) | 301.90 | 17% |

| INCOME STATEMENT HIGHLIGHTS | 2012 | % Chg |
|---|---|---|
| Revenues | 223.88 | 12% |
| Gross Profit | 46.88 | 27% |
| Other Income / (Expenses) | (5.93) | 346% |
| Net Profit Before Tax | 40.95 | 15% |
| Net Income | 24.67 | 16% |
| Minority Interest | 9.73 | 8% |
| Basic EPS (Php) | 40.01 | 15% |

| FINANCIAL RATIOS | 2012 | 2011 |
|---|---|---|
| Current Ratio (x) | 1:39:1 | 1:27:1 |
| Return on Equity (%) | 14.3% | 14.2% |
| Debt/Equity Ratio (%) | 54:46 | 51:49 |
| Net Debt | 93.61 | 61.33 |
| Net Debt/Equity Ratio (%) | 33:67 | 28:72 |
| Revenue Growth (%) | 12.0% | 13.0% |
| Net Income Growth (%) | 16.0% | 15.0% |
| Interest Cover (x) | 5.54 | 5.05 |
| EBITDA | 54.93 | 44.21 |
| EBITDA Margin (%) | 24.5% | 22.1% |
| Net Margin (%) | 11.0% | 10.6% |

| REVENUE PROFILE | 2012 | 2011 |
|---|---|---|
| Retail Merchandising | 73.2% | 76.0% |
| Commercial Centers | 11.8% | 11.2% |
| Real Estate | 11.5% | 9.7% |
| Banks | 3.6% | 3.1% |

| INCOME PROFILE | 2012 | 2011 |
|---|---|---|
| Retail Merchandising | 28.1% | 30.3% |
| Commercial Centers | 22.9% | 23.5% |
| Real Estate | 14.5% | 15.0% |
| Banks | 34.4% | 31.2% |

• FULL-YEAR 2012
SALES GREW 7.6%
TO PHP159.5 BILLION

• NET INCOME ALSO
GREW 12.5%
TO PHP6.6 BILLION

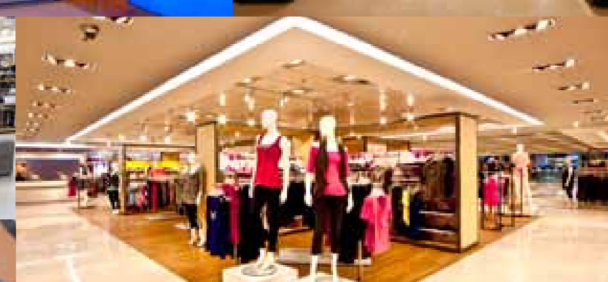
• ADDED 34 NEW STORES
FOR A TOTAL OF
202 STORES
NATIONWIDE

# Year in Review
## Non-Food Retail



**RICKY A. LIM**
Senior Vice President
Controllership
SM Retail, Inc.

**JORGE T. MENDIOLA**
President
SM Department Stores
SM Retail, Inc.



**HARLEY T. SY**
Executive Vice President
Merchandising
SM Retail, Inc.

**TERESITA SY-COSON**
Chairperson
SM Retail, Inc.

The retail industry in 2012 continued to be highly competitive. We were challenged not only by resurgent local players but by the entry of fast fashion brands and other regional, global players.

We are glad to report that in 2012, sales of SM Department Stores exceeded even our expectations as the economy forged strongly ahead. Overall sales reached Php67.8 billion and grew 8.6%, driven by strong same store sales growth of 6.0%.

We achieved these results by implementing strategies geared towards expanding our geographic footprint while at the same time cultivating our existing customer base, in the face of increasing competition and rapidly changing consumer trends.

In terms of expanding our geographical reach, we opened five new stores in 2012, in tandem with the opening of new SM malls during the year. These stores were located in Olongapo, Zambales; San Fernando, Pampanga; Consolacion,Cebu; and General Santos City and Lanang, Davao in Mindanao. While we continue to expand in Luzon, it is noteworthy that three of our new stores are located in the emerging regional centers of southern Philippines, which present great opportunities for growth moving forward.

The retail industry in 2012 continued to be highly competitive. We were challenged not only by resurgent local players but also by the entry of fast fashion brands and other regional, global players.

We addressed these challenges by building on and further developing our fundamental strengths in providing our customers with Convenience, Value and Variety. Furthermore, to ensure that we are providing our customers with the best possible product and service offerings, we continually benchmark these offerings against the best in the world.

We continued to help in the development of the Filipino shoppers' fashion consciousness, as people are becoming more mindful of fashion trends and are becoming increasingly expressive of their individual sense of style. This growing fashion consciousness is reflected, for one thing, by the fact that our top-selling items during the year were in the fashion groups, namely, clothing, shoes, bags and accessories.

We view these changes in consumer preferences as fundamental, being driven by such factors as the rising purchasing power of the population, as well as the continued surge in the use of social media and the internet, which quickens information dissemination for merchandise, fashion trends, promotions and customer feedback.

Just as our customers are changing, we have been successful in changing along with them. Our outright category, for example, had a superb performance in 2012, significantly increasing its growth from the previous year. Moving forward, we will continue to pursue product development initiatives on the following fronts:

- Build strong new private labels while strengthening merchandise assortment
- Develop stronger SM Exclusive lines from selected Store Consignor brands
- Accelerate efforts in sourcing new brands while managing the exit of low performers

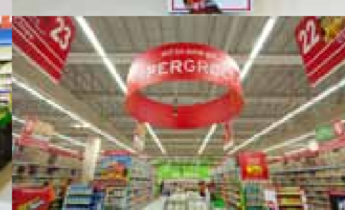
Apart from anticipating and satisfying the fast-changing preferences of our customers, we have also taken steps to enhance the overall shopping environment in our stores. During the year, we introduced new and exciting store designs and lay-outs, as well as innovative display fixtures aimed at enhancing the presentation of merchandise collections.

Furthermore, in 2012, we completed the roll-out of our Visual Store POS Application, which will not only enable us to better manage high volume, high value transactions with complex promotions and pricing structures, but also provide even greater convenience to our customers.

In 2013, we plan to launch stores in Taguig and in Sucat, bringing our total number of stores to 48. Looking ahead, we will continue to support SM Prime's mall expansion strategy toward the provincial areas while tapping select opportunities in Metro Manila.

# Year in Review
## Food Retail

**HERBERT T. SY**
Vice Chairman
Food Retail Group



**ROBERT KWEE**
President
SM Hypermarkets

**JOEY C. MENDOZA**
President
SM Supermarkets and Savemore

While competition grew, we also saw customers' preferences and demands evolve. The food retail sector expanded aggressively in terms of the number of new stores, geographical coverage, store ambience and product offerings.

Despite a more competitive environment, the SM Food Group performed well in 2012. We grew our revenues by 5.5% to Php89.3 billion, while net income exceeded our expectations with a growth of 14.7% to Php4.4 billion.

While competition grew, we saw consumers demanding more from us. This sector expanded aggressively in terms of the number of new stores, geographic coverage, store ambience and product offerings. At the same time, shoppers continued look for greater convenience, better choices, more value-for- money, and a more pleasant shopping environment. This was true, not only in Metro Manila, but also in other urban areas.

For our part, we continued our aggressive expansion in key areas of the country, opening a total of 29 new stores, the prospects of each having been carefully assessed in terms of factors such as area, population, local economy, household size and accessibility. Our new stores consisted of 18 SaveMore stores, 7 SM Hypermarkets, and 4 SM Supermarkets.

The new stores we opened in 2012 created a total of 69,186 square meters (sqm) of new selling space, with Metro Manila accounting for 39% (26,848 sqm) of this new space; Luzon ex-Metro Manila accounting for 23% (16,204 sqm); Visayas accounting for 18% (12,736 sqm) and Mindanao accounting for 19% (13,398 sqm). By yearend, we had a total of 156 stores, made up of 82 SaveMore stores, 37 SM Hypermarkets, and 37 SM Supermarkets.

Our new stores featured a revamped layout which enabled our customers to find products more easily. To ensure sustainable growth and profitability, especially in terms of same-store sales, we renovated our existing stores, providing them with new lay-outs based on the more customer-friendly design of our new stores.

We introduced more creative promotional activities, increased the services we offered, and improved store programs which helped increase the basket size of our shoppers. Furthermore, we partnered with suppliers who developed ready-to-eat and ready-to-cook food items well-suited to the fast-paced lifestyles of many of our customers, especially those living in highly urbanized areas.

We also made service improvements to enhance the comfort and convenience of our customers like introducing the Queue busters and the S-line systems to further speed up checkouts. A more personalized shopping experience was also offered, as we increased the number of Customer Assistants.

And to provide more perks to loyal SM Advantage card, Prestige card, and BDO Rewards card holders, we introduced the SWIPE promo, an exclusive promo that provides shoppers with discounts and giveaways customized according to their buying history with us. This introduced a more intimate and interactive engagement with the shopper. Aside from these, the coverage and scope of other promos were expanded to enhance customer satisfaction and loyalty with every visit to our stores.

All these were meant to strengthen our customer relationships while expanding our market cover. We plan to continue our promotional programs, adjusting them to sustain buyer interest, while introducing even more programs aimed at engaging with our shoppers and promoting customer loyalty.

We have a positive outlook for 2013. The resurgent economy will likely result in the continued increase in purchasing power, boosted further by spending connected with the mid-term national elections on May 2013. With this in mind, we will proceed with our expansion plans. More specifically, we plan to open 2 SM Supermarkets, 16 SaveMore stores, and 7 SM Hypermarkets. We are also open to more acquisitions and partnerships and are prepared to do deals similar to our joint venture with Walter Mart in 2012. Walter Mart currently has 20 stores all located in Luzon.

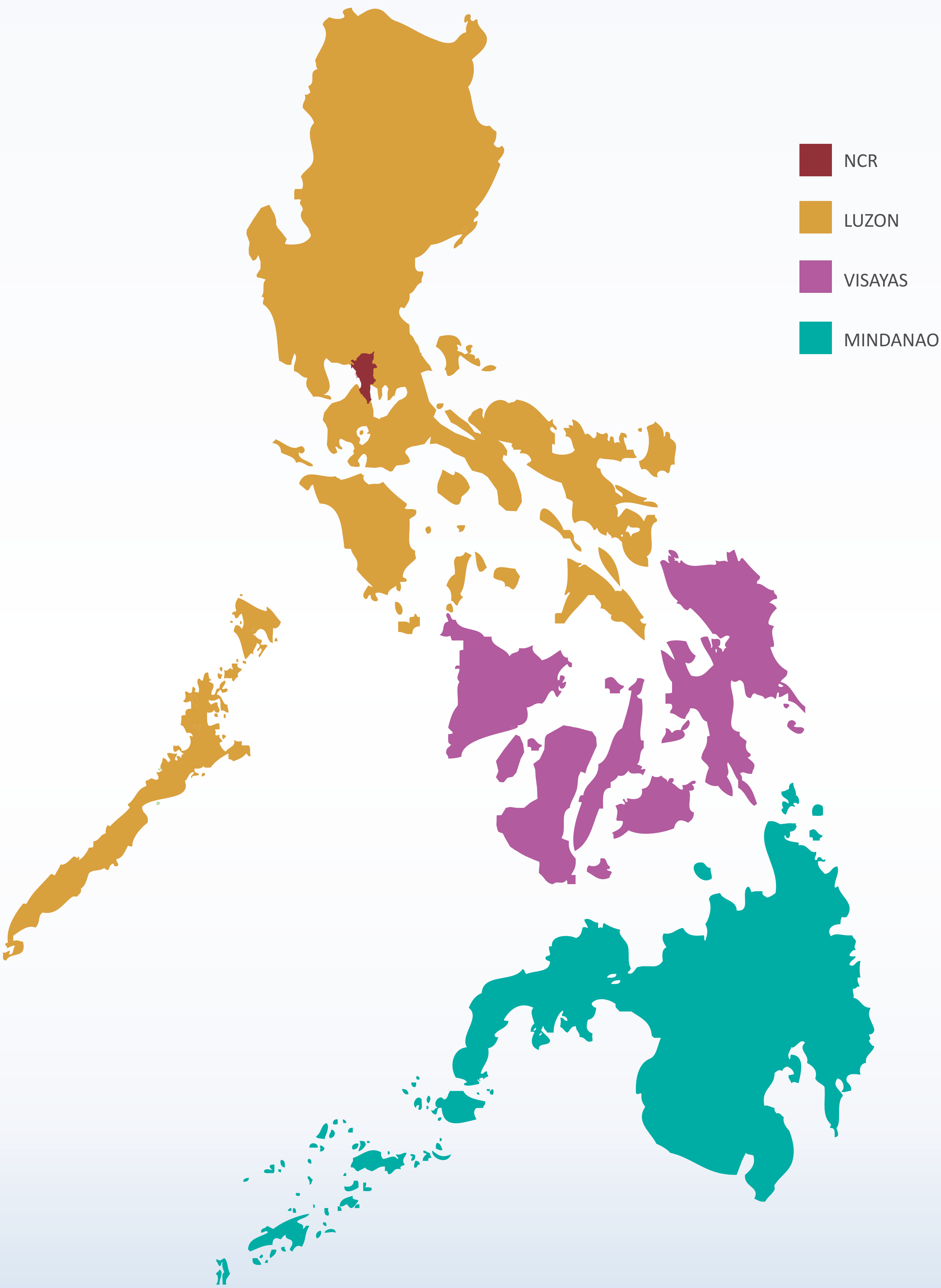
We anticipate an even more challenging competitive landscape in 2013. Major local supermarket/hypermarket competitors have already positioned themselves to take advantage of the shopping shift to Modern Trade. Moreover, the presence of foreign retailers has become more pronounced. Partnering with local retailers, with whom they will share their expertise and resources, foreign retailers will raise the intensity of competition.

On a different note, we would like to say some words on the SM Food Group's response to typhoon Pablo, which devastated parts of Mindanao in the fourth quarter of 2012. The SM Food Group has in the pas t served as platform for relief operations. We have always been an integral part of such operations because we understand the hardships faced by victims of natural calamities.

Aside from carrying out relief operations of our own with the help of SM Foundation, we also opened our SaveMore and other stores to serve as evacuation centers for the victims of typhoon Pablo. Our stores also acted as staging areas for the sorting and repacking of relief goods to allow these to be dispatched as quickly as possible. We worked with the Local Government Units (LGUs) and Non-Government Organizations (NGOs) to ensure the safety and welfare of the typhoon victims.

Our stores also remained open to provide the needs of the people. Our own staff remained resilient and worked longer hours as they took part in serving the victims. We have the capacity to help, so when such calamities hit the communities we serve, we make sure that we provide the necessary assistance.

## SM STORE LOCATIONS



## SM Supermarket

| City/Province | # of Stores | Selling Area | % of Selling Area |
|---|---|---|---|
| Total NCR | 12 | 61,756 | 37% |
| Total Luzon | 16 | 61,855 | 37% |
| Total Visayas | 5 | 21,727 | 13% |
| Total Mindanao | 4 | 21,756 | 13% |
| Philippines | 37 | 167,094 | 100% |

## SM Hypermarket

| City/Province | # of Stores | Selling Area | % of Selling Area |
|---|---|---|---|
| Total NCR | 20 | 113,645 | 58% |
| Total Luzon | 13 | 65,893 | 34% |
| Total Visayas | 4 | 16,203 | 8% |
| Total Mindanao | 0 | 0 | 0% |
| Philippines | 37 | 195,742 | 100% |

## SaveMore Stores

| City/Province | # of Stores | Selling Area | % of Selling Area |
|---|---|---|---|
| Total NCR | 34 | 51,624 | 38% |
| Total Luzon | 32 | 52,732 | 39% |
| Total Visayas | 12 | 21,706 | 16% |
| Total Mindanao | 4 | 9,227 | 7% |
| Philippines | 82 | 135,288 | 100% |

## SM Department Store

| City/Province | # of Stores | Selling Area | % of Selling Area |
|---|---|---|---|
| Total NCR | 16 | 288,166 | 47% |
| Total Luzon | 21 | 227,673 | 37% |
| Total Visayas | 5 | 60,752 | 10% |
| Total Mindanao | 4 | 42,147 | 7% |
| Philippines | 46 | 618,738 | 100% |

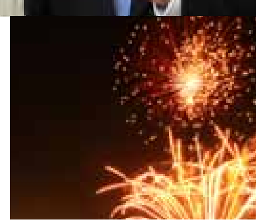
*Gross Selling Area

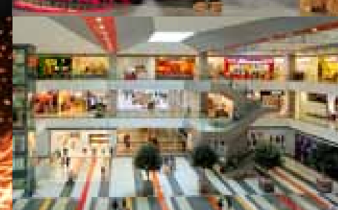
- 2012 REVENUES INCREASED 14% TO PHP30.7 BILLION
- NET INCOME GREW HIGHER THAN EXPECTED BY 16% TO PHP10.5 BILLION
- TOTAL OF 51 MALLS WITH 46 IN THE PHILIPPINES AND FIVE IN CHINA


# Year in Review

## Mall Operations


**JEFFREY C. LIM**
Executive Vice President
and CFO
SM Prime Holdings, Inc.






**ANNIE S. GARCIA**
President
Shopping Center Management Corporation

**HANS T. SY**
President
SM Prime Holdings, Inc.

In 2012, we continued to keep our fingers on the pulse of Filipino consumers, with a view towards ensuring that the shopping, dining, and entertainment offerings of our malls are attuned to their rapidly-changing needs and preferences.

We are pleased to report that we ended 2012 with very strong results. Revenues rose 14.2% to Php30.7 billion, driven by same-store rental growth of 8% and rentals from the new malls which opened during the year. Net income, on the other hand, increased 16.3% to Php10.5 billion.

Our performance in 2012 can be attributed largely to the following factors. First is our unmatched national footprint, both in terms of gross floor area (GFA) and in terms of geographical reach, which allowed us to benefit from rising consumers incomes, brought on by the Philippines' economic resurgence; second is our continuing expansion toward new markets; and third is our continuing effort to provide Filipinos with an exciting mall experience. At the same time, our China operations – which consisted of four malls at the beginning of the year – delivered strong results, contributing to our overall performance.

We began 2012 with a total of 41 malls around the country. These malls had a combined GFA of 5.1 million square meters (sqm). Sixteen or 39% of our malls were located in Metro Manila; twenty (49%) in Luzon ex-Metro Manila; three (7%) in the Visayas; and two (5%) in Mindanao. In terms of GFA, Metro Manila accounted for 53% of our total, while Luzon ex-Metro Manila, Visayas, and Mindanao accounted for 34%, 9%, and 4%, respectively. The breakdown of our malls by geographical location and GFA broadly mirrors the pattern of economic activity in, and the population distribution of, the country. As such, we were uniquely well-positioned to benefit from the robust growth of the overall economy in 2012.

This notwithstanding, we continued to pursue further opportunities for growth during the year, increasing our total number of malls to 46, with the opening of five new malls in emerging growth centers across the country – SM City Olongapo in Zambales, SM City San Fernando in Pampanga, SM City Consolacion in Cebu, and SM City General Santos and SM Lanang Premier in Mindanao. We also completed the major expansion of SM City Davao. These new malls, as well as the expansion of SM City Davao, brought our GFA in the country to 5.6 million sqm, an increase of 10% from the previous year.

We plan to continue to expand our geographical reach moving forward, in line with and at same time, as a catalyst for the economic development of various parts of the country. We are also looking to further expand our existing malls as demand for mall space increases.

Although a large number of our malls are concentrated in Metro Manila, we believe that Metro Manila continues to present significant growth opportunities in the form of expanding existing malls and establishing or operating smaller, community malls in relatively underserved areas of the city.

We plan to venture into community malls not only in Metro Manila, but in other areas of the country as well. In line with this, we entered into a joint venture agreement with Walter Mart, a community shopping center operator. Walter Mart currently operates 17 malls across Luzon with an average GFA of 17,000 sqm.

In 2012, we continued to keep our fingers on the pulse of Filipino consumers, with a view towards ensuring that the shopping, dining, and entertainment offerings of our malls are attuned to their rapidly-changing needs and preferences.

We observed that especially in the relatively affluent, metropolitan areas of the country, a growing number of our customers were becoming more sophisticated, in line with their increased purchasing power.

This rising sophistication has been reflected by trends towards casual dining, designer coffee, high-tech phones and other devices, as well as health, beauty, and wellness products and services. We have also seen an increased preference for international brands. We have kept in step with these trends by continually updating our tenant mix across our malls, and, in the case of SM Southmall in Las Piñas, by redeveloping the existing mall to cater to a market that had grown more upscale. A more detailed story on SM Southmall is provided on page 18.

At our premier malls like SM Mall of Asia, SM Megamall and SM North EDSA, for example, our tenant mix has been characterized not only of by a large number of local brands, but also by the significant and growing presence of international brands such as Marks & Spencer, Topshop, Nine West, Kenneth Cole, and Zara. We also brought in two new international fashion brands, UNIQLO and Forever 21. These brands have been warmly received and have experienced promising sales. In the future, we plan to introduce more international brands into the country.

An important part of the mall experience we offer is our cinemas. In 2012, we completed the conversion of all our cinemas to digital. This enabled us to simultaneously show movies nationwide, strongly benefitting our provincial moviegoers across the country. We also introduced the SM Cinema E-plus prepaid card, which aims to promote customer loyalty by providing moviegoers with hassle-free movie access.

Although our focus has always been on consumers, we also cater to the country's growing business process outsourcing (BPO) sector. A number of our malls are home to BPO offices namely, SM City Bacoor, SM City Fairview, SM City Iloilo, SM City Lipa, SM North EDSA, SM Mall of Asia, and SM City Pampanga. At the end of 2012, BPOs occupied a combined 65,269 sqm of space at our malls.

As for our expansion plans for 2013, in the Philippines, we will open two new malls, SM Aura in Taguig City with a GFA of 234,892 sqm; and SM City Cauayan in Isabela province with a GFA of 55,000 sqm. We will also expand SM Megamall with the opening of Building D, which will have a GFA of 101,000 sqm. All these will increase the total GFA of our Philippine malls by 390,892 sqm to 6.0 million sqm or a 7.0% increase from our end-2012 total.

Our operations in China also yielded strong results in 2012. Our five malls, namely SM Xiamen, SM Jinjiang, SM Chengdu, SM Suzhou, and SM Chongqing, performed very well, registering rental revenue growth of 24% on a consolidated basis. Moreover, the average occupancy levels of these malls at year-end stood at 92%. We launched SM Chongqing, our fifth mall in the country, in December 2012. With the opening of SM Chongqing, our GFA in China now totals 794,252 sqm, a 23% increase from 2011.

As in the Philippines, we remain focused on satisfying the needs of our customers in China by carefully calibrating our tenant mix, and are pleased to see our base of tenants grow larger, as we gain acceptance in the country.

In 2013, we look forward to higher revenues as our China malls mature and enjoy increased occupancy levels. Although we will not be opening new malls in China in 2013, we will launch two new malls in 2014, namely SM Zibo and SM Tianjin. SM Zibo will have a GFA of 154,000 sqm, while SM Tianjin will have a GFA of 540,000 sqm making it the largest mall in our portfolio. We continue to explore opportunities to open new malls in China, particularly in second and third-tier cities with attractive demographic profiles. In such cities, competition remains manageable, and incomes are rising even faster than in the Philippines.

Our discussion of 2012 would be incomplete without touching on SM Cares. This is our socio-civic projects integrated into our mall development and customer service which promote environmental sustainability, or provide extra services and facilities that cater to customers with special needs.

One activity that stood out in 2012 was our response to the adverse impact of the heavy monsoon rains that caused widespread flooding throughout Metro Manila. Amidst the flooding, our numerous malls served as shelters for flood victims – stranded commuters, customers, and tenants. The multi-level parking spaces in SM malls also allowed those with cars in flooded areas to park their cars to safety. Our malls also served as hubs for accepting donations coursed through the SM Foundation. Despite the continuous downpour and heavy flooding, our employees and volunteers from various sectors worked together in helping the members of the community. It is especially during times such as these that we feel we are truly one with the communities we serve.

2012 was undoubtedly a remarkable year for us at SM Prime. We look to 2013 with much optimism as we pursue our business strategies and explore new opportunities for growth, with the goal of creating lasting value for our customers, staff, tenants, and shareholders.

# PHILIPPINE MALLS

NCR

LUZON

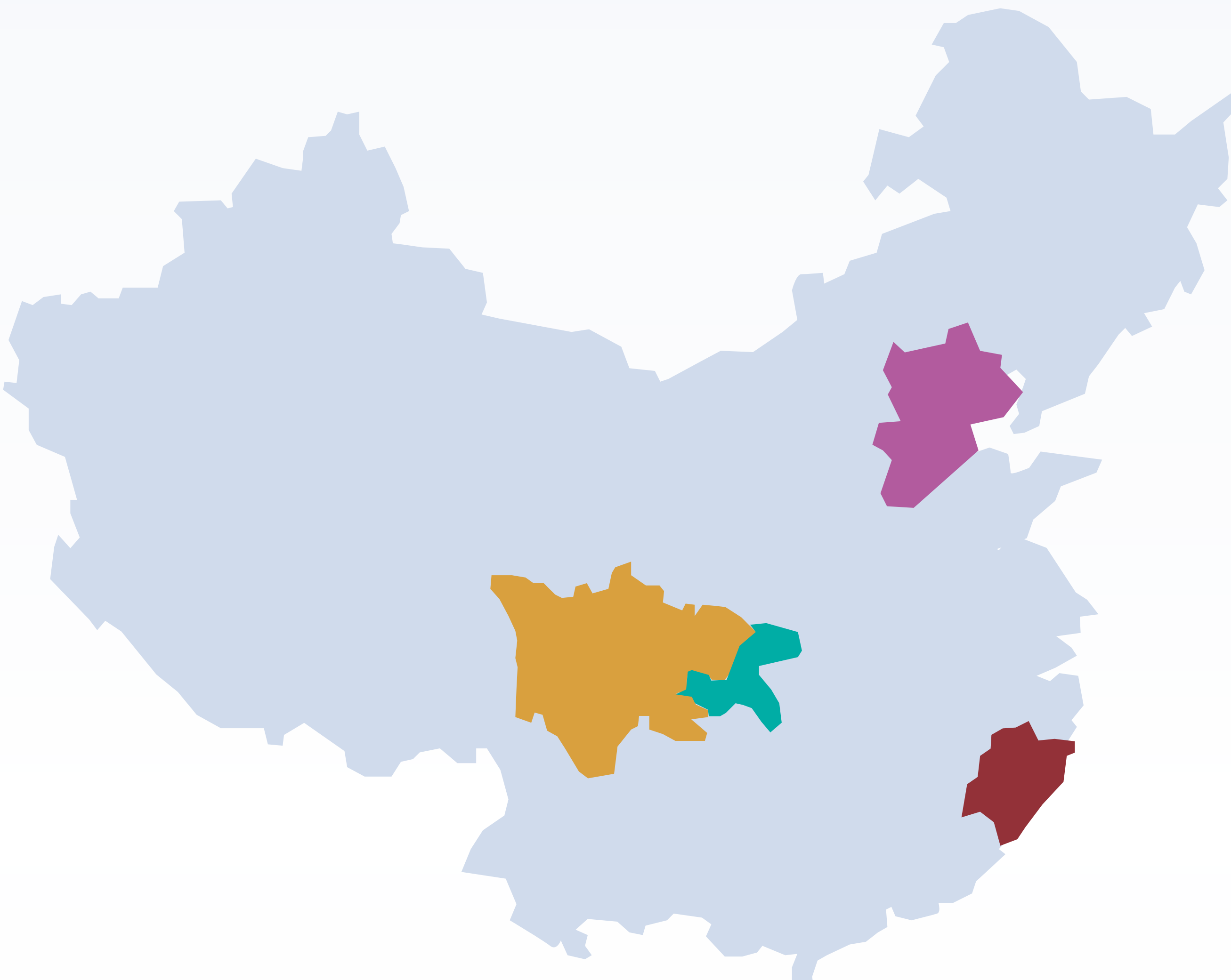
VISAYAS

MINDANAO

| SM Malls - Philippines | | | |
|---|---|---|---|
| City/Province | # of Malls | GFA | % of GFA |
| Total NCR | 16 | 2,756,208 | 49% |
| Total Luzon | 22 | 1,828,077 | 33% |
| Total Visayas | 4 | 558,798 | 10% |
| Total Mindanao | 4 | 455,649 | 8% |
| Philippines | 46 | 5,598,731 | 100% |

# MALL TRIVIA - PHILIPPINES

# CHINA MALLS



| SM Malls - China | | | |
|---|---|---|---|
| Region | # of Malls | GFA (in sqm) | % of GFA |
| Total Xiamen | 1 | 238,125 | 30% |
| Jinjiang | 1 | 167,830 | 21% |
| Chengdu | 1 | 166,665 | 21% |
| Suzhou | 1 | 72,552 | 9% |
| Chongqing | 1 | 149,076 | 19% |
| Total | 5 | 794,248 | 100% |

# MALL TRIVIA - CHINA

## 2012 MALL OPENINGS - PHILIPPINES





# It was another banner year in 2012 for SM Prime, which successfully launched six new malls.

The company reaffirmed its dominance in Philippine mall operations by opening five new malls namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, and SM Lanang Premier.

This brings the total number of SM Prime's Philippine malls to 46, with a total gross floor area (GFA) of 5.6 million square meters (sqm). In China, SM Prime now has five operating malls with a total GFA of 0.8 million sqm.

With a strong presence all over the country, SM Prime truly caters to the need of every customer by offering a one-stop shopping, dining, and entertainment experience. SM Supermalls continue to offer new concepts which now include health and wellness, mall events such as concerts and shows, and some government services such as licensing and passport applications and renewals.

SM Prime is scheduled to open two new malls and expand an existing mall in 2013. This is expected to add 390,000 sqm of GFA to its chain of shopping centers in the Philippines. By the end of 2013, SM Prime will have 48 malls all over the country, with a total GFA of approximately 6.0 million sqm.

SM Prime expanded its geographical footprint in the provinces of Luzon, Visayas, and Mindanao in 2012. These sites have become an attractive domain for expansion given the rapid urbanization in these cities brought about by the local government efforts to boost their economies. Purchasing power has also significantly improved on the back of rising disposable incomes and the steady growth in OFW remittances. In the midst of all the positive developments taking place in the provincial areas, SM Prime envisions itself to be a catalyst for further growth as it partners with these cities to promote economic progress.

SM Prime President Mr. Hans T. Sy said, "Our mall openings in 2012 were geared towards the provincial areas. This reflects our continued confidence in the growth potential of each of these cities given a combination of various positive elements – a dynamic population, flourishing business landscape and vibrant prospects for tourism. Our new malls will meet the underserved retail demand and aspirations of the residents in these areas."

In China, SM Prime is taking an organic approach in second and third tier cities which are fast emerging and have market profiles comparable to those in the Philippines. SM Prime puts premium on brand building and strong tenant relationships, the same factors that were significantly contributed to its success story in the Philippines.


## Its Third in Pampanga
# SM City San Fernando

SM Prime opened its 44th shopping mall in the country, SM City San Fernando on July 20, 2012. The mall is located at the Downtown Heritage District, Barangay. Sto. Rosario, San Fernando, Pampanga. It has a gross floor area (GFA) of 42,625 square meters (sqm). It is SM Prime's third mall in the province, after SM City Pampanga and SM City Clark which opened in November 2000 and May 2006, respectively. SM City San Fernando's amenities include three cinemas, with a combined seating capacity of 1,068 and parking slots for over 300 vehicles.

SM City San Fernando had an occupancy rate of 97% as of end 2012. The seven-storey shopping mall's anchor tenants are SM Department Store and SM Supermarket. It also has BDO, Watsons, SM Appliance Center, Ace Hardware, National Bookstore, Bench, and Penshoppe, among others.

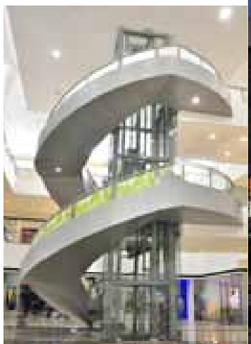
San Fernando is the capital city of Pampanga. It is strategically located at the heart of Central Luzon, making it the center of commerce and trade of the region. The city is popularly known for its giant lanterns and is also dubbed as the "Christmas Capital of the Philippines." Major industries include agriculture, manufacturing, food processing, and handicraft making.

## SM Prime forays into
# Zambales

SM Prime opened on February 10, 2012 its 42nd mall in the Philippines and its very first in the province of Zambales. The new mall has a gross floor area (GFA) of 46,869 square meters (sqm) and occupies 9,259 sqm of land. SM City Olongapo's major amenities consist of an al fresco dining area, which offers a view of Olongapo's mountain landscape; three cinemas, with a combined seating capacity of 758; and parking slots for over 300 vehicles.

SM City Olongapo now enjoys an occupancy rate of 100%. Its major tenants include SM Department Store and SM Supermarket. Other mall tenants include BDO, Watsons, Ace Hardware, National Bookstore, Jollibee, and KFC, among others.

Olongapo City is the most urbanized area in Zambales. It sits right next to the Subic Bay Freeport Zone, a former United States naval base that is now a major industrial, tourism, and logistics hub. Olongapo is known for its innovative urban management methods and has been recognized by international organizations such as the UNESCO (United Nations Educational, Scientific, and Cultural Organization).





# SM Prime Opens Second Mall in Cebu with SM City Consolacion

On June 1, 2012, SM Prime opened its 43rd shopping mall in the country, SM City Consolacion. It has a gross floor area (GFA) of 106,857 square meters (sqm) and is located along the Cebu North Road, Barangay Lamac, Consolacion, Cebu. It is SM Prime's second mall in the province, after SM City Cebu, which opened in November 1993.

As of end 2012, SM City Consolacion had an occupancy rate of 92%. Its anchor tenants are SM Department Store and SM Supermarket. Quick service restaurants located in the mall are Jollibee, Chowking, Greenwich, Red Ribbon, Pizza Hut, KFC, and Mang Inasal. Food restaurants serving local Cebuano cuisine such as Chika-an Sa Cebu and Jonie's Chicken are likewise tenants of SM City Consolacion. Other mall tenants include BDO, Watsons, Ace Hardware, National Bookstore, Ideal Vision, Bench, and Penshoppe, among others. SM City Consolacion's amenities include a Cyberzone; a food court that comfortably seats up to 668 diners; four cinemas, with a combined seating capacity of 1,488; and parking slots for over 700 vehicles.

Consolacion is an emerging residential municipality in the province of Cebu. It is part of the Cebu Metropolitan Area (Metro Cebu), which is the second international gateway and the second largest urban area in the Philippines. Consolacion's major industries are furniture making, garments, manufacturing, shipbuilding, and ship repair.

In line with SM Prime's expansion plans for Cebu is the construction of the Php4.5 billion shopping mall in the reclaimed South Road Properties (SRP). The mall is expected to open in the third quarter of 2014 and will have a gross floor area of 400,000 square meters, making it Cebu's biggest mall and fourth among SM malls. It is part of the 30-hectare mixed-use development project of SM Prime in Cebu called SM Seaside City. This is proof of SM's vision for the growth of Cebu City and the positive impact that its malls have on the lives of Cebuanos.

# SM Prime Expands Down South with SM City General Santos



On August 10, 2012, SM Prime launched SM City General Santos, its 45th shopping mall in the country. The mall has a gross floor area (GFA) of 95,764 square meters (sqm) and is located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. It is SM Prime's first mall in the province of South Cotabato. SM City General Santos' amenities include a food court; four cinemas, with a combined seating capacity of 1,400; and parking slots for 1,500 vehicles.

SM City General Santos is 85% occupied by various tenants. The three-level shopping mall's anchor tenants are SM Department Store and SM Supermarket. Other mall tenants include Watsons, Ace Hardware, Toy Kingdom, Breadtalk, Congo Grille, Classic Savory, Max's, Tong Yang, Bench, and Gymboree among others.

General Santos or more popularly known as GenSan, is one of the most populous urban centers in the country with a population of approximately 900,000. It is the largest producer of sashimi-grade tuna in the Philippines, earning the title "Tuna Capital of the Philippines". It is also the hometown of boxing champion Manny Pacquiao. General Santos City is the center of commerce, trade, and logistics of Region XII, also known as Soccsksargen, an acronym that stands for South Cotabato, Cotabato, Sultan Kudarat, Sarangani and General Santos City.

# SM Prime Goes Upscale in Davao: SM Lanang Premier


SM Prime opened its 46th shopping mall in the country, SM Lanang Premier, on September 28, 2012. The brand new mall, with a gross floor area (GFA) of 144,000 square meters (sqm) is located at J.P. Laurel Avenue, Brgy. Lanang, Davao City. It is SM Prime's second mall in the province, after SM City Davao, which opened in November 2001. SM Lanang Premier's amenities include five cinemas and an IMAX Theater, with a combined seating capacity of 2,200; a bowling center; a Science Discovery Center; and parking slots for over 1,500 vehicles.

SM Lanang Premier is already 91% occupied by various tenants. The mall's facade is accentuated by the folded building concept, inspired by the traditional Japanese art of folding paper known as Origami. The shopping mall's anchor tenants are SM Department Store and SM Supermarket. It will also house the SMX Davao Convention Center. Other mall tenants are Watsons, Ace Hardware, Kultura, Forever 21, Centerstage, Vikings, Cha Time, Mesa, Jollibee and KFC.

Incorporating environmentally sustainable technology in its design and construction, SM Lanang Premier features a Skygarden with water fountains, art installations, and landscaping. The mall is also designed with skylights and will use LED to ensure efficient energy consumption.

Lanang is a highly urbanized commercial center in the province of Davao. It is home to one of the cultural heritage sites in the city, the Davao Museum. Davao is one of the country's major source of Philippine export products such as bananas, tuna, finished wood products, pineapples, and rubber.

SM Lanang Premier completes the series of expansions of SM Prime in the Philippines for 2012, bringing the total number of SM Prime malls to 46 all over the country with a combined GFA of 5.6 million sqm.


# SM Southmall
## Joins List of SM Prime's Premier Malls

In its commitment to continue revolutionizing the mall experience, SM Prime formally re-launched SM Southmall in November 2012, unveiling its new look and sophisticated feel. SM Southmall, which is located in Alabang-Zapote Road, Las Piñas City, is SM Prime's fifth mall, originally built in 1995. It has since been transformed into one of SM Prime's increasing list of premier malls, with a GFA of 189,677 sqm catering to a growing upscale market. The mall re-launch, entitled "A New Direction" was held at the Food Street, an al fresco dining area that is surrounded by lush greenery and an illuminated LED fountain. Special performances by ABS-CBN's Philharmonic orchestra under the baton of Gerard Salonga, the UP Singing Ambassadors, and artist Gian Magdangal entertained the crowd throughout the evening.

SM Prime President Mr. Hans T. Sy said, "The relaunch of SM Southmall is a welcome addition to the premier malls of SM Prime. This goes to show that we are constantly upgrading our malls to cater to a market segment whose lifestyle has become more aspirational. We aim to provide an integrated shopping, dining, and entertainment experience and take it to a whole new level as we cater to a growing upscale market here in the south."

SM Southmall's redevelopment project started in 2010 with the help of retail architecture expert, Edge Interior Design of Australia. A highlight in the mall's interior is the architectural innovation High Bay, a high ceiling section that showcases international brands such as 158 Designer's Blvd, Nine West, Aerosoles, Aldo, Charles & Keith, La Senza, and Face Shop.

SM Southmall is also home to the only IMAX Theater in the South Metro, with a 440 seating capacity and SM Ice Skating Rink, one of only two SM ice skating rinks in the Philippines. It also boasts of the Food Street, a 250-meter restaurant strip that is home to various dining concepts such as Black Canyon Coffee, Tous Les Jours, Holly's Coffee, Sambokojin, Tokyo Café, Racks, Majaraja, and Café Mary Grace.

The rest of SM Southmall's retail spaces have also been re-zoned for an enjoyable, accessible and convenient shopping experience for all mall-goers. SM Department Store and SM Supermarket are situated at the prime area of the High Bay. SM Southmall will soon offer SM Bowling Center, Mall Concierge, Golf Cart Service, LED Carpark Finder, Valet Service, Driver's Lounge, Transport Service Expansion, and enhanced PWD facilities.

SM Southmall will cater to an upscale group of customers given the mall's proximity to affluent villages, residential, and commercial projects where expatriate communities are also growing in Alabang, Las Piñas, Parañaque, and nearby towns of Laguna and Cavite.

With the addition of new services and features for the people living in the south to enjoy, SM Southmall definitely defines a new direction for uptown shopping and leisure experience.

## 2012 MALL OPENING - CHINA

# SM China Opens Fifth Mall in China's Largest City



The mood was nothing short of festive when SM Prime Holdings, Inc. unveiled SM City in Chongqing, Southwest China on December 14, 2012. It is the company's fifth shopping mall in China, after SM City Xiamen, SM City Jinjiang, SM City Chengdu, and SM City Suzhou.

Mall-goers rushed in as soon as the doors were opened and continued to shop throughout the day to enjoy the big discounts and amazing promos of the mall and its tenants. Different activities such as band performances and fashion shows at the main activity center also added to the excitement. Shoppers also marveled at the mall's displays and exhibits such as Porsche, Ferrari, and Brabus cars inside and outside the mall.

A ribbon cutting ceremony was held in front of the mall which was headed by Mr. Hans T. Sy and other SM executives from Manila, and graced by no less than the City Mayor Huang Yulin, Vice Mayor Wang Guangrong, and other high ranking officials from different sectors of the government. It was also attended by other city offices' heads, store owners, and several media personalities.

SM City Chongqing has a gross floor area of 149,080 square meters. As of end-2012, it had an occupancy rate of 85%. With its strategic location and transport accessibility, the mall will serve a population of approximately 30 million residents in the city of Chongqing offering a mix of local and international stores. The shopping mall's major tenants are Vanguard Supermarket, SM Department Store and Wanda Cinema. Junior tenants include Vero Moda, Only, Jack & Jones, Starbucks, Watsons, and Kidswant.

SM City Chongqing is a one building structure with five levels. Its exterior design features "fish scale" panels accentuated by lightings. The mall's interior has slanted glass panels at the lobby entrance which are designed to give customers a grand welcome.

Chongqing, also known as the "Mountain City," is the biggest and most heavily populated city that is directly under the Chinese Central Government. It has several economic and technological development zones. Chongqing is also a manufacturing and trading hub and is home to major industries that include transport, communication, electronic equipment, non-metal mineral products, chemicals, and food processing.

According to the Chongqing Statistics Bureau, more than $10 billion worth of foreign investments were made in the city in 2011, a 66 percent rise from 2010 and almost one-fifteenth of the national total. Moreover, about 200 of the world's top 500 enterprises have opened outlets in Chongqing.

The strategic entry into the booming city of Chongqing is another milestone in SM Prime's operations in China. SM could not have entered Chongqing at a better time as the city finds itself turning into a top investment destination.

SM City Chongqing is the sixth SM mall to be opened by SM Prime in 2012 after SM City Olongapo in Zambales, SM City Consolacion in Cebu, SM City San Fernando in Pampanga, SM City General Santos in South Cotabato and SM Lanang Premier in Davao.

Opened only in December 2012, SM Chongqing has been recognized as one of China's Most Promising Malls in the Golden Mall Awards of Mall China, a nationwide competition for malls launched in 2012. Only 15 projects of 300 newly opened malls in China in 2012 garnered such distinction. SM Chongqing gains this merit along with Chongqing Star Light Plaza, Chengdu Mixcity, Chongqing Longfor Paradise, Tianjin Joy City, to name a few.

As of end-2012, SM Prime has a total of five malls in China, with a combined GFA of 794,252 sqm.

MALL EXPANSION PROGRAM - PHILIPPINES

*SM Aura Premier*

# Expanding Its National Footprint

SM Prime is earmarking Php35 billion in capital expenditure budget starting in 2013 to drive its aggressive expansion activities in the Philippines and China. For the Philippines, SM Prime is gearing up to develop new shopping centers and complete a major expansion of one of its largest malls in the country which will further widen its national footprint. These expansion activities are expected to add 390,000 square meters (sqm) of gross floor area (GFA) to its chain of shopping centers in the Philippines. By the end of 2013, SM Prime will have 48 malls all over the country, with a total GFA of approximately 6 million sqm.

Kicking off SM Prime's expansion program this year is SM Aura Premier which is set to open in the second quarter of 2013. Located at Bonifacio Global City in Taguig, SM Aura Premier consists of a 187,000 sqm mall and a 48,000 sqm office tower. The mall is envisioned to be a mixed-use development while incorporating a civic center with five retail/trade hall levels and an office tower. The development includes a multi-level Sky Garden, which, apart from its environmental advantages, also provides a much needed green and communal space in Metro Manila's dense cityscape. It will contain al fresco bars & restaurants, sculpture and botanical gardens, a 1,100-seat performance hall and a 250-seat chapel named after Filipino saint, Pedro Calungsod.

Aside from shops and F&B outlets, the mall will also include as its anchor tenants SM Department Store and SM Supermarket, Trade Hall, Foodcourt, two regular Cinemas, two Director's Club facilities and an IMAX Theater.

SM Aura Premier is SM Prime's first foray into the US Green Building Council Leadership in Energy and Environmental Design. It will be the Philippines' first civic center that will be certified Gold by LEED standards. The project adheres to a high standard of environmental sustainability. Pollution and waste are minimized throughout building construction and operation through environmental management and monitoring. Building occupants will have convenient access to integrated parking, public transportation, bicycle facilities, and pedestrian paths. A large green roof will reduce the structure's heat island effect, as well as provide occupants with landscaped recreational areas with native plant species. All waste water will be treated on site and reused for non-potable purposes.

The building will also maintain superior indoor environmental quality through enhanced ventilation and the use of low emitting materials. Moreover, energy and water use will be reduced compared with conventional buildings through a high performance building envelope and efficient equipment and fixtures. With superior building performance and a host of sustainable features, SM Aura Premier will definitely raise the bar on environmentally-conscious development in the Philippines.

With its revolutionary architecture and world-class design, SM Aura Premier is poised to redefine the retail landscape with its array of shopping, dining, entertainment, and lifestyle selections. It will showcase the most popular among local and international brands, paving the way for SM Aura Premier to be a top destination for mall-goers.

Joining the pipeline of SM malls to be unveiled in 2013 is SM City Cauayan, the company's first open-type strip mall. Located in Cauayan City, Isabela province, the mall will offer an estimated gross floor area (GFA) of 55,000 square meters (sqm). It will be the first SM Supermall in the whole of Region II, known as

SM Megamall Expansion

SM City Cauayan

Cagayan Valley. Cauayan is one of the few cities in Region II that serves as an industrial and commercial hub. Secondly, it is a regional crossroad given its proximity to eleven Isabela municipalities making it accessible to over half a million people.

The mall will feature a vibrant landscape that incorporates nature into the design. Ceiling fans will be used to ventilate the arcaded walkways and storefront hallways, a green and cost-effective approach compared with the typical use of air conditioners. Its exterior features include warm-colored panels in random patterns to give a festive mood which will be combined with glass and steel finishes for a modern touch. Its carpark building will have LED parking locators to make it convenient for customers while at the same time minimizing the fuel consumption.

The entry into Cauayan reflects SM Prime's optimism in the growth potential of provincial areas on the back of a robust Philippine economy. Encouraged by the positive results delivered by its provincial mall openings, SM Prime seeks to expand in various regions outside Metro Manila where it is a catalyst for development.

SM Megamall, on the other hand, is set to become SM Prime's largest mall in 2013. Opened in June 1991, SM Megamall is the third mall of SM Prime with an original gross floor area (GFA) of 331,680 square meters. Having since undergone two expansion projects, SM Megamall had 405,435 sqm of GFA at the end of 2012. The construction of SM Megamall Building D will add another 101,000 sqm, easily making it the largest SM Mall, with a total GFA of 506,435 sqm. The development is designed to combine efficient functionality, commercial and environmental sustainability, as well as a memorable architectural identity.

A host of global fashion brands and international dining trends will open up to shoppers, further intensifying the thrill of endless discoveries at SM Megamall. The expanded building will be a semi-circular drum which runs five storeys high and will connect to the main mall. A large wedge-shaped atrium penetrates the drum, allowing for a central multi-purpose space intended to host performances, exhibitions, fairs, and product launches. The said atrium provides daylighting for a natural interior feel which also doubles as a huge display window towards EDSA.

The opening of SM Megamall Building D will provide premium leisure offerings to mall-goers in the Ortigas and Pasig circuit as it will house an IMAX theatre and an Olympic-sized ice-skating rink which will be located on the fifth floor. A bowling alley will be located at the fourth floor. Restaurants, coffee shops, and bars will be located on the bridges behind the big atrium window, which will be visible from EDSA and the MRT line. Moreover, car, taxi and bus drop-offs will also be provided in front of the building, giving good public access to the new retail block. The exterior design of the mall will take its cue from the barcode blocks of the existing mall. Both the drum and the carpark wedge will be clad in white and silver metal barcode stripes, all running vertically. The composition of the new building should be dramatic enough to create a new and exciting presence along EDSA, while giving Megamall a fresh, iconic identity.

With a strong presence all over the country, SM Prime truly caters to the needs of every customer by offering a one-stop shopping, dining, and entertainment experience. SM Supermalls will also continue to offer fresh concepts to serve a dynamic market.

## 2014 MALL EXPANSION PROGRAM - CHINA

SM City Zibo

# Gearing Up for Growth in China


SM City Tianjin

SM Prime is gearing up for a major expansion in China in 2014. SM City Tianjin, with a GFA of 540,000 sqm, will be the largest mall in SM Prime's China portfolio. Not only is the mall gigantic, it is also located in an area where it aims to be one of the catalysts in a central government project called Tianjin Binhai New Area, China's latest economic development zone near Beijing. It is the third economic zone designated by China's central government to serve as an economic gateway to the country, following the success of the Shenzhen and the Shanghai Pudong special economic zones. TBNA is an important gateway having a well-established sea-air-land transportation system, which serves the Circum-Bohai Region and leads to North China, Northeast China, and Northwest China. The Tianjin Port located in the TBNA is the designated port for goods in transit to the Republic of Mongolia based on an agreement between China and Mongolia.

Currently, TBNA serves as a major business hub where over 250 of the Fortune 500 companies have set up branch offices. Since 2007, Tianjin has attracted 120 major industrial projects, with an average investment amount of CNY4.8 billion or US$770.4 million. In addition, China has committed to invest CNY1.5 trillion or USD$240.8 billion in the new district. The infrastructure projects built in the Area include an international airport, the largest cargo airport in northern China; as well as the Tianjin Port, the country's fifth-largest seaport. There is also a high-speed train connecting Tianjin to Beijing, with the journey taking only 27 minutes. The Binhai New Area is presently experiencing a construction boom, with a host of commercial and residential buildings rising in the district, and many more construction projects underway. The resident population of Tianjin is projected to reach 1.4 million. By 2015, Chinese officials predict that the Binhai New Area's gross domestic product (GDP) will reach US$1.0 trillion, and by 2020, US$2.0 trillion.

TBNA is indeed a more than ideal location for an SM mall. It promises to take SM to a whole new level of visibility in China, and will provide greater challenges for SM to live up to its vision of becoming a world-class mall developer.

SM Prime will also launch a new shopping mall in the city of Zibo in 2014, making it the company's seventh mall in China, called SM City Zibo. The mall will offer an estimated gross floor area (GFA) of 154,000 square meters (sqm). Zibo, located at the heart of Shandong Province has a population of four million and is bordered by tourist cities.

Zibo is an important trade center and distribution center of commodities in Shandong province. Its main industries are chemical, pharmaceutical, machinery, garment, ceramics, metallurgy, electric power and agriculture. Zibo is an important chemical industry base of China that is home to approximately 1,400 chemical enterprises. It also takes pride in being a huge exporter of ceramics to over 80 countries and regions.

When completed in 2014, SM City Zibo will house well-known international and local fashion brands, a supermarket, department store, food court, and cinemas. It will also have an al fresco dining area


BDO
BDO
ATM
Cash Anytime

## BDO

• 2012 NET INCOME SURGED 35.6% TO PHP14.3 BILLION

• GROSS LOANS INCREASED BY 14.7% AND DEPOSITS GREW 8.5 %.

• BDO'S HISTORIC AND HIGHLY SUCCESSFUL US$1.0 BILLION FUND RAISING BOOSTED TOTAL CAPITAL ADEQUACY RATIO TO 19.1%.

## CHINA BANK

• 2012 NET INCOME STOOD AT PHP5.0 BILLION

• GROSS LOANS GREW BY 29.0% AND DEPOSITS WERE UP 25.8%.

• CAPITAL ADEQUACY RATIO OF 16.0%.

# Year in Review
## BDO




**TERESITA SY-COSON**
Chairperson



**JOSEFINA N. TAN**
President
BDO Private Bank

**JESUS A. JACINTO**
Vice Chairman
BDO Unibank, Inc.

**NESTOR V. TAN**
President
BDO Unibank, Inc.

We achieved record performance despite challenges that confronted the industry during the year. Foremost were margin pressures on account of the low interest rate environment and the structural distortion in benchmark rates.

We are glad to report that 2012 was a very good year for BDO. We posted a 35.6% growth in net income to Php14.3 billion on strong performances across all business segments. This was better than our Php12.5 billion earnings guidance, as well as our Php10.5 billion net income in 2011.

Driving our performance was the solid expansion of our lending, deposit-taking, and fee-based businesses. Our total loan portfolio grew 14.7%, while deposits sustained their upward trend supported by our extensive branch network. Meanwhile, non-interest income stepped up with a 16.9% year-on-year rise driven by fee-based income and trading gains from treasury activities.

We achieved record performance despite challenges that confronted the industry during the year. Foremost were margin pressures on account of the low interest rate environment and the structural distortion in benchmark rates. This was reflected by the disparity between the PDST-F rate (the loan benchmark) vs. the SDA rate (the deposit benchmark), arising from high system liquidity fueled by foreign capital flows, low inflation, and fiscal gains. Further contributing to the pressures was the non-remuneration on banks' reserve accounts with the BSP starting April 2012.

To address these, we grew our loan portfolio and increased our exposure to the higher-margin middle-market and consumer segments. We also increased our low-cost deposits to improve our funding costs. These efforts bore positive results on our net interest margin (NIM) which stabilized and gradually recovered to 3.4% in 2012 from a low of 3.2% in the 4th quarter of 2011. Net interest income thus grew by 7.2% year-on-year.

Disintermediation continued to pose a challenge to banks last year, as large corporate borrowers increasingly accessed the capital markets as an alternative to bank loans. To address this, our wholly-owned subsidiary, BDO Capital, actively participated in the equity and debt capital markets, allowing us to maintain our share of these customers' business.

As competition from other banks remained intense, we further built on our scale and reach. We grew our domestic branch network to 762 last year from 743 in 2011. For 2013, our target is to improve our accessibility to our customers and enable us to better service their needs. This will also allow us to further tap business opportunities with provincial middle-market and consumer accounts, particularly the underserved informal sector.

We continued to deliver product and service innovations consistent with our customer-centric culture embodied in our "We Find Ways" service philosophy. These included, among others, pre-packaged products and customized solutions for small- and medium-sized enterprises (SMEs); international lending desks to serve Japanese, Chinese, Singaporean, Korean, North American, and European companies in the Philippines; a new access channel through which BDO clients can apply for consumer loans; and internet banking facility upgrades for easier navigation, faster access, and shorter transaction time for BDO online customers.

Behind the scenes, we continue to pursue Information Technology (IT) and back-office enhancements to improve data integrity and security, capacity, and efficiency.

We also cannot underestimate the Bank's synergies with SM, which opens up business opportunities in the form of joint product development, cross-selling of products, and shared marketing networks and know-how.

Last but not the least of these challenges were the higher capital requirements instituted by the BSP under their Basel III implementation guidelines. In response, we built up our capital ahead of the industry by successfully raising US$1.0 billion in new capital through the bank's stock rights offer in July last year. The capital-raising exercise effectively lifted our Tier 1 ratio to 15.2% and Total Capital Adequacy Ratio (CAR) to 19.1% by year-end.

We rose above these challenges and remained the industry's dominant player in 2012. Moving forward, we at BDO remain confident that our initiatives and efforts will place us in a good position to take advantage of new opportunities given the country's growing infrastructure requirements, low bank penetration, expanding domestic base, and increasing consumer affluence, keeping us on a path to solid and sustainable growth not only in 2013, but in the coming years.

# BDO COMPLETES LARGEST SINGLE RIGHTS OFFER DEAL IN HISTORY

BDO Unibank staged the largest single stock rights offering transaction in Philippine stock market history after raising over US$1 billion in 2012. To commemorate this milestone, BDO officials opened market trading on July 4, 2012 through a traditional bell ringing ceremony. The success of the offering served as a meaningful highlight to BDO's 10th listing anniversary at the Philippine Stock Exchange.

The offering raised gross proceeds of Php43.5 billion after the issuance of a total of 895,218,832 rights shares at an offer price of P48.60 each. The fresh capital strengthened BDO's Common Equity Tier 1 Capital and provided a comfortable buffer to the more stringent Basel III capital requirements expected to be implemented by the Bangko Sentral ng Pilipinas.

BDO believed that the offer had better-positioned it to fulfill its medium-term growth objectives and take advantage of the positive outlook on the Philippine economy.

"This clearly indicated a vote of confidence to what the bank has been doing and is poised to do in the years to come," Mrs. Teresita Sy-Coson said.

The offer beefed up BDO's issued and outstanding common shares to a total of 3,580,875,328 common shares. The offer was oversubscribed, with shareholders applying for shares beyond their entitlement. It also saw strong participation from the Bank's domestic and international investors, despite challenging global market conditions.

Citi, Deutsche Bank and J.P.Morgan served as Joint International Lead Managers and International Underwriters, United Overseas Bank Limited acted as International Co-Lead Manager and International Co-Lead Underwriter, while BDO Capital & Investment Corporation was Issue Manager and Domestic Underwriter.

# Year in Review
## China Bank



**HANS T. SY**
Chairman

**GILBERT U. DEE**
Vice Chairman


**PETER S. DEE**
President and CEO

**RICARDO R. CHUA**
Executive Vice President and COO

We are happy to note that our shareholders continue to believe in our future. Our stock price went up by 37% in 2012 and 67% in the last 12 months through March 2013, outperforming all the listed banks during that period. As a result, by March 2013 our market capitalization reached the US$2.0 billion mark, the threshold to be qualified as a big cap stock in the MSCI Philippines Index.

In 2012, China Banking Corporation reported a net income of Php5 billion, which corresponded to a return on shareholders' equity of 12.39%. Total assets grew sharply by 23% to Php324 billion, while total deposits rose by 26% to Php272 billion. Loans surged 29%--a rate almost double that of the banking industry--to Php198 billion, as lending grew across all market segments—up 36% in commercial, 28% in consumer and 27% in corporate loans.

Notwithstanding the robust growth of total loans, net income remained flat due to low interest rates brought on by excess liquidity in the banking system. And with the very competitive pricing of other banks, it was a borrower's market. Another factor to the declining net interest margins was the Bangko Sentral ng Pilipinas' (BSP) move in April to stop paying interest on all reserves kept with the BSP.

As a buffer against declining net interest margins, the bank actively pursued fee-based income from both new business lines and from capturing a larger share of our clients' transaction volumes. Fee-based businesses grew by 41%, led by the 99% surge in trading gains as our Treasury Group took advantage of favorable market conditions in the latter part of the year. Our investment banking group made its presence felt as a major player thru its participation in several major deals during the year, generating substantial fee revenues. We likewise grew our asset management and fiduciary services businesses, which increased our trust fee income. The expansion of our bancassurance, remittance, cash management, trust and private banking businesses should add momentum to our revenue diversification strategy.

We are happy to report that the branches opened in the earlier phase of our expansion are now making money and we expect the recently-opened branches to fully contribute to the bottom line in the coming years. We substantially expanded our branch network from just 148 in 2006 to over 300 in 2012, including that of the savings bank subsidiary China Bank Savings (CBS). China Bank is still in the midst of the largest network expansion in our 92-year history. Our goal is to grow the network to 400 branches which will be 300 in the unibank and 100 in the savings bank.

We also recently acquired the Pampanga-based Unity Bank to fast track CBS' network expansion program and consolidate our presence in Central Luzon – a hub for OFWs. This acquisition will be bolstered by opening other banking offices (mini branch) at selected SaveMore market locations. The parent bank will continue to open new branches using its BSP-approved licenses and apply for additional licenses within restricted areas. We continue to be in an expansion mode, and while this initiative means temporarily sacrificing our profit growth in the meantime, it lays the foundation for a more sustained growth in the future.

We expect to launch our credit card business in 2013, together with our cash card and debit card offerings to round off the basic product menu for the consumer segment. Clients will have a wider choice of banking channels such as CBC Online Mobile Apps for Apple and Android which will make it even easier for smart phone users to access their China Bank accounts. We plan to have even more active presence in social media to understand the pulse of the market, get customer feedback, and improve customer service. CBS marketing efforts will complement those of the main bank as CBS opens new branches and focuses on the retail, consumer and SME segments, particularly vehicle finance and mortgage lending.

For the next three years, we intend to grow our share of the commercial and consumer loans segments by beefing up our branch business centers and capitalizing on our expanded network reach. For the corporate sectors, we plan to tap rising industries, commercial businesses, dealer networks and national accounts.

We are looking at opportunities to expand and diversify our securities portfolio investments, given the declining supply of ROP issues and the need to replace maturing dollar bonds. The key to maintaining a healthy net interest margin is our ability to grow low-cost deposits, and more precisely match funds with income-bearing assets. Given the declining rate situation, the fee-based business component figures prominently in our revenue diversification plan, in which calls for growing income from bancassurance, remittances, investment banking, cash management and private banking.

We will continue to hire, train and keep the right people in order to drive the business and support our growth strategies. We have begun to upgrade our core banking system to ensure cost-effective operations, efficient client data management, enhanced delivery capability and high service quality. The transition to an open system platform will facilitate the integration of various product, channel and relationship management systems to provide customers with enhanced service levels on 24x7 basis.

We maintain our bullish outlook for the next three years given the positive economic outlook, moderate inflation, sustained growth in household and corporate spending, and robust construction activity. Positive investor sentiment could support double-digit loan growth by Philippine banks. The China Bank and the combined CBS –Unity Bank set up will be better positioned to take advantage of opportunities in the lending business, particularly in the consumer and commercial segments, in addition to being better diversified in terms of client base and revenue sources. We will also maximize the potential of our combined branch network as a platform for generating new customers and cross-selling products and services.

We are happy to note that our shareholders continue to believe in our future. Our stock p rice went up by 37% in 2012 and 67% in the last 12 months through March 2013, outperforming all the listed banks during that period. As a result, by March 2013 our market capitalization reached the US$2.0 billion mark, the threshold to be qualified as a big cap stock in the MSCI Philippines Index.

In 2012, we were the only bank among the 255 publicly-listed companies to be recognized by the Philippine Stock Exchange as a Bell Awardee for Corporate Governance. Additionally, the Institute of Corporate Directors presented China Bank with the Gold Award in Corporate Governance for the second consecutive year (2011 and 2012), the fourth time to be cited as a transparent and well–governed financial institution.

With the support of our stakeholders, investors, and clients, and with the new initiatives we have in store for the bank, we look forward to the year ahead.

• 2012 REAL ESTATE SALES OF SMDC SURGED 33.3% TO PHP21.6 BILLION

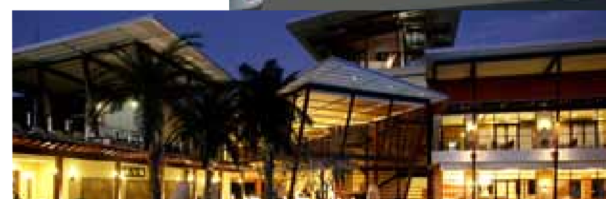
• CONSOLIDATED NET INCOME OF SMDC GREW 17.5% TO PHP4.9 BILLION

• 17 ONGOING PROJECTS INCLUDE 15 RESIDENTIAL CONDOMINIUM PROJECTS AND TWO OFFICE BUILDINGS MOSTLY IN METRO MANILA

• TOTAL REVENUES OF THE COMMERCIAL PROPERTIES GROUP GREW 28.2% TO PHP3.0 BILLION

• PICO DE LORO RESERVATION SALES ROSE 22% TO PHP556.7 MILLION

# Year in Review
## Property



**SHIRLEY C. ONG**
Senior Vice President
Highlands Prime, Inc.

**GEMA O. CHENG**
Senior Vice President for Finance
SM Land, Inc.

**DAVID L. RAFAEL**
Senior Vice President
Commercial Properties
SM Land, Inc.

**HENRY T. SY, JR.**
Vice Chairman
SM Land, Inc.,
SM Development Corp. and
Highlands Prime, Inc.

With the strong performance of the property sector in 2012, we remain upbeat for 2013 as we continue to explore emerging and dynamic markets and tap into opportunities that will offer the best value for our customers.

*Wind Residences*

*Shell Residences*

SM Land, which has operations in residential, commercial, and leisure development, continued to make inroads in 2012, benefitting from the country's resurgent economy.

Residential arm SM Development Corporation (SMDC), experienced a substantial increase in pre-sales, resulting from rising incomes in the mid-range market, and fuelled by higher remittances from abroad. Also contributing to SMDC's strong pre-sales growth were the low mortgage rates seen during the year, which encouraged many to make the commitment to buy SMDC's product offerings.

Meanwhile, the Commercial Properties Group achieved increased leasing income and revenues, driven largely by sustained demand for office space from the country's growing Business Process Outsourcing (BPO) sector, which expanded strongly despite the appreciation of the peso. The year saw the Group inaugurate its second office building at the Mall of Asia Complex, and break ground for two additional office developments geared towards BPOs.

Leisure unit Costa del Hamilo saw its reservation sales rise significantly, as it continued to sell the remaining units of its four-condominium cluster, Pico de Loro development in Hamilo Coast. Costa del Hamilo is now preparing plans to further develop Hamilo Coast.

## Residential

Residential offerings of SMDC were well-received by the market as mirrored by the strong take-up of SMDC's projects. Pre-sold units for 2012 rose 20.8% to Php31.7 billion from Php26.3 billion in the previous year. The number of units sold during the year likewise increased 7.6% to 12,614 units from 11,726 units in 2011.

By the end of the year, SMDC had beefed up its portfolio to 14 residential condominium projects in Metro Manila and one project in Tagaytay. This portfolio included new offerings in Taguig and Pasay launched in the latter part of 2012. Construction remained on track for 2012 given the rate of completions for each project.

One of SMDC's popular offerings is Blue Residences at the corner of Katipunan Avenue and Aurora Boulevard. It spans 57,013 square meters (sqm) in gross floor area (GFA) and was 68% completed at year-end. Take-up of Blue Residences has been strong with 77% or 1,221 units sold.

Just behind SM City North EDSA is Grass Residences with a GFA of 205,335 sqm. Of the project's three towers, Tower 1 has been completed, while Towers 2 and 3 were partially completed at 64% and 98%, respectively, as of year-end. Take-up has been very strong with 97% of the projects' total units sold.

Princeton Residences, with a GFA of 41,014 sqm, offers a prestigious address made affordable along the crossroads of Aurora Boulevard and Gilmore Avenue. The project was fully completed in 2012 and sold 793 units or 72% of the project's 1,096 total units.

Light Residences, centrally located in EDSA-Mandaluyong, has a GFA of 148,281 sqm. Its Tower 1 was 92% complete, while Towers 2 and 3 were at 56% and 73% completion, respectively, at year-end. Light enjoyed healthy market appetite with 93% of its 4,227 total units sold.


Mezza II Residences, located along Aurora Boulevard, a singletower, 40-storey high structure, has a GFA of 49,038 sqm, Mezza II was at 37% completion at the end of year and enjoyed brisk take-up with 53% of its 1,324 units sold.

In addition to these projects, which are under the SM Residences brand, SMDC's M Place brand caters to a younger market and offers even greater affordability. M Place @ South Triangle, its latest offering, has a GFA of 108,731 sqm and consists of four towers. As of year-end, Towers 1, 2, 3, and 4 were at 91%, 84%, 48%, and 37% completion, respectively. M Place @ South Triangle has sold 2,306 or 67% of the 3,437 units that were launched for sale.

Sun Residences, situated at the gateway of Manila and Quezon City, has a GFA of 139,243 sqm. Its Towers 1 and 2 were at 91% and 75% completion at the end of the year. Out of its 4,039 total units, 3,152 or 78% have been sold.

Green Residences, with a GFA of 102,468 sqm, is located along Taft Avenue and was 18% complete as of year-end. As of the end of the year, it has sold 2,725 units or 81% of its 3,378 total.

Sea Residences on the other hand is located right at the heart of the Mall of Asia Complex with a GFA of 117,299 sqm. The project's six buildings are now fully completed. Some 95% of the project's total 2,899 units have been sold.

Shell Residences, SMDC's second project in the Mall of Asia complex after Sea Residences, has a GFA of 127,587 sqm and will be composed of four mid-rise buildings. As of year-end, the project was 15% complete. Eighty-eight percent, or 2,716 units of the project's 3,093 total units had been sold.

SMDC also developed projects utilizing its extensive landbank in Pasig, Makati and Paranaque.

Located along Meralco Avenue, in Ortigas Center in Pasig is SMDC's Rose Residences spanning 40,942 sqm in GFA. Construction of the single-tower Rose Residences only commenced late last year. The project has sold 482 units or 41% of its 1,172 total.

Jazz Residences is also very close to the Makati Business District and has a gross floor area of 208,968 sqm. At year-end, Tower A of the project was 93% complete, while its Towers B, C, and D were at 54%, 72%, and 52% completion, respectively. It has sold 73% or 3,914 units of its 5,367 total.

For Field Residences in Parañaque, a total of 1,748 units have been sold, representing 89% of the project's 1,974 units launched for sale. On full completion, Field Residences will have ten towers with a GFA of 162,929 sqm. As of the end of December 2012, Towers 1, 2, and 8 were fully completed, while Towers 3 and 7 were 99% and 65% complete, respectively.

SMDC's first foray outside of Metro Manila is through Wind Residences in Tagaytay City, one of the most popular tourist destinations in the Philippines. Wind Residences will have ten towers upon full completion, with a GFA of 372,201 sqm. As of December 2012, Tower 1 was at 95% completion, while Towers 2 and 3 were at 96% and 61% complete. Approximately 87% of the project's 2,874 units launched have been sold.

As the market's appetite for new product offerings remain robust, SMDC will position itself to take advantage of opportunities to uplift the lifestyles of Filipinos and create more value within the communities it serves.

Taking off from the success of its ongoing projects, SMDC rolled out two new residential condominium projects and expanded three of its existing developments.

These projects, like their predecessors, will provide residents with the unique mix of architectural excellence, comfort, convenience, and safety for which SMDC is known for. These projects added 6,878 units to our sales inventory.

One of the company's newest offerings is Grace Residences. A four-tower, 3,560-unit development, Grace Residences will rise on a 2.6 hectare property along Cayetano Boulevard in Taguig City, strategically located near three of the country's premier lifestyle and business centers – Bonifacio Global City, the Ortigas Center and the Makati Central Business District. With a GFA of about 170,000 sqm, Grace Residences will consist of a 12-storey tower and three 20-storey towers. Construction is set to begin in the latter part of 2013 and turnover of the first two towers is slated for 2016.

Another exciting offering is Breeze Residences. Breeze Residences is a 38-storey development that will stand on a 6,028 sqm property along Roxas Boulevard, within easy reach of shopping, dining, and entertainment destinations such as the Mall of Asia Complex and Star City. With a GFA of approximately 111,000 sqm, Breeze Residences will have 2,134 residential units designed to capitalize on magnificent views of both Manila Bay and the Makati cityscape. Construction is scheduled for mid-2013 while turnover is set for late 2016.

In addition to Grace Residences, and Breeze Residences, SMDC expanded three of its existing developments, namely, Jazz Residences in Makati, Wind Residences in Tagaytay, and M Place @South Triangle in Quezon City.

These expansion projects will provide a total of 3,395 units of new inventory. Jazz Residences' 40-storey Tower B will offer 1,749 additional units; the 22-storey Tower 4 at Wind Residences will offer 726 units; and the 27-storey Tower D at M Place @ South Triangle will offer 920 units. Except for the expansion tower at Wind Residences which is expected to be completed in 2016, the two other expansion projects are slated for completion in 2015.

## Commercial Properties

The year 2012 proved to be extremely productive for the Commercial Properties Group of SM Land. We saw the completion and operation of one of our most important projects, TwoE-comCenter, the second building of our four-building E-com hub at the Mall of Asia Complex. We also commenced the construction of ThreeE-comCenter, as well as SM Cyber West office building in Quezon City, and our maiden mixed-use entertainment development Sky Ranch in Tagaytay City.

Total revenues increased by 28.2% to Php3.0 billion, from Php2.3 billion in 2011, on the back of the continued strength of our office leasing operations, as well as increased profitability of our land leasing activities, especially from our retail affiliates. Operating income grew by 36.2%, from Php1.1billion in 2011 to Php1.5 billion in 2012. We maintained a healthy 12.0% return on assets (ROA) on our office buildings in 2012.

As with most other core businesses across SM, the Commercial Properties Group benefitted from the economic uptrend throughout 2012. This has brought increased revenues from our major locators at the Mall of Asia Complex such as the SM Mall of Asia, as well as stronger demand for office space.

Our two premier commercial property developments, namely OneE-comCenter and TwoE-comCenter at the Mall of Asia Complex are fully taken-up. More than meeting functional demand, we are proud to have achieved recognition for design and construction as well, with TwoE-com gaining the distinction of being the Best Office Development in the Philippines from the UK-based International Property Awards in 2012.

We expect demand for office space to continue to be robust over the coming years. Our ThreeE-comCenter, which is set for completion by the end of 2014 will help meet this demand. ThreeE-com has added design features and functionality to suit the specific needs of our clients. Our spaces will be more flexible in terms of layout because we want to be able to accommodate the different requirements of various potential tenants other than BPOs, which include shipping lines and logistics companies, the back-end and supply chain operations of hotels and casinos, and other businesses.

We also intend to meet increased demand from Business Process Outsourcing firms or BPOs, which form a large part of our tenant mix at OneE-com and TwoE-com as they are expected to continue seeking out large floor plates. ThreeE-com will provide floor plates of up to 7,500 square meters. At the same time, we have allotted floors that will cater to smaller office space requirements. ThreeE-com will be followed by FourE-comCenter, and we expect to complete our four-building E-com business hub by 2017.

We will soon embark on a project in Cebu, particularly in the South Road Properties area. We are also eyeing more stand-alone office developments under our Cyber building model, and we will continue to support SM Retail by building more infrastructure for Hypermarkets and SaveMore stores.

In addition to our commercial property projects, we are developing a leisure and entertainment complex in Tagaytay called Sky Ranch. Sky Ranch will rise within a prime 5-hectare property beside the Taal Vista Hotel along Aguinaldo Highway in Tagaytay. It will be a leisure park that will offer the definitive Tagaytay experience to both local and foreign tourists, as well as provide a relaxing family retreat.

*Pico de Loro Complex*

*Pico Sands Hotel*

Sky Ranch will offer activities such as horseback riding. It will feature a mini-amusement park that will highlight a 63-meter high ferris wheel. There will be gazebos as well as varied selection of restaurants providing views of Taal volcano. Additionally, a spacious events tent will serve as a venue for conferences, exhibits, concerts, expos, among other events. Sky Ranch is targeted for opening by May 2013.

Over the years, we have established SM as one of the major players in the country's office and commercial development industry. To date, our projects have a combined total of more than 1 million square meters of space, consisting of offices, warehouses, commercial developments, and other properties. We have made it known that the SM group is a serious contender in this market.

Our immediate goal is to become part of the top three players in the office leasing and commercial development arena. Another goal is to strengthen the position of our flagship Mall of Asia Complex as a business district, in addition to being a leisure and entertainment destination. We would like to take advantage of the growth in this side of Metro Manila, especially given the rapid development of the nearby PAGCOR Entertainment City.

To achieve these goals, we will continue to embark on more reclamation projects, improve and grow our land bank, accelerate the development of Mall of Asia Complex, and develop more office buildings outside of our E-com business hub.

## Leisure

Hamilo Coast boasts of 13 coastal coves, an extensive, 31-kilometer coastline, and 5,900 hectares of lush rolling terrain and natural beauty. Hamilo Coast has some of the best beaches in the country, while inland, it is home to a variety of flora and fauna. Pico de Loro itself is located in a lush 40-hectare valley within Hamilo Coast, bounded by rolling mountains as well as a protected cove that offers an unspoiled swimming beach.

In 2012, we focused on selling the inventory remaining in our fully completed, four-condominium cluster project in Pico de Loro, as well as on selling club shares of Pico de Loro Beach and Country Club. Pico de Loro is the first residential community in SM's vast Hamilo Coast property in Nasugbu Batangas.

The Pico Sands Hotel now allows more of our members the privilege of staying overnight at Pico de Loro. This enables them to experience the beauty of the sunset and the sunrise or simply beat the peak traffic hours. We also arranged for a ferry service from the Mall of Asia to Hamilo Coast during the non-Habagat season, cutting travel time by half to about 1hour and 40 minutes.

These initiatives, together with our concerted sales efforts, enabled us to achieve reservation sales of Php556.7 million, an increase of 22.6% from 2011. The majority of the condominium units we sold during the year were from the Miranda and Carola condominium clusters, which were the most recent to be completed. As of year-end, the Miranda and Carola clusters were 84% and 58% sold, respectively.

We are adding facilities at the beach of Pico de Loro Cove to enhance the coastal lifestyle experienced by residents, club members and guests. For improved accessibility from Metro Manila, we are continuing the ferry service from the Mall of Asia. We are also closely monitoring the completion of the Nasugbu-Ternate road, which is expected to be completed within 2013. With the opening of this road, the travel distance from Metro Manila to Hamilo Coast will be shortened from 130 kilometers to around 78 kilometers, making Pico de Loro an even more attractive leisure destination.

As we continue to sell our remaining inventory, and put the finishing touches on the existing project there, we are eyeing new opportunities to develop the area. In line with the objective of addressing the emerging local mid-income and upper-income market and the goal of tapping the regional market, we are making plans to widen our product offerings by introducing attractive lots to the market.

We are likewise considering the establishment of a Marina Village, which we envision to be a mixed-use development which will include a marina and water-sports center with various-sized berths, a commercial area with retail establishments that would complement the coastal lifestyle of the area, another resort or hotel, and waterfront homes that would be the first of their kind in the Philippines.

With the strong performance of the property sector in 2012, we remain upbeat for 2013 as we continue to explore emerging and dynamic markets and tap into opportunities that will offer the best value for our customers.

# The Mall of Asia Arena:

## Elevating Entertainment, Changing the Game


At the south side of the Mall of Asia Complex now stands a premier venue for entertainment, sporting, and other events in the country. With its distinctive eye-shaped façade and its glass-paneled exterior, the Php4.0 billion Mall of Asia Arena is an architectural icon that has become an integral part of the total experience that the Mall of Asia Complex offers. Construction of the Arena began in May 2010 and was formally launched on June 16, 2012.

In keeping with its vision of "changing the game," and "elevating entertainment," the Arena was designed to world-class standards. Its aesthetics, amenities, and design were thoroughly conceptualized under the close watch of the Sy family.

With a seating capacity of 16,000 people, and an SRO capacity of 20,000, the five-level Arena boasts of NBA-standard eight-sided, center-hung scoreboards by Daktronics, retractable Spalding basketball goals, Robbins maple basketball flooring and 3rd and 5th level LED ribbon boards, a digital scorer's table, among other advanced facilities. The Arena is also equipped with cutting-edge technology that allows live beaming of events to SM Cinema theaters across the country, creating an additional revenue stream from promoters via pay-per-view.

The Arena also has the distinction of being the first events venue not only in the Philippines, but in the whole of Southeast Asia to introduce luxury corporate suites— better known as executive boxes in the U.S. There are 41 such suites, each with an excellent vantage point from which to view events. Furthermore, each suite is exquisitely appointed, and staffed with its own butler.

The Arena is also unique on several other respects. It has larger patron and lower box sections than those of similar venues, which results in higher receipts, increasing its attractiveness to event promoters. Located in the Mall of Asia Complex, which has a total parking capacity of over 8,000, the Arena is the first venue in the country to have a dedicated parking building that can house 1,400 cars, a number at par with international standards. To ensure the safety of guests, wide aisle spaces are provided between seating sections, along with numerous but secure points of entry and exit at each of the Arena's five levels.

As the first event in the Arena, a two-day Lady Gaga concert was held on May 20-21 2012, about a month before its scheduled formal opening. Mr. Ed Tejerero, Senior Vice President of West Avenue Theaters Corporation, which manages the Arena, said, "The opportunity to host the concert was too good to pass up, so we worked overtime to make it happen, even if it was before our official opening."

"Nobody thought we, being such a new player in the business, could pull it off," Mr. Tejerero said, "But we did." Staging the concert was a major logistical challenge, given the exacting requirements of Lady Gaga's advance party. "In the end, the concerts were attended by close to 25,000 fans for the two-day show, and all went according to plan," Mr. Tejerero said.

Since the Lady Gaga concerts, the Arena has played host to international performers such as Jennifer Lopez, Nicki Minaj, Cirque du Soleil: Saltimbanco, Jonas Brothers, Big Bang and Keane. Local talents who have performed at the Arena include Regine Velasquez, Arnel Pineda, Lea Salonga, Lani Misalucha, and international designer Lesley Mobo. The Arena has also been the venue for professional basketball games, collegiate tournaments, an international boxing match and many other sporting events.

Such is the flexibility of the Mall of Asia Arena that in addition to being a site for entertainment and sporting events, it has also hosted such events as corporate shows and a fashion show-cum-dinner party which featured a specially constructed catwalk encircling a 500-guest dining hall at the center of the Arena.

For 2013, the Arena has been booked for a wide variety of events, such as Paramore, 2PM, Korean superstar Psy, SMASH Project and Journey. The Arena will also be the primary venue for Fiba Asia basketball tournament to be held in August. Having indeed elevated entertainment in 2012, the Mall of Asia Arena looks set to continue changing the game for large-scale events venues for years to come.

- GROSS REVENUES UP 29% TO PHP1.4 BILLION

- THREE OPERATING HOTELS WITH A TOTAL OF 815 ROOMS AND OVER 29,000 SQM OF LEASABLE CONVENTION AND EXHIBIT SPACE

- OPENED SMX LANANG IN DAVAO

# Year in Review

## Hotels and Conventions

**REYNALDO D. VILLAR**
Executive Vice President

**MARISSA L. NUBLA**
Senior Vice President

**CHRISTINA A. BAUTISTA**
Vice President
Business Development

**ELIZABETH T. SY**
President

Our hotels delivered strong revenue growth of 37.7% as we made significant inroads in the corporate meetings market, launched aggressive Food and Beverage campaigns, and embarked on a number of promotional campaigns to stimulate domestic tourism.

2012 was a highly productive year for SM Hotels and Conventions Corporation as the assets we manage generated a combined Php1.4 billion in gross revenues, an increase of 29.3% from 2011. Sixty-nine percent of these revenues or Php957.1 million were attributable to our hotels, while our conventions and exhibits business accounted for the remainder, which amounted to Php421.8 million.

SM hotels, namely the Radisson Blu Hotel Cebu, the Pico Sands Hotel in Hamilo Coast's Pico de Loro in Nasugbu, Batangas, and the Taal Vista Hotel in Tagaytay City delivered strong revenue growth of 38.5%, as we made significant inroads in the corporate meetings market, launched aggressive Food and Beverage (F&B) campaigns, and embarked on a number of promotional campaigns to stimulate domestic tourism. In addition, SM hotels enjoyed marked increases in internet bookings, as we raised their profiles online.

The Radisson Blu, which opened in 2010, and the Pico Sands, which opened in 2011, showed the largest gains in terms of revenue and Average Daily Rate (ADR) growth.

The five-star Radisson Blu posted a 47.3% increase in revenues, as it increased its occupancy rate by 40.0% and its ADR by 13.0% due to continued growth in the meetings market and internet bookings. The hotel, named as the best hotel in Cebu and 4th nationwide by Trip Advisor, a reputable traveller's rating site, continues to further strengthen the hotel's positioning in the Cebu market.

The Pico Sands, a four-star, resort-type hotel, registered a 160.9% rise in revenues, owing to the 67.3% growth of its occupancy rate, and the 9.0% growth of its ADR. The growth of the hotel's occupancy rate and its ADR was brought on by greater business from the meetings market, and the increased frequency of visits from members of the nearby Pico De Loro Beach & Country Club and their guests. Moreover, the number of Club members increased by 10.8%, which brought in greater usage from them and their guests. Promotional campaigns were also aggressively introduced to promote bulk and advance purchases.

Meanwhile, Taal Vista Hotel, the first property in our portfolio since 2003, exceeded 2011 revenues by 14.6%. The hotel's occupancy rate increased 10.5%, while further improving its ADR. The hotel, which completed its renovation in line with its 75th anniversary in 2012, also generated its highest revenues in the last five years, mainly due to increased business from the Frequent Individual Traveller (FIT) segment brought about by the hotel's improved online presence. The hotel's F&B revenue stream likewise showed a significant increase in the revenues from weddings, as a result of a conscious effort to tap that lucrative market segment.

In 2013, we will open a mid-range, businessman's hotel, the Park Inn by Radisson in Davao City. The Park Inn Davao is the first of a series of businessman's hotels that will be constructed within the next 6 to 8 years.

We foresee a very competitive climate over the medium term, as several business groups are putting up hotels in response to the chronic shortage of hotel accomodations in the country over the last decade. When these hotels come on stream over the next few years, we expect competition to intensify. One driver of growth moving forward is innovation, not only in terms of the facilities and services we offer, but also in the area of digital marketing, which contributed much to our strong topline growth in 2012. Another driver of future growth wil be cost-efficiency through the use of technology. We believe these are key to creating competitive advantage and real value in the industry.

On the conventions business, SMX Convention Center Manila (SMX Manila), the Megatrade Hall in Megamall, and the Cebu Trade Hall posted a combined revenue growth rate of 12.3%. This growth was due to our sustained marketing campaigns, both domestically and abroad, which generated higher bookings for these venues.

In September of 2012, we opened our second convention center, SMX Convention Center Davao (SMX Davao), with a leasable space of 5,240 square meters (sqm). This brought our total leasable convention and exhibit hall space to 29,163 sqm, an increase of 22% from 2011. In its first three months of operations, SMX Davao exceeded expectations, registering revenues which were 55.3% over target. In 2013, we will open our third convention center at the upcoming SM Aura Premier mall in Taguig, which will further expand our total leasable space by 10.0% to 32,079 sqm.

We are constantly embarking on roadshows and marketing campaigns to increase awareness of our conventions and exhibit venues. One noteworthy development that we expect to boost the country's MICE (Meetings, Incentives, Conventions and Exhibitions) industry in the near term is the holding of MICECON 2013 at SMX Davao.

The MICECON 2013, which is organized by the country's Tourism Promotions Board will be headed by twelve of the world's top tourism experts, who will lead foreign delegates to the forthcoming international conference on MICE. We expect MICECON 2013 to generate increased bookings in the country in general, and our venues in particular, based on our experience following the two previous MICECONs held in the country, namely, MICECON 2010 in Subic, and MICECON 2011 in Cebu.

We are confident that given the country's increased international profile, the country's MICE market will continue to grow in 2013 and beyond.


# A New SMX in Davao

In September 2012, SMX Convention Center Davao, SM Hotels and Conventions Corporation's second convention center after its flagship SMX Convention Center Manila at the Mall of Asia Complex, opened its doors. Davao City is one of the fastest-growing cities in the Philippines, the largest city in Mindanao in terms of land area, with a cover of 2,444 square kilometers, and a major business and tourism hub in the South.

Located at the 3rd level of the newly-opened SM Lanang Premier Mall in the city, SMX Convention Center Davao has a gross floor area of 7,835 square meters (sqm) and offers 5,240 sqm of leasable space. This makes it the largest privately-owned and managed convention center in the southern Philippines, capable of accommodating events with up to 4,000 persons.

Since its opening, SMX Convention Center Davao has played host to numerous regional, national, and even international events. These events have included the Davao Chamber of Commerce's annual trade show, as well as its investment summit; the "Banana Conference" focused on agriculture in Mindanao; the national conference of the Integrated Bar of the Philippines; and the International Film Expo, which was attended by filmmakers from across Asia.

SMX Convention Center Davao has also been the venue for many corporate functions, including the Christmas parties of companies with a major presence in Davao, such as Nestle, Coca-Cola, and the BPO company, Concentrix.

According to Mr. Dexter Deyto, Vice President and General Manager of SMX Convention Specialist Corporation, which manages SM Hotels and Conventions Corporation's convention center and exhibition hall business, SMX Convention Center Davao has so far exceeded expectations. He said, "In its first three months of operations, the convention center generated revenues substantially greater than initially projected."

"Before the convention center opened," Mr. Deyto said, "the largest venue in Davao could only accommodate at most 1,000 people, which limited interest in the city." "With its opening," Mr. Deyto adds, "event organizers, trade and professional associations, as well as other groups have taken notice, and are beginning to see Davao as an attractive site for their events."

Already, the convention center has enjoyed strong bookings for 2013. Aside from the 2,500-delegate national convention and 40th anniversary celebration of the Integrated Bar of the Philippines, which was held in January of 2013, events scheduled for the year include the convention of the Philippine Councilors League, which will bring together around 1,500 city councilors from around the country, and the MICECON, a trade conference that will draw about 500 delegates, including representatives of various MICE (Meetings, Incentives, Conventions, and Events) facilities nationwide, as well as twelve of the world's top tourism experts, among other delegates from abroad. The convention center is also set to host numerous other events, such as school graduation ceremonies, corporate conferences, and cultural shows. "We created a lot of buzz since we opened and are now seeing a marked increase in inquiries and bookings from the region and from Manila," Mr. Deyto said.

Apart from making an impact in the Davao events scene, the convention center has also had a positive effect on the local economy, raising standards for caterers and other suppliers, and driving investment in hotel accommodations.

Mr. Deyto said, "We are working with local catering businesses, encouraging them to upgrade their standards for food preparation, to expand the range of their food offerings, and to increase their capacity so we can partner with them."

As for the increasing number of hotels in the city, apart from the general growth of tourism in Davao, Mr. Deyto said that it is also partially due to the convention center. "When word came out that an SMX would be put up in Davao," he added, "there were many hotels that began to be built, in anticipation of the demand arising from the convention center." SM Hotels and Conventions Corporation has itself invested in a 204-room Park Inn by Radisson hotel, to open in 2013, located right beside the SM Lanang Premier mall within which the convention center is integrated.

Given its auspicious beginnings, SMX Convention Center Davao is expected to perform even better in 2013 and beyond, as awareness grows of all it has offer, notwithstanding Davao's own attractions.

Following on the heels of its success in Davao, SM Hotels and Conventions Corporation is expected to open a third convention center, to be located in the upcoming SM Aura mall in Taguig in 2013

# SM Hotels to open Park Inn by Radisson in Davao

SM Hotels and Conventions Corporation announced that it will soon open the 204-room Park Inn by Radisson Hotel in Lanang, Davao. The hotel, which will be managed by one of the world's leading hotel chains, Carlson Rezidor, aims to deliver the essentials of a great hotel experience—comfortable beds, spotlessly clean rooms, and warm and attentive service—to business and leisure travellers, for whom Davao has become an increasingly frequent destination.

Guests can expect contemporary and vibrant décor, complimentary Wi-Fi access in all areas, as well as the hotel's signature Adding Colors to Life service philosophy, which is designed to ensure a fun, comfortable and uncomplicated stay.

The Park Inn by Radisson will feature a spacious Lobby Lounge known as "The Living Room" which is envisioned as a lifestyle hub where guests can socialize and relax. The hotel will also boast an all-day dining restaurant, bar & grill—named simply, "RBG" – which will offer charcoal-grilled meats and fish, locally-inspired specialties and classic dishes, all made with fresh ingredients. Among the hotel's amenities are four meeting rooms, a swimming pool, a pool bar and lounge, and a gym.

Situated next to SM Lanang Premier Mall, the Park Inn by Radisson would be a natural choice for participants of events held at the SMX Davao Convention Center with 5,240 square meters (sqm) of leasable space for all types of functions, meetings and events. SMX Davao is, in turn, integrated with the newly opened SM City Lanang which has a gross floor area of 144,000 sqm. The mall complex is easily accessible, being only 15 minutes from Davao International Airport and the city center, and a short drive from tourist attractions and beaches.

Park Inn by Radisson is Carlson Rezidor's internationally successful mid-range brand, which has a 26-year track record of delivering a quality guest experience, The brand is one of the fastest growing hotel brands in Europe, Middle East and Africa (EMEA) and is expanding rapidly in North America and the Asia Pacific.

This will be the fourth hotel offering of SM Hotels and Conventions. The other well-known hotels in the company's portfolio are the heritage Taal Vista Hotel in Tagaytay, Pico Sands Hotel at Pico de Loro in Nasugbu, Batangas, and Radisson Blu in Cebu.


## CORPORATE SOCIAL RESPONSIBILITY

# A Note from SM Foundation

**SM Foundation remained steadfast in reaching out to more beneficiaries in 2012 through its advocacies in education, health and livelihood. These advocacies continued to show significant progress, backed by the fervent support of SM and its subsidiaries and various donor institutions and individuals.**

To support its education advocacy, SM Foundation employed a two-pronged approach-- provide college scholarships to give quality education to the financially-challenged youth and donate school buildings to help address the classroom shortage in the country. Through its scholarship program, SM Foundation was able to produce a significant number of exceptional graduates who received Latin honors and academic distinctions. Many of the graduating scholars who took government board exams have also landed on the top ten.

In 2012, there were 1,200 SM Foundation college scholars enrolled in various courses. There were 164 college graduates, with 76 of them earning honors. To date, SM Foundation has helped 1,500 students graduate through its scholarship program which paved the way for employment both here and abroad. Adding to this number were 93 technical-vocational scholars that graduated last year.

SM Foundation also donated ten new school buildings in 2012 to public schools in Metro Manila (Navotas City), Cavite, Cagayan de Oro, Quezon, and Pampanga. Combined, these school houses provided 26 new classrooms. Some of these school buildings were donated in partnership with SM Development Corporation, SM Prime Holdings, BDO Foundation and Deutsche Bank.

To enhance public health among indigent communities, SM Foundation conducted 85 medical missions in 2012 which surpassed its target for the year. These directly served over 89,000 beneficiaries in 2012. Since the project's beginnings in 2001, total medical missions amounted to 739, reaching a total of 600,203 beneficiaries. SM Foundation's "Virtual Blood Bank" project also garnered the Jose Rizal Award, the highest recognition given to an organization by the Philippine Blood Center (PBC) of the Department of Health (DOH). The "Virtual Blood Bank" is the first of its kind in the country. The blood collected from employees is banked with the PBC and is available for SM employees and their families. Excess supply was donated to victims of the Dengue outbreak in 2011 and 2012.

Under its Felicidad T. Sy Wellness Centers program, SM Foundation has likewise refurbished a total of eight rundown public health centers bringing to 77 the total number of centers that were restored since the start of the project.

With regard to training on sources of livelihood, SM Foundation, through the Kabalikat sa Kabuhayan program provides farmers with training on effective ways of producing high yielding fruits and vegetables. Through this undertaking, trainings to farmers in 10 provinces were provided, covering 175 barangays and 42 municipalities. SM, in turn, supports the farmers by providing a market for their produce through the group's retail chains. SM Foundation trained a total of 1,245 farmers bringing the total of farmer beneficiaries to 5,421 since the project's inception.

Notably, SM Foundation continued to support community development initiatives in SM's flagship eco-tourism development in Nasugbu, Batangas. Initiatives are geared towards skills training, mangrove planting and livestock raising and dispersal.

SM Foundation was also quick to respond to calamity victims through Operation Tulong Express. When the Southwest Monsoon disaster struck in August 2012, SM Foundation distributed kalinga packs that benefitted a total of 54,200 families. In cooperation with SM Cares and SM Food Group and the Department of Social Welfare and Development, we also distributed relief goods to 6,600 families in Compostela, New Bataan, Montevista and Moncayo in the province of Compostela Valley in the aftermath of Typhoon Pablo. In addition, the SM Group of Companies donated Php10 million to the Philippine Red Cross for the rebuilding of some of the 40,000 homes that were destroyed during the typhoon, purchase of food and medicines for the victims and for the provision of a livelihood program.

These accomplishments were a result of the hard work and dedication of the team behind SM Foundation. Through resolute partnerships with both the private and public sectors, SM Foundation will continue to carry out its advocacies to serve more communities.

# BOARD OF DIRECTORS FACES

## MR. HENRY SY, SR.
Chairman

Mr. Henry Sy, Sr. has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman of SM Land, Inc., SM Investments Corp., Highlands Prime, Inc. and SM Development Corp. He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of the SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses.

## MS. TERESITA SY-COSON
Vice Chairperson

Ms. Teresita Sy-Coson has served as Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of BDO Unibank, Inc., Vice Chairman of SM Investments Corporation and Director of SM Land, Inc. She also holds board positions in several companies within the SM Group.

## MR. HENRY T. SY, JR.
Vice Chairman

Mr. Henry T. Sy, Jr. has served as Director since 1994. 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. At present, he is also Vice Chairman/President of SM Land, Inc., Vice Chairman of SM Investments Corporation and SM Development Corporation, President of Highlands Prime, Inc., Director in BDO Unibank, Inc. and Chairman of Pico de Loro Beach and Country Club Inc.. He is also the President of the National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

## MR. HARLEY T. SY
President

Mr. Harley T. Sy 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 likewise the Executive Vice President for Merchandising of SM Retail, Inc. He holds a degree in Bachelor of Science, Major in Finance from De La Salle University.

## MR. JOSE T. SIO
Executive Vice President and Chief Finance Officer

Mr. Jose T. Sio is a Director of China Banking Corporation, Belle Corporation, SM Keppel Land, Inc., Manila North Tollways Corporation, and Atlas Consolidated Mining and Development Corporation as well as other companies within the SM Group. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and SM Development Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. (a member practice of Ernst & Young).

## MR. VICENTE S. PEREZ, JR.*
Independent Director

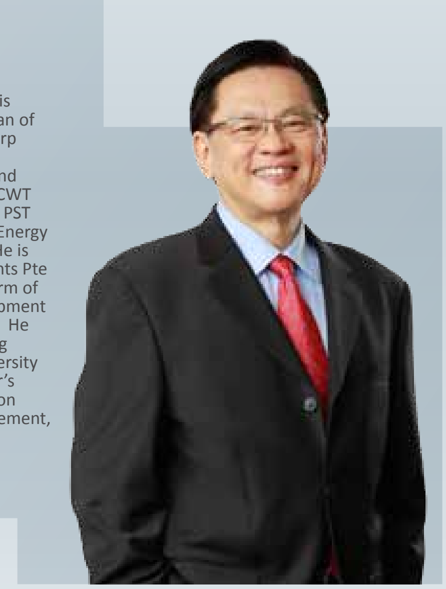
The career of Mr. Vicente S. Perez, Jr. has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy Partners, a renewable power company for emerging Asian countries, Chairman of Merritt Partners, an energy advisory firm, and Chairman of Ten Knots Philippines, the holding company of El Nido Resorts. He was the youngest and longest serving Secretary of the Department of Energy. He had also briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez is a member of the advisory boards of Coca-Cola Phils., Pictet Clean Energy Fund, and Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

## MR. JOSEPH R. HIGDON*
Independent Director

Mr. Joseph R. Higdon, an American, was a Senior Vice President of Capital Research and Management, a Los Angeles-based international investment management firm. He joined Capital Research in 1974 and covered Philippine equities from 1989 to 2006. He was also a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is presently an Independent Director of International Container Terminal Services, Inc. and a Director of the Advisory Board of Coca-Cola Bottling Company, Philippines and of BanKo, the micro-finance subsidiary of the joint venture between Globe Telecom, Inc. and Bank of the Philippine Islands.

## MR. AH DOO LIM*
Independent Director

Mr. Ah Doo Lim, a Singaporean, 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., PST Management Pte Ltd., Chemoil Energy Limited and GP Industries Ltd. He is also a Director of EDB Investments Pte Ltd., investment management arm of the Singapore Economic Development Board and of U Mobile Sdn Bhd. 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.



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

## BOARD COMMITTEES

**Audit and Risk Management Committee**

| | |
|---|---|
| Vicente S. Perez, Jr.* | Chairman |
| Henry T. Sy, Jr. | Member |
| Jose T. Sio | Member |
| Joseph R. Higdon* | Member |
| Atty. Corazon I. Morando | Member |
| Serafin U. Salvador | Member |

**Compensation and Remuneration Committee**

| | |
|---|---|
| Teresita Sy-Coson | Chairman |
| Jose T. Sio | Member |
| Vicente S. Perez* | Member |

**Independent Director*

**Nomination Committee**

| | |
|---|---|
| Henry T. Sy, Jr. | Chairman |
| Ah Doo Lim* | Member |
| Atty. Corazon I. Morando | Member |

**Compliance Officers**

| | |
|---|---|
| Atty. Corazon I. Morando | Compliance Officer |
| Atty. Emmanuel C. Paras | Alternate Compliance Officer |

**Corporate Information Officer**
Jose T. Sio

**Alternate Corporate Information Officers**
Ma. Ruby Ll. Cano
Atty. Corazon I. Morando
Atty. Emmanuel C. Paras

EXECUTIVE OFFICERS

# FACES

## SM INVESTMENTS CORPORATE EXECUTIVES

**FREDERIC C. DYBUNCIO** Senior Vice President, Investments Portfolio
**ATTY. MARIANNE M. GUERRERO** Senior Vice President, Legal Department
**CECILIA R. PATRICIO** Senior Vice President, Corporate Tax
**CORAZON P. GUIDOTE** Senior Vice President, Investor Relations
**MA. RUBY LL. CANO** Senior Vice President, Controllership
**ATTY. CORAZON I. MORANDO** Senior Vice President, Corporate and Legal Affairs / Assistant Corporate Secretary

**HARLEY T. SY** President
**JOSE T. SIO** Executive Vice President and Chief Finance Officer
**ATTY. EMMANUEL C. PARAS** Corporate Secretary
**ELIZABETH ANNE C. UYCHACO** Senior Vice President, Corporate Services
**GRACE F. ROQUE** Senior Vice President, Treasury
**LUIS Y. BENITEZ, JR.** Senior Vice President, Internal Audit
**GIL L. GONZALES** Vice President, Corporate Governance and Risk Management

## RETAIL OPERATIONS

### NON-FOOD GROUP

**JORGE T. MENDIOLA** President, SM Department Stores
**HARLEY T. SY** Vice Chairman, SM Retail, Inc.
**TERESITA SY-COSON** Chairman, SM Retail, Inc.
**RICKY A. LIM** Senior Vice President, Controllership

### FOOD GROUP

**JOEY C. MENDOZA** President, Supervalue, Inc. and Sanford Marketing, Inc.
**HERBERT T. SY** Vice Chairman, SM Food Retail Group
**ROBERT KWEE** President, Super Shopping Market, Inc.

## HOTELS & CONVENTIONS

**CHRISTINA A. BAUTISTA** Vice President, Business Development
**REYNALDO D. VILLAR** Executive Vice President
**ELIZABETH T. SY** President
**MARISSA L. NUBLA** Senior Vice President, Special Projects

## MALL OPERATIONS

**ANNIE S. GARCIA** President, Shopping Center Management Corp.
**HANS T. SY** President, SM Prime Holdings, Inc.
**JEFFREY C. LIM** Executive Vice President and Chief Finance Officer, SM Prime Holdings, Inc.

## BANKING

**BDO**
**JESUS A. JACINTO** Vice Chairman
**TERESITA SY-COSON** Chairperson
**NESTOR V. TAN** President, BDO Unibank
**JOSEFINA N. TAN** President, BDO Private Bank

**CHINA BANK**
**PETER S. DEE** President and CEO
**HANS T. SY** Chairman
**RICARDO R. CHUA** Executive Vice President and COO

## PROPERTY

**SHIRLEY C. ONG** Senior Vice President, Highlands Prime, Inc. / Leisure Group
**DAVID L. RAFAEL** Senior Vice President, SM Land, Inc. / Commercial Properties
**HENRY T. SY, JR.** Vice Chairman, SM Land, Inc.
**GEMA O. CHENG** Senior Vice President, Finance, SM Land, Inc.

# CORPORATE GOVERNANCE

## In 2012, SM Investments Corporation further enhanced its corporate governance policies and programs. While SMIC's platform of governance remains centered on its Manual on Corporate Governance and Code of Ethics, the Company continued to introduce and implement a number of new measures which are more aligned with global best practice.

### Board of Directors

SMIC's Board of Directors remains fully committed to the principles of corporate governance and their effective operationalization. It is the Board's responsibility to ensure the long term success of the business in a manner that upholds the principles of fairness, accountability and transparency. The Board promotes and protects the best interests of SMIC, its shareholders and various stakeholders. SMIC's CG Manual specifies the roles, duties and responsibilities of the Board of Directors in compliance with relevant laws, rules and regulations.

SMIC's Board of Directors is composed of eight (8) directors, three (3) of whom are non-executive independent directors. The CG Manual specifies that an independent director must possess all of the qualifications, and none of the disqualifications, of a regular director. He must also be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede independent judgment. Furthermore, none of SMIC's independent directors have served the Company as a regular director, officer or employee. SMIC's independent directors provide balance at the board-level by ensuring impartial discussions during meetings, monitoring and challenging the performance of Management, and by safeguarding the interests of the Company's stakeholders.

The Chairman of the Board and the President are separate individuals, whose functions and responsibilities are identified in the CG Manual. Only two (2) members of the Board are executive directors, namely the President, Mr. Harley T. Sy and Executive Vice President and Chief Finance Officer, Mr. Jose T. Sio. Non-executive directors meet at least once a year, without the presence of any executive directors or representatives of Management. Furthermore, to provide guidance and expertise on corporate governance and financial reporting, the Board appointed Mr. Roberto G. Manabat, Chairman and CEO of Manabat Sanagustin & Co., a member firm of KPMG International, as Board Adviser.

### Board Committees

To ensure the efficient and adept execution of specific responsibilities, the Board created three (3) committees, namely, the Compensation and Remuneration Committee, the Audit and Risk Management Committee and the Nomination Committee. Each committee has adopted a Charter which defines its composition, roles and responsibilities consistent with the CG Manual. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

*The Compensation and Remuneration Committee*

The Compensation and Remuneration Committee is composed of three (3) members, one (1) of whom is an independent director in the person of Mr. Vicente S. Perez, Jr. The Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.

Board Remuneration

Members of the Board of Directors receive a per diem of P10,000 (P20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. 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.

*The Audit and Risk Management Committee*

The Audit and Risk Management Committee is composed of six (6) members, two (2) of whom are independent directors in the person of Mr. Joseph R. Higdon and the Committee Chairman, Mr. Vicente S. Perez, Jr. The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendations elevated to the Board for approval. The Committee also reviews SMIC's internal control systems, 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.

*Enterprise Risk Management (ERM)*

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit and Risk Management Committee. In 2012, the Committee took the following initiatives:

- Approved the whistle blower policy which has been named the Policy on Accountability, Integrity and Vigilance (PAIV). It 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 the External Auditor, SGV & Co., on the state of risk-based internal controls;
- Prioritized and approved the comprehensive IT Information Security Policy Framework;

# CORPORATE GOVERNANCE

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

- Tasked Management to initiate an 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;

- Suggested to Management to look into the evolving ASEAN Corporate Governance initiative from the regulators and advocacy groups and see what other enhancements can be appropriately pursued;

- Undertook the SEC-mandated Self-Assessment of the Performance of the Audit Committee under SEC Memorandum Circular No. 4, issued in 2012 and approved the areas of improvement and action plan resulting from said exercise.

*Disaster Preparedness Program*

As part of its Enterprise Risk Management, SMIC implements a disaster preparedness program that aims to safeguard its workforce, operations and customers against natural and man-made disasters. In coordination with fire and security agents, the Company conducts regular safety drills throughout the SMIC workplace. These drills, along with disaster management related orientations and training are conducted to ensure a competent, composed and efficient response from SMIC's workforce in the event of a disaster. Furthermore, the Company has adopted a Call Tree as a means to effectively communicate with and ensure the safety of its employees during an emergency. Initial run of the Call Tree was conducted in early 2013.

The Nomination Committee

The Nomination Committee is responsible for 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 SMIC's By-Laws. The Committee ensures that those nominated to the Board meet the requirements set forth by the CG Manual, such as but not limited to the mandatory attendance of accredited training or orientation programs on corporate governance. Furthermore, the Committee facilitates the annual performance evaluation of SMIC's Board as a whole, its respective Board Committees, the individual directors and the President. The Nomination Committee is composed of three (3) members, one (1) of whom is an independent director in the person of Mr. Ah Doo Lim.

*Evaluation of the Board and President*

Under the guidance of the Nomination Committee, the Board conducts an annual performance self-evaluation. The performance evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President following the CG Manual and By-Laws. Directors are asked to rate the performance of the Board, the Board Committees, themselves as directors and the President, as the embodiment of Management.

Directors are also asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation also includes items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. The Board then reviews and evaluates the results of the evaluation, discloses possible changes that will enhance the performance of the individual directors, and collectively as a Board.

## Board Attendance

Regular meetings of the Board are held quarterly, but 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 is a ground for temporary disqualification in the succeeding election. In 2012, the Board held five (5) meetings (on February 2, March 7, April 26, July 2 and August 8). All members of the SMIC Board of Directors were present during the aforementioned meetings.

## Policies

To ensure the continued development of its corporate governance culture, SMIC periodically reviews and enhances its CG Manual, Code of Ethics and related policies. Furthermore, the Company continues to adopt new corporate governance related initiatives to keep pace with global best practices.

*Manual on Corporate Governance*

The Manual institutionalizes the principles of good corporate governance, defines the Company's compliance system and identifies the responsibilities of the Board of Directors in relation to good corporate governance. It also states the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance. The Manual further provides for the rights of all shareholders and the protection of the interests of minority stockholders. It likewise sets the penalties for non-compliance with the Manual.

There have been no deviations from the Manual since it was adopted. In January 2012, SMIC submitted to the SEC its certification of full compliance with the Manual, certifying that SMIC, its directors, officers and employees have adopted and fully complied with all leading practices and principles of good corporate governance as stipulated in the Manual. (Please visit SMIC's website at www.sminvestments.com to access the full downloadable Manual on Corporate Governance and other policies.)

*Code of Ethics*

The Code of Ethics reaffirms the SMIC's commitment to the highest standards of ethics and good corporate governance in the pursuit of its mission and vision to serve the best interests of its stakeholders. The Code also sets guidelines for SMIC's directors, officers and employees in the performance of their duties and responsibilities, and in the manner by which they deal with investors, creditors, customers, contractors, suppliers, regulators and the public. The Code underlines the importance of integrity in the relationships and dealings with business partners, and highlights the Company's duties regarding employee welfare, the rights of shareholders, the protection of material Company information and the importance of corporate social responsibility.

*Insider Trading Policy*

Directors, officers and employees who have access to material, confidential and stock price-sensitive information (i.e., information on business transactions that have not yet been disclosed to the public) are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of quarterly and annual financial results and any other material information. SMIC issues reminders to everyone in the organization before the release of financial reports and the disclosure of material information to ensure compliance with this policy.

*Related Party Transactions*

SMIC 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 Securities and Exchange Commission (SEC) and the Philippines Stock Exchange (PSE). Management regularly presents the details of transactions entered into by SMIC with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SMIC conducts all related-party transactions at arms' length basis. (Please visit SMIC's website at www.sminvestments.com to access financial statements and reports.)

*Policy on Accountability, Integrity and Vigilance*

SMIC's whistle blower policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment that allows for the elevation of concerns and issues to Management. Management is tasked to conduct an investigation with appropriate due process and safeguards.

## Disclosure and Transparency

SMIC has formally adopted a policy of full and prompt disclosure of all material information in accordance with the provisions found in its Manual on Corporate Governance and Code of Ethics. In line with this, 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 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 Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting. The Company's shares are one class – common shares. SMIC follows the one share-one vote.

SMIC arranges teleconferences and site visits for investors, and conducts annual non-deal roadshows in various locations throughout the world. Furthermore, the Company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on SMIC's various projects, financial and operational results. The presentation materials at these briefings, as well as the company's SEC and PSE reports and annual reports, may be viewed and downloaded from the website. (Please visit SMIC's website at www.sminvestments.com for access to disclosures, write-ups and other Company information.)

*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 to ensure the observance of their voting rights and continued participation in the voting process. 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. All Board members are duly screened and deemed eligible and qualified by the Nomination Committee.

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 the proxy forms 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. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Senior Management, the Corporate Secretary and the Independent Auditors are always present during the ASM.

## Rights of Shareholders

Under the Manual on Corporate Governance, SMIC is required to recognize and protect its shareholders right to vote, gain access to material information, inspect corporate books and records and receive an equitable share of the Company's profits. Furthermore, 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. (For more details on the rights of shareholders, please refer to SMIC's website at www.sminvestments.com)

## Employee Welfare

SMIC strives to be an employer of choice and sufficiently 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. Employees may use the sports 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 has recently employed the services of a 24 hour roving ambulance service.

## Orientations and Trainings

SMIC remains committed to providing its directors, officers and employees opportunities for growth and development through its various training and orientation activities. (Please visit SMIC's website at www.sminvestments.com for more information on SMIC's training and orientation programs.)

The HRD's Orientation for New Employees of SM (ONE SM), provides a comprehensive overview of SMIC's corporate governance framework, policies and systems. A more in depth orientation and practical application is provided for middle management and executives. The importance of integrity and SM's other core values are given stress together with the Code of Ethics.

## Corporate Social Responsibility (CSR)

SMIC recognizes the importance of assisting and nurturing the communities it operates in, as well as the impact it has on the environment. The Company works closely with the SM Foundation, Inc., the CSR arm of the SM Group of Companies, to ensure the continued development of its various education, civic and environmental programs. (For more information on the Company's CSR programs, please visit the Corporate Social Responsibility section of the SMIC website at www.sminvestments.com.)

## Citations

The Asset, a Hong Kong based regional publication, awarded SMIC on 12 March 2012 with its fourth consecutive Annual Platinum Award. The Asset recognizes companies for all around excellence in management, financial performance, corporate governance, social responsibility, environmental responsibility and investor relations.

SMIC was recognized for its corporate governance practices by the Institute of Corporate Directors (ICD) on 30 May 2012. SMIC was among the Gold Awardees during the event that honors publicly listed companies that have performed well in the ICD CG Scorecard. The ICD CG Scorecard is an initiative and joint project of the ICD, the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) that rates companies based on their performance in corporate governance related matters.

Alpha Southeast Asia recognized SMIC under the categories of Strongest Adherence to Corporate Governance, Most Organized Investor Relations, and Best Strategic Corporate Social Responsibility. The Hong Kong-based finance publication also recognized SMIC's EVP & CFO, Mr. Jose T. Sio with Best CFO in the Philippines.

SMIC was awarded on 20 June 2012 by Corporate Governance Asia (CG Asia) with its Annual Recognition Award – The Best of Asia. The award is bestowed upon companies that demonstrate excellent corporate governance practices in line with Asian values and spirit. CG Asia also recognized SMIC for the following:

- Ms. Teresita Sy-Coson, SMIC Vice Chairperson – Asian Corporate Director Award
- Mr. Henry T. Sy, Jr., SMIC Vice Chairman – Asian Corporate Director Award
- Mr. Jose T. Sio, SMIC EVP & CFO - Best Chief Finance Officer
- Ms. Corazon P. Guidote, SMIC SVP for Investor Relations - Best Investor Relations Professionals
- Best Investor Relations
- Best Corporate Social Responsibility
- Best Investor Relations Website

## Moving Forward

SMIC recognizes the critical role of corporate governance in deepening the trust which customers, investors and stakeholders have reposed on the Company. The way SMIC conducts its business continues to reflect the corporate governance principles it has committed to pursue. The Company will continue to support the initiatives of the public and private sectors that move to improve the standards of corporate governance in the Philippines.

# CORPORATE INFORMATION

## Legal Counsel
Andres Marcelo Padernal Guerrero & Paras Law Offices
Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan Law Offices
Villaraza & Angangco Law Offices
Tan Acut and Lopez
Yorac Arroyo Chua Caedo & Coronel Law Firm

## External Auditor
SyCip, Gorres, Velayo & Co. CPAs

## Bankers
Allied Banking Corporation
Australian New Zealand Bank (ANZ)
Banco De Oro Unibank, Inc.
Bank of the Philippine Islands
Bank of Tokyo - Mitsubishi UFJ
Barclays Bank
China Banking Corporation
Citibank, N.A.
Hongkong and Shanghai Banking Corp. Ltd.
JPMorgan Chase Bank, N.A.
Land Bank of the Philippines
Metropolitan Bank & Trust Company
Philippine National Bank
Rizal Commercial Banking Corp.
Security Bank Corporation
Standard Chartered Bank
Union Bank of the Philippines

## Stockholder Inquiries
SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

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
BDO Corporate Center, 7899 Makati Avenue, Makati City
Tel. (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54 Fax (632) 878-4056

## SEC Form 17-A
The financial information in this report, in the opinion of Management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request addressed to the Office of the Corporate Secretary.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

**Calendar Year Ended December 31, 2012 and 2011**

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

| Accounts | 12 / 31 / 2012 | 12 / 31 / 2011 | % Change |
|---|---|---|---|
| **Revenue** | **₱223.8** | **₱199.9** | **12.0%** |
| Cost and Expenses | 177.0 | 162.9 | 8.7% |
| **Income from Operations** | **₱46.8** | **₱37.0** | **26.6%** |
| Other Income (Charges) | (5.9) | (1.3) | 346.5% |
| Provision for Income Tax | 6.5 | 5.5 | 19.1% |
| Minority Interest | 9.7 | 9.0 | 8.4% |
| **Net Income Attributable to Equity Holders of the Parent** | **₱24.7** | **₱21.2** | **16.3%** |

Consolidated revenues grew by 12.0% to ₱223.8 billion, as against last year's ₱199.9 billion. Income from operations increased by 26.6% to ₱46.8 billion from last year's ₱37.0 billion. Operating income margin and net profit margin is at 20.9% and 11.0%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2012 increased by 16.3% to ₱24.7 billion compared to ₱21.2 billion of the same period last year.

Retail sales accounts for 71.0% or ₱158.9 billion of the total revenues for the year. Consolidated retail sales grew by 7.2% from ₱148.2 billion to ₱158.9 billion for the year ended December 31, 2012 due mainly to the opening of the following new stores in 2012:

| | SM Department Stores | SM Supermarkets / SaveMore Stores | SM Hypermarkets |
|---|---|---|---|
| 1 | Olongapo | Consolacion Cebu | Alabang, Zapote Road Las Piñas * |
| 2 | Consolacion Cebu | San Fernando Pampanga | East Service Road Muntinlupa * |
| 3 | San Fernando Pampanga | General Santos | Monumento Caloocan City |
| 4 | General Santos | Lanang Davao | Cainta Rizal * |
| 5 | Lanang Davao | SaveMore LGZ Silver Screen | Heroes' Hall Laoag Ilocos Norte |
| 6 | - | SaveMore Basak | Antipolo, City |
| 7 | - | SaveMore Nova Plaza | Cadiz Negros Occidental |
| 8 | - | SaveMore Bangkal | - |
| 9 | - | SaveMore Sorsogon | - |
| 10 | - | SaveMore Baclaran | - |
| 11 | - | SaveMore Malinta | - |
| 12 | - | SaveMore San Jose | - |
| 13 | - | SaveMore Parian | - |
| 14 | - | SaveMore Camarin | - |
| 15 | - | SaveMore Avenida | - |
| 16 | - | SaveMore LB Centro | - |
| 17 | - | SaveMore Sta. Rosa | - |
| 18 | - | SaveMore Maribago | - |
| 19 | - | SaveMore MD Fuente | - |
| 20 | - | SaveMore Talisay | - |
| 21 | - | SaveMore Kawit | - |
| 22 | - | SaveMore Santiago | - |

** These were formerly Makro stores which were converted into Hypermarket stores*

Excluding the full year sales of Makro in 2011, the retail sales growth would be 9.3% from ₱145.4 billion in 2011 to ₱158.9 billion in 2012. Of the 2012 total retail sales, the non-food group, which is composed of SM Department stores, contributed 43.8% or ₱69.6 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores and SM Hypermarkets contributed 56.2% or ₱89.3 billion.

As of December 31, 2012, SM Investments' retail subsidiaries have 202 stores. These consist of 46 department stores, 37 supermarkets, 82 SaveMore stores and 37 hypermarkets.

Real estate sales for the year ended December 31, 2012, derived mainly from condominium projects of SMDC, grew by 31.1% to ₱23.4 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2012 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 19 residential projects as of December 31, 2012. In 2012, SMDC introduced in the real estate market Breeze Residences in Pasay City and Grace Residences in Taguig City. For the whole of 2012, SMDC pre-sold 12,614 residential condominium units worth approximately ₱31.7 billion. Compared to the same period in 2011, the number of units pre-sold increased by 8%.

The other ongoing projects of SMDC are the following: Grass Residences beside SM City North Edsa; Field Residences in Sucat, Parañaque; Princeton Residences along Aurora Boulevard in Quezon City; Jazz Residences near Jupiter Road in Makati City; Sun Residences right beside the Mabuhay (formerly Welcome) Rotunda near Quezon Avenue; Light Residences near Pioneer Street in Mandaluyong; Wind Residences along the Emilio Aguinaldo Highway in Tagaytay City; Blue Residences, which is located at Loyola Heights in Quezon City; M Place South Triangle in Panay Avenue, Quezon City; Mezza II Residences in Sta. Mesa Quezon City; Rose Residences in Pasig City; Green Residences along Taft Avenue, Manila; Shell Residences near Mall of Asia Complex in Pasay City; Breeze Residences in Roxas Boulevard, Pasay City; and Grace Residences in Taguig City. Currently, SMDC has five fully completed projects namely Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City; Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; Sea Residences near the Mall of Asia Complex in Pasay City and Lindenwood Residences, a residential subdivision in Muntinlupa City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Rent revenue for the year ended December 31, 2012, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 18.0% to ₱24.2 billion in 2012 from ₱20.5 billion in 2011. SM Prime is the country's leading shopping mall developer and operator which owns 46 malls in the Philippines and five malls in China as of December 31, 2012. The increase in rental revenues is largely due to rentals from new SM Supermalls which opened in 2011 and 2012, namely SM City Masinag, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos and SM Lanang Premier, with a total gross floor area of 527,000 square meters. Excluding the new malls and expansions, same store rental growth is at 8.0%.

The four malls in China contributed ₱2.5 billion in 2012 and ₱2.0 billion in 2011, or 10.4% and 9.9%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 24.4% in 2012 compared to the same period in 2011 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. SM Chongqing, the fifth mall in China, opened in December 2012 with a gross floor area of 149,000 square meters. Average occupancy rate for the four malls is now at 92%.

For the year 2012, cinema ticket sales and amusement revenues increased by 16.6% to ₱4.8 billion in 2012 from ₱4.1 billion in 2011 largely due to more blockbuster movies both local and international, conversion of all screens to digital and roll-out of cinema turnstile system which made the cinema viewing experience more convenient for customers that altogether led to an increase in foot traffic. Amusement revenues is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 40.9% to ₱9.0 billion in 2012 from ₱6.4 billion in 2011, primarily due to the increase in the net income of BDO which is attributed to the bank's robust expansion in its lending, deposit-taking, and fee-based businesses. Net interest income was up 7.1% even as volume growth was offset by the impact of regulatory changes and excess system liquidity. Total non-interest income rose 18% contributed substantially by trading gains from treasury activities. BDO was able to capitalize on market opportunities and realize exceptional gains from its investment portfolio. With the Philippine economy expected to sustain its growth momentum, BDO looks forward to tapping the promising growth opportunities in customer segments, capitalizing on its established business franchise and wide distribution network.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading decreased by 95.4% to ₱0.002 billion in 2012 from ₱0.04 billion in 2011 primarily due to the gain on sale of available-for-sale investments of certain subsidiaries in 2011.

Dividend income increased by ₱0.2 billion or 70.3% in 2012 to ₱0.6 billion from ₱0.4 billion in 2011 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by ₱0.2B or 26.3% from ₱0.9 billion in 2011 to ₱1.1 billion in 2012 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, increased by ₱0.2 billion or 16.0% from ₱1.5 billion in 2011 to ₱1.8 billion in 2012.

Total cost and expenses went up by 8.7% to ₱177.0 billion for the year ended December 31, 2012 compared to 2011. Retail cost of sales increased by 5.1% from ₱112.2 billion to ₱117.9 billion while real estate cost of sales and others increased by 37.3% from ₱10.3 billion to ₱14.1 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 11.3% from ₱40.4 billion in 2011 to ₱45.0 billion in 2012. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to ₱39.5 billion in 2012 which accounts for 88% of total selling, general and administrative expenses for the year ended December 31, 2012. The increase is primarily associated with new malls, department stores, supermarkets, savemore, hypermarkets and residential projects.

Other charges of ₱5.9 billion in 2012 increased by 346.5% or ₱4.6 billion from last year's other charges of ₱1.3 billion. Gain on disposal of investments and properties – net decreased by 50.4% to ₱1.3 billion in 2012 from ₱2.6 billion in 2011 due mainly to the gain on Belle-PLAI share swap in 2011 of ₱1.5 billion (net of minority interest). Gain (loss) on fair value changes on derivatives – net decreased by 483.3% to loss of ₱1.4 billion in 2012 from gain of ₱0.4 billion in 2011 resulting mainly from the fair value changes of the embedded derivatives related to the US$250.0 million convertible bonds of SMIC in 2012 (refer to Note 19 of the consolidated financial statements). Interest expense increased by 22.4% or ₱2.0 billion to ₱10.8 billion in 2012 from ₱8.8 billion in 2011 due mainly to new loans availed of in 2012 (refer to Note 19 of the consolidated financial statements). These were offset by the increase in interest income by 3.3% to ₱4.4 billion in 2012 from ₱4.3 billion in 2011 and increase in foreign exchange gains by 132.7% from ₱0.2 billion in 2011 to ₱0.6 billion in 2012 due mainly to the decrease in foreign exchange rate from ₱43.93:US$1.00 in 2011 to ₱41.05:US$1.00 in 2012.

Provision for income tax increased by 19.1% to ₱6.5 billion for the year 2012 from ₱5.5 billion in 2011 due mainly to the increase in taxable income.

Minority interest increased by 8.4% to ₱9.7 billion in 2012 from ₱9.0 billion in 2011 due to the increase in net income of certain subsidiaries.

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

| Accounts | 12 / 31 / 2012 | 12 / 31 / 2011 | % Change |
|---|---|---|---|
| Current assets | ₱145.9 | ₱101.3 | 44.1% |
| Noncurrent assets | 415.9 | 347.8 | 19.6% |
| **Total assets** | **₱561.8** | **₱449.1** | **25.1%** |
| Current liabilities | ₱105.1 | ₱79.8 | 31.7% |
| Noncurrent Liabilities | 195.1 | 147.0 | 32.7% |
| **Total Liabilities** | **300.2** | **226.8** | **32.4%** |
| **Stockholders' Equity** | **261.6** | **222.3** | **17.7%** |
| **Total Liabilities and Stockholders' Equity** | **₱561.8** | **₱449.1** | **25.1%** |

On the Balance Sheet side, consolidated total assets as of December 31, 2012 amounted to ₱561.8 billion, higher by 25.1% from ₱449.1 billion in previous year. On the other hand, consolidated total liabilities grew by 32.4% to ₱300.2 billion in 2012 from ₱226.8 billion in previous year.

Total current assets increased by 44.1% to ₱145.9 billion as of December 31, 2012 from ₱101.3 billion as of last year. Cash and cash equivalents increased by 8.3% to ₱60.7 billion in 2012 from ₱56.1 billion in 2011 while time deposits and short term investments increased by 3207.9% to ₱29.1 billion in 2012 from ₱0.9 billion in 2011 due mainly to proceeds from loan availments during the year and reclassification of time deposits from noncurrent to current which will mature in 2013. Receivables increased by 39.1% to ₱16.4 billion from ₱11.8 billion due primarily to increase in receivable from tenants and real estate buyers. Other current assets increased by 36.5% to ₱23.4 billion from ₱17.2 billion resulting mainly from condominium units for sale of the real estate group, prepaid taxes and other prepayments and nontrade receivables.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Total consolidated noncurrent assets amounted to ₱415.9 billion as of December 31, 2012, a growth of 19.6% from ₱347.8 billion as of December 31, 2011. Investments available for sale increased by 35.8% to ₱16.9 billion in 2012 from ₱12.4 billion in 2011 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 45.3% to ₱128.4 billion in 2012 from ₱88.4 billion in 2011 mainly due to additional investment in shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2012. The increase in investment properties, property and equipment and land and development by 14.2% or ₱18.7 billion, 13.9% or ₱2.1 billion and 31.2% or ₱7.2 billion, respectively, arose from new mall constructions, real estate developments and purchase of commercial lots in 2012. Other noncurrent assets increased by 15.3% to ₱27.8 billion from ₱24.1 billion mainly due to the non-current receivable from real estate buyers, deposits and advance rentals and non-current portion of advances for project development. These were partially offset by the decrease in deferred tax assets to ₱0.64 billion in 2012 from ₱0.69 billion in 2011 and decrease in time deposits by 21.3% to ₱29.4 billion in 2012 from ₱37.4 billion in 2011 due mainly from reclassification to current portion of maturing time deposits.

Total consolidated current liabilities increased by 31.7% to ₱105.1 billion as of December 31, 2012 mainly due to availment of bank loans which increased by 23.5% to ₱31.8 billion in 2012 from ₱25.7 billion in 2011 and increase in accounts payable and other current liabilities by 29.3% to ₱57.9 billion in 2012 from ₱44.7 billion in 2011 mainly arising from trade transactions, payable arising from acquisition of land, and current derivative liability. See Note 17 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 10.7% to ₱1.5 billion in 2012 from ₱1.3 billion in 2011 due mainly to higher taxable income in 2012. The 75.0% or ₱5.9 billion increase in current portion of long-term debt is due mainly to the reclassification from long-term debt of loans which will mature in 2013. See Note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. The 278.6% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total noncurrent liabilities increased by ₱48.1 billion to ₱195.1 billion in 2012 from ₱147.0 billion in 2011. Long-term debt – net of current portion increased by ₱46.1 billion or 35.9% to ₱174.5 billion in 2012 from ₱128.5 billion in 2011 due mainly from bond issuances of SMIC and corporate notes issued by SMDC and SMPHI. See Note 19 to the audited consolidated financial statements for further discussion regarding long-term debt. Noncurrent derivative liability remained at ₱0.2 billion in 2012 and 2011. Defined benefit liability decreased by ₱0.05 billion or 63.0% to ₱0.03 billion from ₱0.08 billion in 2011. Tenants' deposits and others increased by 14.6% to ₱15.7 billion in 2012 from ₱13.8 billion in 2011 due mainly to new malls and expansions and new condominium projects of the real estate group.

Total stockholders' equity amounted to ₱261.6 billion as of December 31, 2012, while total equity attributable to equity holders of the parent amounted to ₱188.1 billion. The 37.6% or ₱0.1 billion decrease in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Cost of common shares held by a subsidiary decreased by 52.2% to ₱0.1 billion from ₱0.3 billion due mainly to the disposal by subsidiaries of parent common shares during the year. Minority interest increased by 13.8% to ₱73.6 billion in 2012 from ₱64.6 billion in 2011 due mainly to increase in net assets of certain subsidiaries. See Note 20 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

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 major financial ratios of the Company for the years ended December 31, 2012 and 2011:

| Accounts | 12 / 31/ 2012 | 12 / 31/ 2011 |
|---|---|---|
| Current Ratio | 1.39 : 1.00 | 1.27 : 1.00 |
| Debt-equity Ratios: | | |
| On Gross Basis | 54 : 46 | 51 : 49 |
| On Net Basis | 33 : 67 | 28 : 72 |
| Return on Equity | 14.3% | 14.2% |
| Net Income to Revenue | 11.0% | 10.6% |
| Revenue Growth | 12.0% | 13.0% |
| Net Income Growth | 16.3% | 15.1% |
| EBITDA *(In Billions of Pesos)* | P54.9B | P44.2B |

The current ratio increased to 1.39 : 1.00 in 2012 from 1.27 : 1.00 in 2011 due to higher increase of currents assets of 44.1% as compared to current liabilities of 31.7% (See Managements' Discussion and Analysis of Financial Condition).

The debt-equity ratio on gross basis increased to 54 : 46 in 2012 from 51 : 49 in 2011 due mainly to the additional loans in 2012. On a net basis, the debt-equity ratio increased to 33 : 67 as some loans were used for capital expansions, investments, and general corporate purposes.

In terms of profitability, the return on equity and net income to revenue slightly improved to 14.3% and 11.0%, respectively in 2012 as compared to 14.2% and 10.6%, respectively in 2011. Revenue growth decreased to 12.0% in 2012 from 13.0% in 2011 mainly attributed to higher percentage growth of retail and real estate sales in 2011 as compared to 2012.

Net income growth increased to 16.3% in 2012 from 15.1% in 2011 and EBITDA improved to ₱54.9 billion in 2012 from ₱44.2 billion in 2011 due mainly from the increase in revenues by 12.0% and lower growth of costs and expenses by 8.7% as compared to last year's 12.4%.

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

1. Current Ratio — Current Assets / Current Liabilities

2. Debt – Equity Ratio

   a. Gross Basis — Total Interest Bearing Debt less Pledged time deposits / Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt less Pledged time deposits

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

| | | |
|---|---|---|
| | b. Net Basis | Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale<br>Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale |
| 3. | Return on Equity | Net Income Attributable to Equity Holders of the Parent<br>Average Equity Attributable to Equity Holders of the Parent |
| 4. | Net Income to Revenue | Net Income Attributable to Equity Holders of the Parent<br>Total Revenue |
| 5. | Revenue Growth | Total Revenues (Current Period) - 1<br>Total Revenues (Prior Period) |
| 6. | Net Income Growth | Net Income Attributable to Equity Holders of the Parent (Current Period) - 1<br>Net Income Attributable to Equity Holders of the Parent (Prior Period) |
| 7. | EBITDA | Income from operations + Depreciation & Amortization |

**Expansion Plans / Prospects for the Future**

For 2013, SM Prime is scheduled to launch SM Aura Premier in Taguig and SM City Cauayan in Isabela. SM Megamall, on the other hand, will be expanded with an additional 100,000 square meters.

By year-end, SM Prime will have 48 malls in the Philippines and five in China with an estimated combined gross floor area of 6.7 million square meters.

Retail expansion plans for 2013 include the opening of two department stores, two supermarkets, 19 SaveMore branches and seven hypermarkets.

SMDC currently has 18 residential projects under its SM Residences brand and one project under the M Place brand. In order to sustain the growth momentum and to further expand the SMDC's presence in the industry, SMDC will continue to vigorously pursue its vision of uplifting the Filipino lifestyles by launching products that will meet the demand for affordable and high quality residential units in prime locations and will also pursue projects that will cater to the preferences and financial capacity of its target market. Innovation shall remain to be its strength while continuously focusing attention to changing market needs. The broadening and strengthening of its revenue base shall also be pursued as it moves forward.

For the year 2013, SMDC is targeting to launch at least three new projects in various cities within Metro Manila. In addition, it shall continue to search for viable locations in key cities in Metro Manila in response to the increasing demands for residences. SMDC shall be open to tapping various sources of financing to support its operational needs in real estate development.

The expansion plans of Costa del Hamilo include developing the Marina Village. It is envisioned to be a vibrant mixed-use community of prime residential lots, waterfront homes, retail and water sports facilities connected by a boardwalk that surrounds the Marina which will enhance Coastal Living in Hamilo Coast.

SM Hotels is currently developing Park Inn by Radisson Davao, which will be the very first "Park Inn by Radisson" in the Asia Pacific region. The Park Inn brand is one of the hotel brands under Carlson and is the largest mid-market brand for hotels under development in Europe. Park Inn by Radisson Davao hotel project is approximately a 204-room hotel located in Lanang, Davao City. The hotel is scheduled to open in the first quarter of 2013.

SM Hotel's subsidiary SMX Manila is to manage SM Prime's SMX Convention Center in Taguig, which is scheduled to open in April 2013.

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

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of 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.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# 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, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, 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 T. SY** | **HARLEY T. SY** | **JOSE T. SIO** |
| Vice Chairperson of the Board | President | Chief Financial Officer |

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# 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.

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 six (6) members, two of whom are independent directors, namely Mr. Joseph R. Higdon and the Committee Chairman, Mr. Vicente S. Perez, Jr.;
- We met four (4) times in 2012 (on March 7, April 26, August 8 and November 7);

| Members | 3/07/12 | 4/26/12 | 8/08/12 | 11/07/12 | Percentage |
|---|---|---|---|---|---|
| Vicente S. Perez, Jr. | √ | √ | √ | √ | 100 |
| Henry T. Sy, Jr. | √ | √ | √ | √ | 100 |
| Jose T. Sio | √ | √ | √ | √ | 100 |
| Corazon I. Morando | √ | √ | √ | √ | 100 |
| Serafin U. Salvador | √ | √ | √ | X | 75 |
| Joseph R. Higdon | √ | √ | √ | √ | 100 |

- Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes;
- We have reviewed and approved the amended Audit and Risk Management Committee Charter consistent with the provisions in SEC Memorandum Circular No. 4 on the Self-Assessment of the Performance of Audit Committees. Furthermore, we complied with the required self-assessment and submission of the results to the SEC accordingly. Subject Charter was ratified by the Board of Directors;
- 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 and ensured that the Company's related party transactions are conducted at arms' length basis;
- We have discussed the status of the Enterprise Risk Management system roll-out across the listed companies of the SM Group, with initial focus on Financial, Information Technology, Operational and Compliance Risks;
- 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, 2012, six month period ended June 30, 2012, and third quarter ended September 30, 2012;
- 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, 2012.
- 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 2013.

06 March 2013

**VICENTE S. PEREZ, JR.***
Chairman

**HENRY T. SY, JR.**
Member

**JOSE T. SIO**
Member

**ATTY. CORAZON I. MORANDO**
Member

**SERAFIN U. SALVADOR**
Member

**JOSEPH R. HIGDON***
Member

**ATTY. EMMANUEL C. PARAS**
Corporate Secretary

**Independent Director*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# 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, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

**SYCIP GORRES VELAYO & CO.**

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-3 (Group A),
February 21, 2013, valid until February 20, 2016
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669677, January 2, 2013, Makati City

March 6, 2013

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 6, 17, 21, 28 and 29) | **₱60,714,720** | ₱56,050,322 |
| Time deposits and short-term investments (Notes 7, 19, 21, 28 and 29) | **29,090,335** | 879,410 |
| Investments held for trading and sale (Notes 8, 11, 21, 28 and 29) | **2,854,541** | 1,939,709 |
| Receivables (Notes 9, 16, 21, 28 and 29) | **16,365,552** | 11,764,852 |
| Merchandise inventories - at cost (Note 22) | **13,402,762** | 13,436,456 |
| Other current assets (Notes 10, 15, 16, 21, 28 and 29) | **23,458,208** | 17,189,740 |
| Total Current Assets | **145,886,118** | 101,260,489 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Notes 11, 21, 28 and 29) | **16,912,646** | 12,453,181 |
| Investments in shares of stock of associates (Note 12) | **128,453,744** | 88,417,849 |
| Time deposits (Notes 7, 19, 21, 28 and 29) | **29,432,850** | 37,416,562 |
| Property and equipment (Note 13) | **17,186,517** | 15,092,354 |
| Investment properties (Notes 14 and 19) | **149,970,690** | 131,275,911 |
| Land and development (Note 15) | **30,197,862** | 23,012,453 |
| Intangibles (Note 16) | **15,354,200** | 15,354,200 |
| Deferred tax assets - net (Note 26) | **642,105** | 694,644 |
| Other noncurrent assets (Notes 9, 16, 21, 25, 28 and 29) | **27,767,236** | 24,084,415 |
| Total Noncurrent Assets | **415,917,850** | 347,801,569 |
| | **₱561,803,968** | ₱449,062,058 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans (Notes 17, 21, 28 and 29) | **₱31,793,975** | ₱25,747,920 |
| Accounts payable and other current liabilities (Notes 18, 21, 28 and 29) | **57,865,876** | 44,749,807 |
| Income tax payable | **1,474,045** | 1,331,046 |
| Current portion of long-term debt (Notes 14, 19, 21, 28 and 29) | **13,859,558** | 7,920,961 |
| Dividends payable (Notes 28 and 29) | **97,282** | 25,696 |
| Total Current Liabilities | **105,090,736** | 79,775,430 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 14, 19, 21, 28 and 29) | **174,532,871** | 128,464,019 |
| Derivative liabilities (Notes 28 and 29) | **244,330** | 237,980 |
| Deferred tax liabilities - net (Note 26) | **4,542,918** | 4,507,979 |
| Tenants' deposits and others (Notes 14, 25, 27, 28 and 29) | **15,748,135** | 13,789,789 |
| Total Noncurrent Liabilities | **195,068,254** | 146,999,767 |
| Total Liabilities | **300,158,990** | 226,775,197 |
| **Equity Attributable to Owners of the Parent** | | |
| Capital stock (Note 20) | **6,229,746** | 6,121,640 |
| Additional paid-in capital (Note 20) | **42,858,920** | 35,536,615 |
| Equity adjustments from business combination under common control (Note 20) | **(2,332,796)** | (2,332,796) |
| Cost of Parent common shares held by subsidiaries (Note 20) | **(125,906)** | (263,195) |
| Cumulative translation adjustment of a subsidiary | **266,915** | 428,058 |
| Net unrealized gain on available-for-sale investments (Notes 11 and 12) | **11,718,559** | 7,008,067 |
| Retained earnings (Note 20): | | |
| Appropriated | **35,000,000** | 5,000,000 |
| Unappropriated | **94,458,694** | 106,167,942 |
| Total Equity Attributable to Owners of the Parent | **188,074,132** | 157,666,331 |
| **Non-controlling Interests** | **73,570,846** | 64,620,530 |
| Total Equity | **261,644,978** | 222,286,861 |
| | **₱561,803,968** | ₱449,062,058 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **REVENUE** | | | |
| Sales: | | | |
| Merchandise | **₱158,888,415** | ₱148,182,071 | ₱135,570,401 |
| Real estate and others | **23,438,959** | 17,874,409 | 10,896,597 |
| Rent (Notes 14, 21 and 27) | **24,155,567** | 20,472,785 | 17,904,661 |
| Equity in net earnings of associates (Note 12) | **9,042,034** | 6,415,424 | 5,440,826 |
| Cinema ticket sales, amusement and others | **4,824,228** | 4,138,053 | 3,722,983 |
| Management and service fees (Note 21) | **1,112,302** | 880,679 | 807,507 |
| Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 8, 11 and 29) | **2,055** | 44,368 | 683,714 |
| Dividend income (Note 21) | **628,385** | 368,919 | 303,518 |
| Others | **1,785,329** | 1,538,940 | 1,599,684 |
| | **223,877,274** | 199,915,648 | 176,929,891 |
| **COST AND EXPENSES** | | | |
| Cost of sales: | | | |
| Merchandise (Note 22) | **117,896,688** | 112,192,756 | 103,500,345 |
| Real estate and others | **14,124,779** | 10,289,007 | 5,995,214 |
| Selling, general and administrative expenses (Note 23) | **44,978,822** | 40,412,750 | 35,496,334 |
| | **177,000,289** | 162,894,513 | 144,991,893 |
| **OTHER INCOME (CHARGES)** | | | |
| Interest expense (Notes 15, 17, 19, 21, 24, 28 and 29) | **(10,811,736)** | (8,836,013) | (7,652,557) |
| Interest income (Notes 6, 7, 8, 11, 21 and 24) | **4,416,746** | 4,274,640 | 3,716,452 |
| Gain on disposal of investments and properties - net (Notes 12, 13, 14 and 19) | **1,301,888** | 2,623,864 | 1,626,816 |
| Gain (loss) on fair value changes on derivatives - net (Notes 19 and 29) | **(1,403,411)** | 366,154 | 243,085 |
| Foreign exchange gain - net (Note 28) | **565,132** | 242,862 | 407,208 |
| | **(5,931,381)** | (1,328,493) | (1,658,996) |
| **INCOME BEFORE INCOME TAX** | **40,945,604** | 35,692,642 | 30,279,002 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 26) | | | |
| Current | **6,453,836** | 5,534,187 | 5,109,646 |
| Deferred | **91,250** | (39,369) | 291,407 |
| | **6,545,086** | 5,494,818 | 5,401,053 |
| **NET INCOME** | **₱34,400,518** | ₱30,197,824 | ₱24,877,949 |
| **Attributable to** | | | |
| Owners of the Parent (Note 30) | **₱24,674,381** | ₱21,224,592 | ₱18,440,169 |
| Non-controlling interests | **9,726,137** | 8,973,232 | 6,437,780 |
| | **₱34,400,518** | ₱30,197,824 | ₱24,877,949 |
| **Earnings Per Common Share** (Note 30) | | | |
| Basic | **₱39.85** | ₱34.68 | ₱30.17 |
| Diluted | **39.08** | 34.63 | 30.17 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **NET INCOME** | **₱34,400,518** | ₱30,197,824 | ₱24,877,949 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Share in unrealized gain on available-for-sale investments of associates - net (Notes 11 and 12) | **1,514,343** | 440,127 | 2,065,101 |
| Net unrealized gain (loss) on available-for-sale investments (Note 11) | **4,753,031** | (434,299) | 1,941,882 |
| Income tax relating to components of other comprehensive income | **3,772** | 207,106 | (375,510) |
| Cumulative translation adjustment of a subsidiary | **(205,702)** | 177,178 | (75,740) |
| | **6,065,444** | 390,112 | 3,555,733 |
| **TOTAL COMPREHENSIVE INCOME** | **₱40,465,962** | ₱30,587,936 | ₱28,433,682 |
| **Attributable to** | | | |
| Owners of the Parent | **₱29,223,730** | ₱21,573,362 | ₱21,366,625 |
| Non-controlling interests | **11,242,232** | 9,014,574 | 7,067,057 |
| | **₱40,465,962** | ₱30,587,936 | ₱28,433,682 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in Thousands, Except Per Share Data)

| | Equity Attributable to | | | |
|---|---|---|---|---|
| | **Capital Stock** (Note 20) | **Additional Paid-in Capital** (Note 20) | **Equity Adjustments from Business Combination Under Common Control** (Note 20) | **Cost of Parent Common Shares Held by Subsidiaries** (Note 20) |
| Balance at December 31, 2011 | **₱6,121,640** | **₱35,536,615** | **(₱2,332,796)** | **(₱263,195)** |
| Net income for the year | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income for the year | – | – | – | – |
| Issuance of Parent common shares | **108,106** | **7,216,451** | – | – |
| Disposal of Parent common shares held by subsidiaries | – | **105,854** | – | **137,289** |
| Cash dividends - ₱10.40 a share (Note 20) | – | – | – | – |
| Appropriation during the year | – | – | – | – |
| Decrease in previous year's non-controlling interests | – | – | – | – |
| Cash dividends received by non-controlling interests | – | – | – | – |
| Balance at December 31, 2012 | **₱6,229,746** | **₱42,858,920** | **(₱2,332,796)** | **(₱125,906)** |
| Balance at December 31, 2010 | ₱6,119,826 | ₱35,456,200 | (₱2,332,796) | (₱263,195) |
| Net income for the year | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income for the year | – | – | – | – |
| Issuance of Parent common shares | 1,814 | 80,415 | – | – |
| Cash dividends - ₱9.04 a share (Note 20) | – | – | – | – |
| Increase in previous year's non-controlling interests | – | – | – | – |
| Cash dividends received by non-controlling interests | – | – | – | – |
| Balance at December 31, 2011 | ₱6,121,640 | ₱35,536,615 | (₱2,332,796) | (₱263,195) |
| Balance at December 31, 2009 | ₱6,110,230 | ₱35,030,710 | (₱2,332,796) | (₱24,078) |
| Net income for the year | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income for the year | – | – | – | – |
| Issuance of Parent common shares | 9,596 | 425,490 | – | – |
| Acquisition of Parent common shares held by subsidiaries | – | – | – | (249,812) |
| Disposal of Parent common shares held by a subsidiary | – | – | – | 10,695 |
| Cash dividends - ₱7.88 a share (Note 20) | – | – | – | – |
| Increase in previous year's non-controlling interests | – | – | – | – |
| Cash dividends received by non-controlling interests | – | – | – | – |
| Balance at December 31, 2010 | ₱6,119,826 | ₱35,456,200 | (₱2,332,796) | (₱263,195) |

*See accompanying Notes to Consolidated Financial Statements.*

| Owners of the Parent | | | | | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|
| Cumulative Translation Adjustment of a Subsidiary | Net Unrealized Gain on Available-for-Sale Investments (Notes 11 and 12) | Appropriated Retained Earnings (Note 20) | Unappropriated Retained Earnings (Note 20) | Total | | |
| **₱428,058** | **₱7,008,067** | **₱5,000,000** | **₱106,167,942** | **₱157,666,331** | **₱64,620,530** | **₱222,286,861** |
| **–** | **–** | **–** | **24,674,381** | **24,674,381** | **9,726,137** | **34,400,518** |
| **(161,143)** | **4,710,492** | **–** | **–** | **4,549,349** | **1,516,095** | **6,065,444** |
| **(161,143)** | **4,710,492** | **–** | **24,674,381** | **29,223,730** | **11,242,232** | **40,465,962** |
| **–** | **–** | **–** | **–** | **7,324,557** | **–** | **7,324,557** |
| **–** | **–** | **–** | **–** | **243,143** | **52,402** | **295,545** |
| **–** | **–** | **–** | **(6,383,629)** | **(6,383,629)** | **–** | **(6,383,629)** |
| **–** | **–** | **30,000,000** | **(30,000,000)** | **–** | **–** | **–** |
| **–** | **–** | **–** | **–** | **–** | **(235,336)** | **(235,336)** |
| **–** | **–** | **–** | **–** | **–** | **(2,108,982)** | **(2,108,982)** |
| **₱266,915** | **₱11,718,559** | **₱35,000,000** | **₱94,458,694** | **₱188,074,132** | **₱73,570,846** | **₱261,644,978** |
| ₱289,260 | ₱6,798,095 | ₱5,000,000 | ₱90,475,674 | ₱141,543,064 | ₱56,274,415 | ₱197,817,479 |
| – | – | – | 21,224,592 | 21,224,592 | 8,973,232 | 30,197,824 |
| 138,798 | 209,972 | – | – | 348,770 | 41,342 | 390,112 |
| 138,798 | 209,972 | – | 21,224,592 | 21,573,362 | 9,014,574 | 30,587,936 |
| – | – | – | – | 82,229 | – | 82,229 |
| – | – | – | (5,532,324) | (5,532,324) | – | (5,532,324) |
| – | – | – | – | – | 1,562,422 | 1,562,422 |
| – | – | – | – | – | (2,230,881) | (2,230,881) |
| ₱428,058 | ₱7,008,067 | ₱5,000,000 | ₱106,167,942 | ₱157,666,331 | ₱64,620,530 | ₱222,286,861 |
| ₱344,302 | ₱3,816,597 | ₱5,000,000 | ₱76,850,367 | ₱124,795,332 | ₱40,929,934 | ₱165,725,266 |
| – | – | – | 18,440,169 | 18,440,169 | 6,437,780 | 24,877,949 |
| (55,042) | 2,981,498 | – | – | 2,926,456 | 629,277 | 3,555,733 |
| (55,042) | 2,981,498 | – | 18,440,169 | 21,366,625 | 7,067,057 | 28,433,682 |
| – | – | – | – | 435,086 | – | 435,086 |
| – | – | – | – | (249,812) | – | (249,812) |
| – | – | – | – | 10,695 | – | 10,695 |
| – | – | – | (4,814,862) | (4,814,862) | – | (4,814,862) |
| – | – | – | – | – | 9,688,915 | 9,688,915 |
| – | – | – | – | – | (1,411,491) | (1,411,491) |
| ₱289,260 | ₱6,798,095 | ₱5,000,000 | ₱90,475,674 | ₱141,543,064 | ₱56,274,415 | ₱197,817,479 |

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱40,945,604** | ₱35,692,642 | ₱30,279,002 |
| Adjustments for: | | | |
| Interest expense (Note 24) | **10,811,736** | 8,836,013 | 7,652,557 |
| Depreciation and amortization (Notes 13, 14 and 23) | **8,057,871** | 7,193,100 | 6,321,252 |
| Equity in net earnings of associates (Note 12) | **(9,042,034)** | (6,415,424) | (5,440,826) |
| Interest income (Note 24) | **(4,416,746)** | (4,274,640) | (3,716,452) |
| Gain on disposal of investments and properties - net (Notes 12, 13, 14 and 19) | **(1,301,888)** | (2,623,864) | (1,626,816) |
| Loss (gain) on fair value changes on derivatives - net (Note 29) | **1,403,411** | (366,154) | (243,085) |
| Gain on available-for-sale investments and fair value changes on investments held for trading - net (Notes 8, 11 and 29) | **(2,055)** | (44,368) | (683,714) |
| Dividend income | **(628,385)** | (368,919) | (303,518) |
| Unrealized foreign exchange loss (gain) | **(93,811)** | 190,586 | (435,321) |
| Provision for (reversal of) impairment loss (Notes 9, 10, 11, 12, 14 and 23) | **(2,743,711)** | 72,567 | 557,536 |
| Income before working capital changes | **42,989,992** | 37,891,539 | 32,360,615 |
| Decrease (increase) in: | | | |
| Land and development | **(13,700,945)** | (14,042,798) | (13,991,134) |
| Merchandise inventories | **33,694** | (2,950,553) | (2,725,140) |
| Receivables | **(1,809,471)** | (1,861,758) | (4,529,308) |
| Other current assets | **(6,043,200)** | (405,838) | (1,374,622) |
| Increase (decrease) in: | | | |
| Accounts payable and other current liabilities | **13,469,449** | 4,362,657 | 4,442,599 |
| Tenants' deposits and others | **2,390,156** | 1,300,123 | 2,411,126 |
| Defined benefit liability (Note 25) | **(48,178)** | (101,787) | (170,977) |
| Net cash generated from operations | **37,281,497** | 24,191,585 | 16,423,159 |
| Income tax paid | **(6,314,700)** | (5,390,172) | (4,991,668) |
| Net cash provided by operating activities | **30,966,797** | 18,801,413 | 11,431,491 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of: | | | |
| Investments in shares of stock of associates | **1,870,174** | 289,416 | 1,506,807 |
| Property and equipment | **161,834** | 265,060 | 210,586 |
| Investment properties | **236,210** | 141,361 | 194,208 |
| Available-for-sale investments and held for trading | **2,233,812** | 84,604 | 2,878,859 |
| Investments held for trading | **–** | – | 3,713,156 |
| Additions to: | | | |
| Investment properties (Note 14) | **(27,932,103)** | (21,140,911) | (15,426,869) |
| Investments in shares of stock of associates | **(28,261,006)** | (7,109,378) | (1,598,303) |
| Property and equipment (Note 13) | **(6,614,570)** | (4,791,062) | (4,403,485) |
| Available-for-sale investments | **(3,237,646)** | (1,619,334) | (3,384,105) |
| Time deposits | **(23,005,702)** | – | – |
| Investments held for trading | **–** | – | (2,491,297) |
| Decrease (increase) in: | | | |
| Other noncurrent assets | **1,984,796** | 1,923,878 | (1,639,195) |
| Time deposits and short-term investments | **–** | – | 2,583,891 |
| Interest received | **4,208,464** | 4,152,181 | 4,113,667 |
| Dividends received (Note 12) | **795,953** | 1,910,255 | 1,669,398 |
| Net cash used in investing activities | **(77,559,784)** | (25,893,930) | (12,072,682) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of: | | | |
| Long-term debt | **₱71,638,384** | ₱27,594,082 | ₱33,964,598 |
| Bank loans | **62,039,335** | 23,428,370 | 22,828,100 |
| Payments of: | | | |
| Long-term debt | **(14,495,495)** | (21,874,200) | (20,988,993) |
| Bank loans | **(55,910,180)** | (18,228,800) | (6,608,400) |
| Interest | **(9,918,610)** | (8,747,952) | (8,301,873) |
| Dividends | **(8,421,026)** | (7,761,796) | (6,224,317) |
| Proceeds from issuance of new common shares | **6,329,678** | – | – |
| Disposal of Parent common shares held by subsidiaries | **295,546** | – | 10,695 |
| Increase (decrease) in non-controlling interests | **(235,336)** | 1,562,422 | 9,688,915 |
| Acquisition of Parent common shares held by subsidiaries | **–** | – | (249,812) |
| Net cash provided by (used in) financing activities | **51,322,296** | (4,027,874) | 24,118,913 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **4,729,309** | (11,120,391) | 23,477,722 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(64,911)** | 209,703 | (63,713) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **56,050,322** | 66,961,010 | 43,547,001 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱60,714,720** | ₱56,050,322 | ₱66,961,010 |

*See accompanying Notes to Consolidated Financial Statements.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

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

The Parent Company and its subsidiaries (collectively referred to as the Group), and its associates are involved primarily in shopping mall development, retail, real estate development and tourism, hotels and conventions and financial services and others.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 6, 2013.

## 2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

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

Statement of Compliance
The consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting January 1, 2012. The adoption of the amended standards and interpretations did not have any impact on the Group's consolidated financial statements.

*Amendments to Standards and Interpretations*

- PFRS 7 (Amendment), *Financial Instruments: Disclosures - Transfers of Financial Assets*, became effective for annual periods beginning July 1, 2011
- PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*, became effective for annual periods beginning January 1, 2012
- Philippine Interpretation Questions and Answers (Q&A) 2011-02, PFRS 3.2 *Common Control Business Combinations,* effective January 1, 2012
- Philippine Interpretation Q&A 2011-03, *Accounting for Intercompany Loans,* effective January 1, 2012

Future Changes in Accounting Policies
The following are the new standards, interpretations, amendments and improvements to PFRS and Philippine Interpretations that were issued but are not yet effective as at December 31, 2012. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

*New Standards and Interpretations*

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Offsetting Financial Assets and Financial Liabilities*, requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  (c) The net amounts presented in the balance sheet;
  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
  (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

The Group has made an evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as of December 31, 2012 and 2011 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, and investments held for trading and available for sale investments, both carried at fair value, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost and fair value, thus, has no impact to the Group's financial position and performance.

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's other financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

The Group shall conduct another impact assessment early in 2013 using the consolidated financial statements as of and for the year ended December 31, 2012. Given the amendments on PFRS 9, the Group at present, does not plan to early adopt in its 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in its consolidated financial statements as of and for the year ending December 31, 2013. Should the Group decide to early adopt the said standard for its 2013 financial reporting, its interim consolidated financial statements as of and for the period ending March 31, 2013 will reflect application of the requirement under the said standard and will contain the qualitative and quantitative discussions of the results of the Group's impact evaluation.

- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities.* PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group performed a reassessment of control over its investments and assessed that this standard will not have a significant impact on its consolidated financial statements.

- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures,* and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- Transition guidance on PFRS 10, PFRS 11 and PFRS 12 (Amendment) will become effective for annual periods beginning January 1, 2013. The amendments changed the transition guidance to provide further relief from full retrospective application. The International Accounting Standards Board (IASB) noted that the intention in IFRS 10 was to use the date of initial application as a reference point to determine which interests must be accounted for in terms of IFRS 10, i.e., the point at which the control assessment must be made. To this end, 'the date of initial application' is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The Group does not expect this transition guidance to have a significant impact on its consolidated financial statements.

- PFRS 13, *Fair Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of this interpretation will result to a change in the revenue and cost recognition from percentage of completion method to completed contract method. The Group has made an assessment and is continuously monitoring the impact of this new interpretation to its consolidated financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group assessed that this new interpretation has no impact on its consolidated financial statements.

*Amendments to Standards*

- PAS 1, *Financial Statement Presentation* (Amendment) - *Presentation of Items of Other Comprehensive Income,* will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's consolidated financial statements.

- PAS 19, *Employee Benefits (Revised)*, will become effective for annual periods beginning on or after January 1, 2013. Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

| | As at December 31, 2012 | As at January 1, 2012 | As at January 1, 2011 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Increase (decrease) in: | | | |
| Consolidated balance sheet | | | |
| Net defined benefit asset | ₱209,283 | ₱311,216 | ₱401,557 |
| Deferred tax liability | (30,580) | (27,102) | 120,467 |
| Other comprehensive income (net of tax) | (83,684) | (86,060) | – |
| Retained earnings | (7,658) | 25,249 | 281,090 |

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Consolidated statements of income | | |
| Net pension expense | (₱17,615) | (₱32,601) |
| Income tax expense | 5,284 | 9,780 |
| Net income for the year | 12,331 | 22,821 |
| Attributable to owners of the Parent Company | (7,658) | 25,249 |
| Attributable to non-controlling interests | 19,989 | (2,428) |

- PAS 27, *Separate Financial Statements* (Amendment), as revised in 2011, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28, *Investments in Associates and Joint Venture* (Amendment), as revised in 2011, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Offsetting Financial Assets and Financial liabilities.* The amendments to PAS 32 are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to offset" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment affects presentation only and have no impact on the Group's financial position or performance.

*Annual Improvements to PFRS (2009-2011 cycle)*

The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are to be applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs.* The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs.* The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information.* The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment.* The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments.* The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes.* The Group expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities.* The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Basis of Consolidation

*Basis of Consolidation from January 1, 2010.* The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss, other comprehensive income and net assets not held by the Group and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and within equity section in the consolidated balance sheets, separately from equity attributable to owners of the Parent.

Losses from a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

*Basis of Consolidation Prior to January 1, 2010.* Certain of the above-mentioned policies were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Transactions with non-controlling interest without loss of control, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration transferred (received) and the proportionate share of the net assets acquired (sold) were recognized as goodwill (negative goodwill).

Losses applicable to the non-controlling interest in a consolidated subsidiary may exceed the non-controlling interest in the subsidiary's equity. The excess, and any further losses applicable to the non-controlling interest, are allocated against the controlling interest to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the controlling interest until the non-controlling interest's share in the losses previously absorbed by the controlling has been recovered. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and owners of the Parent.

The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the Group ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as at the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated statements of income as gain or loss on the disposal of the subsidiary.

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

| | Percentage of Ownership | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| Company | **Direct** | **Indirect** | Direct | Indirect |
| **Shopping Mall Development** | | | | |
| SM Prime Holdings, Inc. (SM Prime) and Subsidiaries | **22** | **41** | 22 | 41 |
| **Retail** | | | | |
| SM Retail, Inc. (SM Retail) and Subsidiaries | **100** | **–** | 100 | – |
| Prime Central, Inc. (Prime Central) and Subsidiaries | **100** | **–** | 100 | – |
| Rappel Holdings, Inc. (Rappel) and Subsidiaries | **100** | **–** | 100 | – |
| **Real Estate Development and Tourism** | | | | |
| SM Land, Inc. (SM Land) and Subsidiaries: | **67** | **–** | 67 | – |
| SM Development Corporation (SMDC) and Subsidiaries | **–** | **65** | – | 65 |
| Magenta Legacy, Inc. (Magenta) | **–** | **99** | – | 99 |
| Associated Development Corporation | **–** | **100** | – | 100 |
| Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries | **100** | **–** | 100 | – |
| Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.) and Subsidiaries | **59** | **–** | 59 | – |
| Intercontinental Development Corporation (ICDC) | **72** | **28** | 72 | 28 |
| Bellevue Properties, Inc. | **62** | **–** | 62 | – |
| Tagaytay Resort Development Corporation | **33** | **25** | 33 | 25 |
| **Hotels and Conventions** | | | | |
| SM Hotels and Conventions Corp. (SM Hotels)and Subsidiaries | **100** | **–** | 100 | – |
| **Others** | | | | |
| Primebridge Holdings, Inc. (Primebridge) | **80** | **20** | 80 | 20 |
| Asia Pacific Computer Technology Center, Inc. | **52** | **–** | 52 | – |
| Multi-Realty Development Corporation (MRDC) | **91** | **–** | 91 | – |
| SM Arena Complex Corporation | **100** | **–** | – | – |
| Henfels Investments Corp. | **99** | **–** | – | – |

Hotel Specialist (Davao), Inc.
In August 2012, SM Hotels incorporated Hotel Specialist (Davao), Inc., as a wholly owned subsidiary to engage in and carry on the business of hotel and resort.

Mindanao Shoppers Daily Destination Corp.(MSDD)
In July 2012, SM Retail invested ₱18.8 million or an equivalent of 75% interest in a newly incorporated company in the Philippines, MSDD. MSDD is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise. Consequently, MSDD became a subsidiary of SM Retail.

SM Arena Complex Corporation (SM Arena)
In March 2012, SMIC incorporated SM Arena, as a wholly owned subsidiary to engage in, conduct and carry on the business to manage the operations of Mall of Asia Arena, an entertainment and sporting events facility that also houses various stores.

My ShoppingLane Cebu Corporation (MSCC)
In October 2011, SM Retail invested ₱22.5 million or an equivalent of 75% interest in a newly incorporated company in the Philippines, MSCC. MSCC is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise. Consequently, MSCC became a subsidiary of SM Retail.

Hyperhome Corp. and Hyperfashion Corp. (subsidiaries of SM Retail)
In 2011, SM Retail incorporated Hyperhome Corp. and Hyperfashion Corp. as wholly owned subsidiaries to engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail, importing, exporting insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description such as but not limited to bags and luggages, clothing line and accessories and other general merchandise on a wholesale/retail basis.

SM Prime
SM Prime declared a stock dividend in 2012 which resulted in an increase of 752.4 million and 1,423.4 million common shares held by SMIC and SM Land, respectively. The declaration of stock dividend by SM Prime did not result in a change in ownership interest of the Group.

On October 14, 2010, SM Prime has undergone an international placement and engaged into a Placement Agreement with SM Land (Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners"). As stated in the Placement Agreement, SM Land shall sell its 569.6 million SM Prime common shares (the "Sale Shares") with a par value of ₱1.00 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

Contemporaneous with the signing of the Placement Agreement, SM Prime likewise entered into a Subscription Agreement with SM Land, where the latter will not directly receive any proceeds from the International Placement but has conditionally agreed to subscribe for new SM Prime common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by SM Land at a subscription price of ₱11.50 per share, which is equal to the Offer Price of the Sale Shares.

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 569.6 million SM Prime common shares. Likewise, SM Land subscribed for and SM Prime issued to SM Land the same number of new SM Prime common shares.

The placement and subscription agreements resulted in a 3% decrease in total direct and indirect ownership of the Group over SM Prime.

SMDC
SMDC declared a stock dividend in 2012 which resulted to an increase of 1.1 million and 549.4 million common shares held by SMIC and SM Land, respectively. The declaration of stock dividend by SMDC did not result to a change in the ownership interest of the Group.

In 2012, SMDC acquired Guadix Land Corporation (GLC), Lascona Land Company, Inc. (LLCI) and Metro South Davao Property Corporation (MSDPC) for ₱498.4 million, ₱1,500.0 million and ₱600.0 million, respectively, and became its wholly owned subsidiaries (see Note 15).

In 2011, SMDC acquired Twenty Two Forty One Properties, Inc. (TTFOPI) for ₱195.6 million and became its wholly owned subsidiary (see Note 15).

In 2010, SMDC acquired Vancouver Lands, Inc. (VLI) for ₱566.6 million and became its wholly owned subsidiary (see Note 15).

In January and October 2010, SMDC had a stock rights offering to eligible existing common shareholders of SMDC at the proportion of one rights share for every three existing common shares held as at record date, at an offer price of ₱3.50 and ₱6.38 per rights share, respectively.

SMIC acquired a total of 4.04 million additional SMDC shares for a total cost of ₱20.8 million. The availment of additional shares from the said offering did not result to a change in ownership interest of SMIC in SMDC.

SM Land acquired a total of 2,114.5 million additional SMDC shares for a total cost of ₱10,840.0 million, a fraction of which totaling to 32.9 million SMDC shares or a total cost of ₱115.2 million was purchased by SM Land from the unsubscribed portion of the aggregate stock rights offered by SMDC. The availment of additional shares resulted to a 0.6% increase in SM Land's interest in SMDC.

MH Holdings, Inc. (MH Holdings, Inc.)
In 2010, MH Holdings (a subsidiary of SM Retail) invested ₱72.0 million or an equivalent of 60% interest in a newly incorporated company in the Philippines, Forever Agape & Glory, Inc. (Forever Agape). Consequently, Forever Agape became a subsidiary of MH Holdings.

## 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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

*Functional Currency*. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of primary economic environment in which the Parent Company operates.

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

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

*Operating Lease Commitments - Group as Lessor.* The Group has entered into commercial property leases in its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Rent income amounted to ₱24,155.6 million, ₱20,472.8 million and ₱17,904.7 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 14).

*Operating Lease Commitments - Group as Lessee.* The Group has entered into various lease agreements as a lessee. Management has determined that all the significant risks and benefits of ownership of these properties, which the Group leases under operating lease arrangements, remain with the lessor. Accordingly, the leases were accounted for as operating leases.

Rent expense amounted to ₱4,876.3 million, ₱3,463.7 million and ₱3,016.0 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Notes 23 and 27).

*Classifying Held-to-Maturity (HTM) Investments.* The classification to HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of AFS investments. In such case, the investments would therefore be remeasured at fair value and not at amortized cost.

HTM investments as at December 31, 2012 and 2011 amounted to ₱200.0 million with caption "Treasury bonds," included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets (see Notes 10 and 16).

*Classifying Investments in Shares of Stock of Associates.* The classification to associate requires significant judgment. In making this judgment, the Group evaluates whether it has significant influence over the investees. Management has determined that it has significant influence over its equity investments classified as associates. As such, these investments are accounted for using equity method in the consolidated financial statements.

The carrying value of investments in shares of stock of associates as at December 31, 2012 and 2011 amounted to P128,431.2 million and P88,417.8 million, respectively (see Note 12).

*Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value.* The Group determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Group determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than twelve months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

There was no impairment loss recognized on AFS investments for the years ended December 31, 2012, 2011 and 2010. The carrying values of AFS investments amounted to ₱19,307.8 million and ₱13,935.4 million as at December 31, 2012 and 2011, respectively (see Notes 8 and 11).

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at reporting period that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment of Receivables.* The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment loss would increase the recorded selling, general and administrative expenses and decrease current and noncurrent assets.

Allowance for impairment loss amounted to ₱155.3 million and ₱47.1 million as at December 31, 2012 and 2011, respectively (see Notes 9 and 10). Receivables, including advances and other receivables included under "Other current assets" account and receivable from a related party, noncurrent portion of receivables from real estate buyers and long-term notes included under "Other noncurrent assets" account, amounted to ₱44,849.6 million and ₱36,948.6 million as at December 31, 2012 and 2011, respectively (see Notes 9, 10 and 16).

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

Allowance for impairment loss amounted to ₱45.1 million as at December 31, 2012 and 2011. The carrying values of AFS investments amounted to ₱19,307.8 million and ₱13,935.4 million as at December 31, 2012 and 2011, respectively (see Notes 8 and 11).

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

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

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

In 2012 and 2011, the Group assessed that the net realizable values of merchandise inventories, condominium units for sale, club shares for sale and land and development are higher than cost, hence, the Group did not recognize any losses on write down of the assets. The carrying values of merchandise inventories amounted to ₱13,402.8 million and ₱13,436.5 million as at December 31, 2012 and 2011, respectively (see Note 22). The carrying values of condominium units for sale included under "Other current assets" account amounted to ₱3,286.9 million and ₱1,115.9 million as at December 31, 2012 and 2011, respectively (see Note 10). The carrying values of club shares for sale included under "Other current assets" account amounted to ₱824.2 million and ₱856.2 million as at December 31, 2012 and 2011, respectively (see Note 10). The carrying values of land and development amounted to ₱30,197.9 million and ₱23,012.5 million as at December 31, 2012 and 2011, respectively (see Note 15).

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

The total carrying values of property and equipment and investment properties amounted to ₱167,157.2 million and ₱146,368.3 million as at December 31, 2012 and 2011, respectively (see Notes 13 and 14).

*Impairment of Investments in Shares of Stock of Associates.* Impairment review of investments in shares of stock of associates is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group reversed impairment loss amounting to ₱3,542.7 million and ₱445.0 million in 2012 and 2011, respectively, and recognized allowance for impairment loss amounting to nil and ₱395.0 million in 2012 and 2011, respectively. Allowance for impairment loss amounted to ₱775.0 million and ₱4,317.7 million as at December 31, 2012 and 2011, respectively. The carrying values of investments in shares of stock of associates amounted to ₱128,431.2 million and ₱88,417.8 million as at December 31, 2012 and 2011, respectively (see Note 12).

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

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

Allowance for impairment loss on investment properties amounted to ₱923.3 million as at December 31, 2012 and 2011 (see Note 14). The total carrying values of property and equipment and investment properties amounted to ₱167,157.2 million and ₱146,368.3 million as at December 31, 2012 and 2011, respectively (see Notes 13 and 14).

*Impairment of Goodwill, Trademarks and Brand Names with Indefinite Useful Lives.* The Group's impairment test for goodwill, trademarks and brand names is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further discussed in Note 16.

The carrying values of goodwill, trademarks and brand names amounted to ₱15,354.2 million as at December 31, 2012 and 2011, respectively (see Note 16).

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

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted to ₱15,354.2 million as at December 31, 2012 and 2011 (see Note 16).

In 2012, SMIC increased its ownership in Atlas from 17.9% to 28.4%. The goodwill resulting from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 12).

In 2011, the Group acquired 17.9% equity interest in Atlas Consolidated Mining and Development Corporation (Atlas). The acquisition was accounted on provisional basis pending the fair value of Atlas' net assets as at December 31, 2011. In 2012, the fair values of the net assets acquired were finalized where the resulting goodwill from the acquisition formed part of the cost of investment in shares of stock of Atlas (see Note 12).

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

Deferred tax assets recognized in the consolidated balance sheets as at December 31, 2012 and 2011 amounted to ₱642.1 million and ₱694.6 million, respectively, while the unrecognized deferred tax assets amounted to ₱1,902.3 million and ₱1,283.6 million as at December 31, 2012 and 2011, respectively (see Note 26).

*Present Value of Defined Benefit Obligation.* The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to ₱352.9 million, ₱453.7 million and ₱729.6 million as at December 31, 2012, 2011 and 2010, respectively (see Note 25). The Group's defined benefit asset amounted to ₱452.9 million and ₱394.7 million as at December 31, 2012 and 2011, respectively (see Notes 16 and 25). While the Group's defined benefit liability amounted to ₱28.3 million and ₱76.5 million as at December 31, 2012 and 2011, respectively (see Note 25).

*Fair Value of Financial Assets and Liabilities.* The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and other comprehensive income.

The fair value of financial assets and liabilities are discussed in Note 29.

*Contingencies.* The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (see Note 32).

**4. Summary of Significant Accounting Policies**

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

Time Deposits and Short-term Investments
Time deposits and short-term investments are cash placements, shown under current assets, with original maturities of more than three months but less than one year. Time deposits which will mature twelve months after the reporting period are presented under noncurrent assets.

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

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

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

*Determination of Fair Value.* The fair value of financial instruments traded in active markets at reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

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

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

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

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

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

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

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

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

*HTM Investments.* HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months from reporting period. Otherwise, these are classified as noncurrent assets.

The Group's investment in quoted Philippine government treasury bonds are classified under this category.

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

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

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

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

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

<u>Classification of Financial Instruments Between Liability and Equity</u>
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

<u>Redeemable Preferred Shares</u>
In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

The redeemable preferred shares of the Group exhibit the characteristics of a financial liability and are thus recognized as a liability under "Long-term debt" account in the consolidated balance sheets, net of transaction costs. The corresponding dividends on the shares are charged as interest expense in the consolidated statements of income.

Transaction costs are amortized over the maturity period of the preferred shares using the effective interest method.

<u>Debt Issue Costs</u>
Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

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

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

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

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

Options arising from the Parent Company's investment in bonds and convertible bonds payable are the Group's bifurcated embedded derivatives.

<u>Derecognition of Financial Assets and Liabilities</u>

*Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheets.

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

Land and Development, Condominium Units for Sale and Club Shares for Sale
Land and development, condominium units for sale (included under "Other current assets" account in the consolidated balance sheets) and club shares for sale (included under "Other current assets" account in the consolidated balance sheets) are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Cost includes those costs incurred for development and improvement of the properties.

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

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

Investments in Shares of Stock of Associates
The Group's investments in shares of stock of associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

a. goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profits or losses.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

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

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

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

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the consolidated statements of income in the period of retirement or disposal.

Investment Properties
Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Property under construction or development for future use as an investment property is classified as investment property.

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

| | |
|---|---|
| Land improvements | 3–5 years |
| Land use rights | 40–60 years |
| Buildings and improvements | 10–35 years |
| Building equipment, furniture and others | 3–15 years |

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

Investment property is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the period of retirement or disposal.

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

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

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

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

Business Combinations

*Business Combinations from January 1, 2010.* Business combinations are accounted for using the acquisition method except for commonly controlled transaction of which an accounting similar to pooling of interest method is used. Business combinations under commonly controlled transactions are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statements of income.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

*Business Combinations prior to January 1, 2010.* Business combinations were accounted for using the purchase method, except for commonly controlled transactions, of which, an accounting similar to pooling of interest method is used. For purchase method of accounting, the cost of acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired entity. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from business combination" account in the equity section of the consolidated balance sheet.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest do not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Goodwill
Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statements of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated:

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

Excess of the fair values of acquired identifiable assets and liabilities of subsidiaries and associates over the acquisition cost of that interest, is credited directly to income. Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statements of income.

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

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

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

<u>Capital Stock</u>
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.

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

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

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

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

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

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

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

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

Revenue from construction contracts included in the "Revenue from real estate and others" account in the consolidated statements of income is recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

*Sale of Club Shares for Sale.* Revenue is recognized when the significant risks and rewards of ownership of the club shares for sale have passed to the buyer, which is normally upon delivery of such.

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

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

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

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

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

*Marketing Support.* Revenue is recognized when the performance and provision of contractually agreed marketing tasks have been rendered and store facilities have been used. Marketing support is shown under "Others" account in the consolidated statements of income.

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

Management Fees

Management fees are recognized as expense in accordance with the terms of the agreements.

Cost and Expenses

Cost of sales, selling, general and administrative expenses and interest expense are recognized as incurred.

Pension Benefits

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains or losses and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets, out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or if there is an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or if there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

Foreign Currency Translation

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

Leases

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

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

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

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

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

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

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

Taxes

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

*Deferred Tax.* Deferred tax is provided, using the balance sheet liability method, on temporary differences at reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized, except:

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

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

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

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

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

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

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

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

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

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

Business Segments
The Group is organized and managed separately according to the nature of business. The five major operating businesses of the Group are shopping mall development, retail, real estate development and tourism, hotels and conventions, and financial services and others. These operating businesses are the basis upon which the Group reports its segment information presented in Note 5 to the consolidated financial statements.

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 position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. Segment Information

For management purposes, the Group is organized into business units based on their products and services, and has five reportable operating segments as follows: shopping mall development, retail, real estate development and tourism, hotels and conventions, and financial services and others.

The shopping mall development segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers.

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

The real estate development and tourism segment is involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

The hotels and conventions segment engages in and carries on the business of hotel and resort and operates and maintains any and all services and facilities incident thereto.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Segment assets and liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

Segment revenue includes transfers between business segments. Such transfers are eliminated in the consolidation.

Business Segment Data

| | **2012** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Shopping Mall Development** | **Retail** | **Real Estate Development and Tourism** | **Hotels and Conventions** | **Financial Services and Others** | **Eliminations** | **Consolidated** |
| | | | | *(In Thousands)* | | | |
| Revenue: | | | | | | | |
| External customers | **₱25,893,283** | **₱161,149,617** | **₱25,465,935** | **₱1,249,814** | **₱10,118,625** | **₱–** | **₱223,877,274** |
| Inter-segment | **4,851,195** | **89,139** | **6,640,922** | **6,465** | **11,891,579** | **(23,479,300)** | **–** |
| | **₱30,744,478** | **₱161,238,756** | **₱32,106,857** | **₱1,256,279** | **₱22,010,204** | **(₱23,479,300)** | **₱223,877,274** |
| Segment results: | | | | | | | |
| Income before income tax | **₱14,288,706** | **₱9,258,062** | **₱11,219,643** | **₱19,808** | **₱10,061,252** | **(₱3,901,867)** | **₱40,945,604** |
| Provision for income tax | **(3,366,560)** | **(2,708,977)** | **(304,969)** | **(15,488)** | **(149,092)** | **–** | **(6,545,086)** |
| Net income | **₱10,922,146** | **₱6,549,085** | **₱10,914,674** | **₱4,320** | **₱9,912,160** | **(₱3,901,867)** | **₱34,400,518** |
| Net income attributable to: | | | | | | | |
| Owners of the Parent | **₱10,529,955** | **₱6,328,141** | **₱9,295,976** | **₱2,698** | **₱9,912,160** | **(₱11,394,549)** | **₱24,674,381** |
| Non-controlling interests | **392,191** | **220,944** | **1,618,698** | **1,622** | **–** | **7,492,682** | **9,726,137** |
| Segment assets (excluding deferred tax) | **₱151,251,163** | **₱67,976,666** | **₱147,573,728** | **₱1,191,178** | **₱244,318,016** | **(₱51,148,888)** | **₱561,161,863** |
| Segment liabilities (excluding deferred tax) | **₱76,189,733** | **₱34,237,153** | **₱56,956,479** | **₱402,012** | **₱155,030,432** | **(₱27,199,737)** | **₱295,616,072** |
| Net cash flows provided by (used in): | | | | | | | |
| Operating activities | **₱17,295,646** | **₱12,049,628** | **(₱11,899,885)** | **₱13,715** | **(₱7,102,048)** | **₱20,609,741** | **₱30,966,797** |
| Investing activities | **(21,898,570)** | **(205,184)** | **3,377,578** | **(411,333)** | **(25,153,687)** | **(33,268,588)** | **(77,559,784)** |
| Financing activities | **6,039,565** | **(8,195,619)** | **10,324,159** | **405,000** | **30,175,999** | **12,573,192** | **51,322,296** |
| Other information: | | | | | | | |
| Investments in shares of stock of associates | **₱–** | **₱90,039** | **₱11,233,223** | **₱–** | **₱117,130,482** | **₱–** | **₱128,453,744** |
| Equity in net earnings (losses) of associates | **–** | **(9,961)** | **759,201** | **–** | **8,292,794** | **–** | **9,042,034** |
| Capital expenditures | **20,710,760** | **5,642,614** | **19,257,806** | **415,671** | **2,220,767** | **–** | **48,247,618** |
| Depreciation and amortization | **3,955,642** | **2,858,638** | **473,756** | **122,620** | **647,215** | **–** | **8,057,871** |
| Provision for (reversal of) impairment losses | **–** | **–** | **108,142** | **–** | **(2,743,711)** | **–** | **(2,635,569)** |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shopping Mall Development | Retail | Real Estate Development and Tourism | Hotels and Conventions | Financial Services and Others | Eliminations | Consolidated |
| | | | | *(In Thousands)* | | | |
| Revenue: | | | | | | | |
| External customers | ₱22,267,973 | ₱150,472,734 | ₱19,269,290 | ₱964,227 | ₱6,941,424 | ₱– | ₱199,915,648 |
| Inter-segment | 4,658,879 | 2,883,744 | 3,499,070 | 1,130 | 12,815,388 | (23,858,211) | – |
| | ₱26,926,852 | ₱153,356,478 | ₱22,768,360 | ₱965,357 | ₱19,756,812 | (₱23,858,211) | ₱199,915,648 |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shopping Mall Development | Retail | Real Estate Development and Tourism | Hotels and Conventions | Financial Services and Others | Eliminations | Consolidated |
| | | | | *(In Thousands)* | | | |
| Segment results: | | | | | | | |
| Income (loss) before income tax | ₱12,220,391 | ₱8,242,661 | ₱10,133,163 | (₱158,168) | ₱9,286,422 | (₱4,031,827) | ₱35,692,642 |
| Provision for income tax | (2,838,169) | (2,360,704) | (202,350) | (15,501) | (82,574) | 4,480 | (5,494,818) |
| Net income (loss) | ₱9,382,222 | ₱5,881,957 | ₱9,930,813 | (₱173,669) | ₱9,203,848 | (₱4,027,347) | ₱30,197,824 |
| Net income (loss) attributable to: | | | | | | | |
| Owners of the Parent | ₱9,055,996 | ₱5,809,110 | ₱9,924,500 | (₱173,448) | ₱9,203,848 | (₱12,595,414) | ₱21,224,592 |
| Non-controlling interests | 326,226 | 72,847 | 6,313 | (221) | – | 8,568,067 | 8,973,232 |
| Segment assets (excluding deferred tax) | ₱131,376,199 | ₱71,926,765 | ₱111,560,497 | ₱1,135,344 | ₱196,580,640 | (₱64,212,031) | ₱448,367,414 |
| Segment liabilities (excluding deferred tax) | ₱62,951,059 | ₱36,123,463 | ₱38,861,479 | ₱348,154 | ₱118,724,932 | (₱34,741,869) | ₱222,267,218 |
| Net cash flows provided by (used in): | | | | | | | |
| Operating activities | ₱17,863,454 | ₱7,656,609 | (₱6,664,084) | (₱1,275,790) | ₱4,643,410 | (₱3,422,186) | ₱18,801,413 |
| Investing activities | (14,946,526) | 1,158,138 | (5,165,755) | (260,063) | (271,559) | (6,408,165) | (25,893,930) |
| Financing activities | (4,359,445) | (8,154,976) | 6,085,058 | 114,820 | (7,183,829) | 9,470,498 | (4,027,874) |
| Other information: | | | | | | | |
| Investments in shares of stock of associates | ₱– | ₱– | ₱11,544,914 | ₱– | ₱76,872,935 | ₱– | ₱88,417,849 |
| Equity in net earnings of associates | – | – | 522,904 | – | 5,892,520 | – | 6,415,424 |
| Capital expenditures | 16,641,751 | 4,219,155 | 15,912,625 | 68,687 | 3,132,553 | – | 39,974,771 |
| Depreciation and amortization | 3,829,971 | 2,409,174 | 348,848 | 122,214 | 482,893 | – | 7,193,100 |
| Provision for impairment losses | – | – | 479,657 | 118 | 73,611 | – | 553,386 |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shopping Mall Development | Retail | Real Estate Development and Tourism | Hotels and Conventions | Financial Services and Others | Eliminations | Consolidated |
| | | | | *(In Thousands)* | | | |
| Revenue: | | | | | | | |
| External customers | ₱19,288,439 | ₱138,007,620 | ₱12,974,162 | ₱600,679 | ₱6,058,991 | ₱– | ₱176,929,891 |
| Inter-segment | 4,273,228 | 3,110,643 | 3,043,464 | – | 10,338,408 | (20,765,743) | – |
| | ₱23,561,667 | ₱141,118,263 | ₱16,017,626 | ₱600,679 | ₱16,397,399 | (₱20,765,743) | ₱176,929,891 |
| Segment results: | | | | | | | |
| Income before income tax | ₱10,796,848 | ₱8,371,466 | ₱8,778,124 | (₱111,965) | ₱10,253,381 | (₱7,808,852) | ₱30,279,002 |
| Provision for income tax | (2,656,715) | (2,429,969) | (217,396) | (3,663) | (104,286) | 10,976 | (5,401,053) |
| Net income (loss) | ₱8,140,133 | ₱5,941,497 | ₱8,560,728 | (₱115,628) | ₱10,149,095 | (₱7,797,876) | ₱24,877,949 |
| Net income (loss) attributable to: | | | | | | | |
| Owners of the Parent | ₱7,856,348 | ₱5,783,035 | ₱8,552,486 | (₱116,449) | ₱10,149,095 | (₱13,784,346) | ₱18,440,169 |
| Non-controlling interests | 283,785 | 158,462 | 8,242 | 821 | – | 5,986,470 | 6,437,780 |
| Segment assets (excluding deferred tax) | ₱119,193,199 | ₱65,302,951 | ₱94,117,055 | ₱2,485,527 | ₱190,577,330 | (₱64,868,623) | ₱406,807,439 |
| Segment liabilities (excluding deferred tax) | ₱56,069,831 | ₱30,496,617 | ₱35,150,201 | ₱1,525,299 | ₱116,317,898 | (₱34,629,696) | ₱204,930,150 |
| Net cash flows provided by (used in): | | | | | | | |
| Operating activities | ₱13,913,250 | ₱6,283,721 | ₱6,561,292 | ₱675,210 | (₱12,548,272) | (₱3,453,710) | ₱11,431,491 |
| Investing activities | (14,382,761) | 1,328,401 | (10,933,360) | (889,640) | 11,477,877 | 1,326,801 | (12,072,682) |
| Financing activities | 6,402,803 | (6,512,363) | 16,421,135 | 1,908,623 | 3,823,818 | 2,074,897 | 24,118,913 |
| Other information: | | | | | | | |
| Investments in shares of stock of associates | ₱– | ₱– | ₱5,900,870 | ₱– | ₱64,959,311 | ₱– | ₱70,860,181 |
| Equity in net earnings of associates | – | – | 530,499 | – | 4,910,327 | – | 5,440,826 |
| Capital expenditures | 11,373,974 | 4,010,949 | 15,602,168 | 25,432 | 2,808,965 | | 33,821,488 |
| Depreciation and amortization | 3,616,926 | 1,724,578 | 374,859 | 57,850 | 547,039 | – | 6,321,252 |
| Provision for impairment losses | – | – | 36,108 | – | 521,428 | – | 557,536 |

## 6. Cash and Cash Equivalents

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Cash on hand and in banks (see Note 21) | **₱6,098,368** | ₱6,384,567 |
| Temporary investments (see Notes 17 and 21) | **54,616,352** | 49,665,755 |
| | **₱60,714,720** | ₱56,050,322 |

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective temporary investment rates (see Note 24).

**7. Time Deposits and Short-Term Investments**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Time deposits: | | |
| Pledged (see Notes 19 and 21) | **₱19,498,750** | ₱20,824,000 |
| Not pledged (see Note 21) | **38,203,435** | 16,595,172 |
| | **57,702,185** | 37,419,172 |
| Short-term investments (see Note 21) | **821,000** | 876,800 |
| | **58,523,185** | 38,295,972 |
| Less current portion | **29,090,335** | 879,410 |
| Noncurrent portion | **₱29,432,850** | ₱37,416,562 |

A portion of the time deposits amounting to US$475.0 million, with peso equivalents of ₱19,498.8 million and ₱20,824.0 million as at December 31, 2012 and 2011, respectively, were used as collateral for loans obtained by SMIC (see Note 19).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱821.0 million and ₱876.8 million as at December 31, 2012 and 2011, respectively, bear a fixed interest rate of 3.24%.

Interest income earned on time deposits and short-term investments is further discussed in Note 24.

**8. Investments Held for Trading and Sale**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Investments held for trading - | | |
| Bonds (see Notes 21 and 29) | **₱459,343** | ₱457,496 |
| AFS investments (see Note 11): | | |
| Bonds and corporate notes (see Notes 21 and 29) | **1,733,752** | 1,000,000 |
| Shares of stock | **661,446** | 482,213 |
| | **2,395,198** | 1,482,213 |
| | **₱2,854,541** | ₱1,939,709 |

The Group recognized a gain of ₱16.3 million, ₱13.4 million and ₱5.7 million from fair value adjustments of investments held for trading for the years ended December 31, 2012, 2011 and 2010 respectively. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income. Interest income earned on investments held for trading and sale is further discussed in Note 24.

**9. Receivables**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Trade: | | |
| Real estate buyers | **₱23,373,079** | ₱13,833,732 |
| Third-party tenants | **3,123,358** | 2,623,529 |
| Related-party tenants (see Note 21) | **1,512,842** | 1,267,728 |
| Due from related parties (see Note 21) | **2,465,971** | 2,684,558 |
| Management fees: | | |
| Related parties (see Note 21) | **154,172** | 95,892 |
| Third parties | **–** | 3,942 |
| Dividends | **292,917** | 42,015 |
| Total | **30,922,339** | 20,551,396 |
| Less allowance for impairment loss | **155,274** | 47,132 |
| | **30,767,065** | 20,504,264 |
| Less noncurrent portion of receivables from real estate buyers (see Note 16) | **14,401,513** | 8,739,412 |
| Current portion | **₱16,365,552** | ₱11,764,852 |

The terms and conditions of the above receivables are as follows:

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years' term.
- The terms and conditions relating to related party receivables are further discussed in Note 21.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱47,132** | ₱12,476 |
| Reversal of provision | **–** | (1,162) |
| Provision for the year (see Note 23) | **108,142** | 35,818 |
| Balance at end of year | **₱155,274** | ₱47,132 |

Allowance for impairment loss amounting to ₱155.3 million and ₱47.1 million as at December 31, 2012 and 2011, respectively, pertains to receivables from real estate buyers and tenants which were identified through specific assessment.

The aging analysis of receivables as at December 31, 2012 and 2011 are as follows:

| | **2012** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | **Individually Impaired** | **Total** |
| | | **31–90 Days** | **91–120 Days** | **Over 120 Days** | | |
| | | | *(In Thousands)* | | | |
| Trade: | | | | | | |
| Real estate buyers: | | | | | | |
| Current | **₱8,569,352** | **₱83,106** | **₱28,886** | **₱147,315** | **₱142,907** | **₱8,971,566** |
| Noncurrent | **14,401,513** | **–** | **–** | **–** | | **14,401,513** |
| Related-party tenants | **1,512,842** | **–** | **–** | **–** | **–** | **1,512,842** |
| Third-party tenants | **3,110,175** | **390** | **426** | **–** | **12,367** | **3,123,358** |
| Due from related parties | **2,465,971** | **–** | **–** | **–** | **–** | **2,465,971** |
| Management fees- | | | | | | |
| Related parties | **154,172** | **–** | **–** | **–** | **–** | **154,172** |
| Dividends | **292,917** | **–** | **–** | **–** | **–** | **292,917** |
| Net receivables before allowance for doubtful accounts | **₱30,506,942** | **₱83,496** | **₱29,312** | **₱147,315** | **₱155,274** | **₱30,922,339** |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | Individually Impaired | Total |
| | | 31–90 Days | 91–120 Days | Over 120 Days | | |
| | | | *(In Thousands)* | | | |
| Trade: | | | | | | |
| Real estate buyers: | | | | | | |
| Current | ₱4,862,273 | ₱44,111 | ₱21,834 | ₱130,402 | ₱35,700 | ₱5,094,320 |
| Noncurrent | 8,739,412 | – | – | – | | 8,739,412 |
| Related-party tenants | 1,267,719 | – | 9 | – | – | 1,267,728 |
| Third-party tenants | 2,606,027 | 995 | 5,075 | – | 11,432 | 2,623,529 |
| Due from related parties | 2,684,558 | – | – | – | – | 2,684,558 |
| Management fees: | | | | | | |
| Related parties | 95,892 | – | – | – | – | 95,892 |
| Third parties | 3,942 | – | – | – | – | 3,942 |
| Dividends | 42,015 | – | – | – | – | 42,015 |
| Net receivables before allowance for doubtful accounts | ₱20,301,838 | ₱45,106 | ₱26,918 | ₱130,402 | ₱47,132 | ₱20,551,396 |

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

## 10. Other Current Assets

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Non-trade receivables | **₱4,252,786** | ₱2,673,412 |
| Prepaid taxes and other prepayments | **5,295,701** | 3,785,637 |
| Advances to contractors | **3,374,278** | 3,098,881 |
| Condominium units for sale (see Note 15) | **2,670,943** | 1,115,878 |
| Receivable from banks and credit cards | **2,352,836** | 2,083,278 |
| Input tax | **1,704,159** | 1,019,280 |
| Accrued interest receivable | **1,174,785** | 966,503 |
| Club shares for sale | **824,213** | 856,208 |
| Supplies and uniform inventory | **474,146** | 474,803 |
| Treasury bonds (see Note 16) | **200,000** | – |
| Derivative assets (see Notes 28 and 29) | **18,501** | – |
| Advances for project development (see Note 21) | **1,121,565** | 1,121,565 |
| | **23,463,913** | 17,195,445 |
| Less allowance for impairment loss | **5,705** | 5,705 |
| | **₱23,458,208** | ₱17,189,740 |

- Non-trade receivables include interest-bearing advances to third parties, which are normally collectible within the next financial year.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on a 30 to 90 day's term.
- Accrued interest receivable relates mostly to time deposits which will be collected at respective maturity dates.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.
- Club shares for sale pertain to club shares of Pico de Loro Beach and Country Club (Pico de Loro) which Costa, a subsidiary of Mt. Bliss, received as consideration for the parcel of land and construction costs of the beach and country club. The club shares entitle its holders to proprietary club membership in Pico de Loro's beach and country club facilities. Costa's club shares for sale had a total of 6,919 and 7,055 as at December 31, 2012 and 2011, respectively.

  On the other hand, at various dates in 2012, 2011 and 2010, Costa sold 135, 202 and 696 club shares for a total consideration of ₱70.8 million, ₱105.0 million and ₱320.6 million, respectively. Revenue from the sale of club shares recognized under "Sales - real estate and others" account in the statements of consolidated income amounted to ₱32.9 million, ₱48.3 million and ₱127.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.
- Allowance for impairment loss amounting to ₱5.7 million as at December 31, 2012 and 2011, pertains to nontrade receivables which were identified through specific assessment. There was no additional impairment loss identified based on the collective assessments made in 2012, 2011 and 2010.

## 11. Available-for-Sale Investments

This account consists of investments in:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Shares of stock: | | |
| Listed | **₱11,516,716** | ₱7,031,822 |
| Unlisted | **102,120** | 102,265 |
| Bonds and corporate notes (see Note 21) | **7,728,240** | 6,841,109 |
| Club shares | **5,900** | 5,330 |
| | **19,352,976** | 13,980,526 |
| Less allowance for impairment loss | **45,132** | 45,132 |
| | **19,307,844** | 13,935,394 |
| Less current portion (see Note 8) | **2,395,198** | 1,482,213 |
| Long-term portion | **₱16,912,646** | ₱12,453,181 |

- Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to ₱3,587.0 million and ₱2,159.8 million as at December 31, 2012 and 2011, respectively, were pledged as collateral for a portion of the Group's long-term loans (see Note 19).
- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.
- Investments in bonds and corporate notes as at December 31, 2012 and 2011 include third party convertible bonds and corporate notes with fixed interest rates ranging from 2.5% to 8.25%. These investments will mature on various dates from February 11, 2013 to November 3, 2017.

  The account includes investment in redeemable preferred shares issued in 2010 by a domestic corporation with an annual dividend rate of 8.25% and SM Prime's investment in corporate notes issued by BDO Unibank, Inc. (BDO) in 2012 and 2011with fixed interest rate of 6.80% (see Note 21). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The outstanding investment in redeemable preferred shares as at December 31, 2010 was redeemed in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

  Investment in convertible bonds as at December 31, 2012 and 2011 have embedded derivatives which are further discussed in Note 29.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱7,008,067** | ₱6,798,095 |
| Share in net unrealized gain on AFS investments of associates (see Note 12) | **1,486,257** | 440,127 |
| Gain (loss) due to changes in fair value of AFS investments | **3,224,165** | (199,308) |
| Transferred to consolidated statements of income | **70** | (30,847) |
| Balance at end of year | **₱11,718,559** | ₱7,008,067 |

Gain (loss) on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income amounted to (₱0.1) million for the year ended December 31, 2012, ₱30.8 million for the year ended December 31, 2011 and ₱481.3 million for the year ended December 31, 2010. The amounts are exclusive of the share of non-controlling interests.

## 12. Investments in Shares of Stock of Associates

The details of and movements in this account are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Acquisition cost: | | |
| Balance at beginning of year | **₱66,416,206** | ₱54,114,191 |
| Additions | **28,361,006** | 12,590,225 |
| Disposals – net of realized deferred gain | **(1,937,089)** | (288,210) |
| Balance at end of year | **92,840,123** | 66,416,206 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **26,319,348** | 21,113,648 |
| Equity in net earnings | **9,042,034** | 6,415,424 |
| Dividends received | **(418,470)** | (1,583,351) |
| Accumulated equity in net earnings of investments sold | **(68,587)** | (66,500) |
| Balance at end of year | **34,874,325** | 25,879,221 |
| Share in net unrealized gain on AFS investments of associates (see Note 11) | **1,514,343** | 440,127 |
| Allowance for impairment loss: | | |
| Balance at beginning of year | **4,317,705** | 4,367,658 |
| Recovery (see Note 23) | **(3,542,658)** | (445,000) |
| Additions (see Note 23) | **–** | 395,047 |
| Balance at end of year | **775,047** | 4,317,705 |
| | **₱128,453,744** | ₱88,417,849 |

The Group recognized its share in the net gain on AFS investments of the associates amounting to ₱1,491.8 million, ₱440.1 million and ₱2,065.1 million, inclusive of the share of the non-controlling interests amounting to ₱28.1 million, ₱15.3 million and ₱69.0 million, respectively, for the years ended December 31, 2012, 2011 and 2010, respectively, in the consolidated statements of comprehensive income.

In 2011 and 2010, the Group recognized allowance for impairment loss in investment in Highlands Prime, Inc. (HPI) amounting to ₱395.0 million and ₱380.0 million, respectively, and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statements of income (see Note 23). The allowance recognized by the Group was based on fair value less cost to sell of the investment in reference to the quoted stock price in the market.

In 2012 and 2011, the Group reversed the allowance for impairment loss in investment in BDO amounting to ₱3,542.7 million and ₱445.0 million, respectively, and is included under "Provision for (reversal of) impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statements of income (see Note 23). The Group made a reassessment of its investments in shares of stock of BDO and concluded that the impairment is no longer necessary in reference to the quoted stock price of BDO in the market.

The major associates of the Group are as follows:

| | Percentage of Ownership | | | | |
|---|---|---|---|---|---|
| | 2012 | | 2011 | | |
| Company | **Gross** | **Effective** | Gross | Effective | Principal Activities |
| BDO | **48** | **47** | 47 | 46 | Financial services |
| China Banking Corporation (China Bank) | **23** | **21** | 23 | 21 | Financial services |
| Atlas | **29** | **29** | 18 | 18 | Mining |
| Belle Corp. (Belle) | **32** | **18** | 46 | 26 | Real estate development and tourism |
| HPI | **35** | **27** | 35 | 27 | Real estate development and tourism |
| Summerhills Home Development Corporation (SHDC) | **49** | **21** | 49 | 21 | Real estate development and tourism |
| Sodexo Motivation Solutions Philippines, Inc. | **40** | **40** | 40 | 40 | Retail |
| Fast Retailing Philippines, Inc. | **25** | **25** | – | – | Retail |

Atlas

*Finalization of 2011 Provisional Accounting*
In July 2011, SMIC acquired 316.2 million common shares of Atlas for US$142.2 million(₱5,996.6 million) representing 17.9% equity interest. In 2011, the Group accounted for the purchase price allocation on provisional basis, pending the information on the fair value of Atlas' net assets. The fair values of the net assets acquired were finalized in June 2012 and goodwill from the acquisition formed part of the cost of investment in shares of stock of Atlas.

SMIC has three representations in the BOD of Atlas as at December 31, 2011 and is participating in operational decisions. Based on these facts and circumstances, management determined that the Group has significant influence in Atlas and therefore has accounted it as an investment in associate.

*Convertible Loan of Atlas*
On February 29, 2012, SMIC purchased from BDO the ₱5,492.7 million convertible loan covered by Secured Notes Facility Agreement (the Agreement) between Atlas and BDO dated July 25, 2011. On May 21, 2012, SMIC gave an irrevocable notice to fully exercise the conversion option under the Agreement as the assignee of BDO. On July 13, 2012, upon completion of the necessary regulatory approval, the shares were issued to SMIC resulting to an increase in ownership in Atlas from 17.9% to 28.4%. The goodwill resulting from the acquisition formed part of the cost of investment in shares of stock of Atlas.

Belle
In 2010, the Group obtained 17.53% additional ownership in Belle for a total consideration of ₱1,598.3 million. The acquisition resulted in Belle becoming an associate of the Group at 24.77% and 13.24% gross and effective ownership, respectively, as at December 31, 2010.

In April 2011, the Group, increased its ownership interest in Belle, an associate, by 20.78% and 12.58% gross and effective ownership, respectively, via share swap wherein the entire outstanding shares of Premium Leisure Amusement, Inc. (a subsidiary) was exchanged for certain number of common shares of Belle valued at ₱1.95 per share (shares swap). The valuation of the PLAI shares was made by an independent appraiser and approved by the SEC on October 6, 2010. This is the same valuation used in recording the share swap transaction in its 2011 financial statements upon receipt of the approval from the Bureau of Internal Revenue on March 31, 2011 and issuance of stock certificates by Belle on April 14, 2011. The transaction resulted to a net gain on share swap amounting to ₱2,604.2 million, net of the eliminated portion of the gain pertaining to the retained interest of the Group in Belle and is recognized under "Gain on disposal of investments and properties - net" account in the consolidated statements of income. The Group will realize the deferred income as the investment in the associate is disposed.

At various dates in 2012, the Group sold 1,509.0 million Belle shares on which the Group realized ₱811.2 million of the deferred gain and was recognized under "Gain on disposal of investments and properties - net" account in the consolidated statements of income. The remaining balance of the deferred gain as at December 31, 2012 amounted to ₱1,076.4 million. The disposal of Belle shares resulted to a decrease in the Group's direct and effective ownership to 32% and 18%, respectively.

BDO
In 2010, SMIC and a related party under common stockholder entered into a deed of assignment whereby the related party cedes, transfers, conveys and assigns to the Company, all commercial rights of the related party's investment in BDO amounting to ₱5,712.0 million.

At various dates in 2010, SMIC disposed a total of 5.3 million BDO common shares, which is equivalent to 0.2% of the total outstanding common stock of BDO at an average price of ₱28.63 a share or for a total cost of ₱151.8 million.

In April 2010, Primebridge and MRDC disposed a total of 21.5 million BDO common shares, which is equivalent to 0.8% of the total outstanding common stock of BDO at an average price of ₱22.65 a share or for a total cost of ₱486.2 million.

In March 2012, BDO declared a stock dividend equivalent to 3% of the outstanding capital stock of BDO which increased the number of common and preferred shares held by the Group by 40.5 million and 3.6 million, respectively. The declaration of the stock dividend by BDO increased the ownership interest of the Group by 1% as a result of the preferred shares held by SMIC.

In June 2012, BDO had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every three common shares held as at record date at an offer price of ₱48.6 per rights share. As at June 30, 2012, the Group exercised its rights share and paid ₱22,528.7 million equivalent to 463.5 million BDO shares. Upon completion of the regulatory requirements by BDO, the shares were issued to SMIC on July 4, 2012.

At various dates in 2012, SMIC sold a total number of 1.2 million BDO shares, equivalent to 0.04% of the total outstanding voting shares of BDO at a total cost of ₱39.0 million.

HPI
In 2011, the Group disposed 134.8 million shares of HPI for a total cost of ₱288.2 miliion. The disposal resulted in a gain of ₱1.0 million, which is included under "Gain on disposal of investments and properties - net" account in the consolidated statements of income.

China Bank
At various dates in 2010, SMDC disposed a total of 0.09 million China Bank shares, which is equivalent to 0.08% of the total outstanding common stock of China Bank, at an average price of ₱340.8 a share or for a total cost ₱31.1 million.

On August 24, 2012, SEC approved the Amended Articles of Incorporation of China Bank to effect a ten-for-one stock split of the common shares. This resulted to an increase in the number of shares from 200 million to 2,000 million, and a reduction in par value of shares from ₱100.00 to ₱10.00 per share. The stock split by China Bank did not result to a change in the ownership interest of the Group.

SHDC
In 2011, SMDC obtained 49% and 21% gross and effective ownership, respectively, in SHDC for a total consideration of ₱20.1 million. Consequently, SHDC became an associate of the Group.

Fast Retailing Philippines, Inc.
In January 2012, Marketwatch Investments Co., Inc., a subsidiary of SM Retail, invested ₱100.0 million to acquire 25% ownership of the total outstanding shares of Fast Retailing Philippines, Inc. accounted as an investment in an associate. The entity is organized with Fast Retailing (Singapore) Co. Ltd. to engage in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels and other merchandise, cosmetics, skin care and hair care products and other related products under the brand name "Uniqlo".

The condensed financial information of significant associates is shown below:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Millions)* | |
| BDO: | | | |
| Total resources | **₱1,244,408** | ₱1,097,349 | |
| Total liabilities | **1,087,156** | 1,000,387 | |
| Interest income | **54,014** | 50,467 | ₱49,930 |
| Interest expense | **17,816** | 16,688 | 15,772 |
| Net income | **14,432** | 10,588 | 8,881 |
| China Bank: | | | |
| Total resources | **322,021** | 262,213 | |
| Total liabilities | **283,030** | 222,924 | |
| Interest income | **13,164** | 12,677 | 13,213 |
| Interest expense | **5,104** | 4,125 | 4,580 |
| Net income | **5,034** | 5,009 | 5,004 |
| HPI: | | | |
| Total assets | **4,038** | 4,661 | |
| Total liabilities | **1,284** | 1,937 | |
| Revenue from real estate sales | **521** | 331 | 427 |
| Cost of real estate sold | **284** | 164 | 230 |
| Net income (loss) | **32** | (35) | 8 |
| Belle: | | | |
| Total assets | **25,461** | 22,644 | |
| Total liabilities | **8,849** | 6,568 | |
| Revenue | **421** | 697 | 1,263 |
| Cost of real estate and club shares sold | **117** | 236 | 509 |
| Net income | **555** | 200 | 478 |
| Atlas: | | | |
| Total assets | **57,913** | 46,923 | |
| Total liabilities | **22,354** | 19,933 | |
| Revenue | **14,459** | 12,128 | 8,851 |
| Cost of sales | **8,679** | 7,759 | 6,815 |
| Net income (loss) | **3,434** | 17,223 | (431) |

As at December 31, the fair values of investments in associates which are listed in the PSE are as follows:

| | **2012** | 2011 |
|---|---:|---:|
| | *(In Thousands)* | |
| BDO | **₱134,986,770** | ₱80,928,951 |
| China Bank | **15,987,281** | 10,594,301 |
| Belle | **16,268,509** | 24,670,664 |
| Atlas | **11,272,094** | 5,325,521 |
| HPI | **1,575,258** | 1,036,979 |

## 13. Property and Equipment

The movements in this account are as follows:

| | Land | Buildings, Condominium Units and Improvements | Store Equipment and Improvements | Data Processing Equipment | Furniture, Fixtures and Office Equipment | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Construction in Progress | Total |
|---|---:|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| | | | | | *(In Thousands)* | | | | | |
| **Cost** | | | | | | | | | | |
| Balance as at December 31, 2010 | ₱2,945,232 | ₱4,534,292 | ₱6,638,725 | ₱3,253,276 | ₱3,050,238 | ₱2,424,501 | ₱2,629,192 | ₱626,380 | ₱699,668 | ₱26,801,504 |
| Additions | 26,970 | 118,732 | 784,783 | 635,960 | 620,339 | 507,700 | 1,188,675 | 258,957 | 648,946 | 4,791,062 |
| Reclassifications | 1,893 | 2,549 | (615,945) | 317,809 | (186,048) | (120,348) | (61,331) | (3,365) | (383,445) | (1,048,231) |
| Disposals/retirements | – | (1) | (86,520) | (74,484) | (27,304) | (10,407) | (43) | (301,378) | – | (500,137) |
| Balance as at December 31, 2011 | 2,974,095 | 4,655,572 | 6,721,043 | 4,132,561 | 3,457,225 | 2,801,446 | 3,756,493 | 580,594 | 965,169 | 30,044,198 |
| Additions | 183,851 | 1,594,292 | 1,119,843 | 428,180 | 767,679 | 690,525 | 1,180,589 | 38,469 | 611,142 | 6,614,570 |
| Reclassifications | (744,956) | 764,325 | (115,484) | 141,191 | (184,867) | (23,739) | 87,977 | 6,043 | (329,884) | (399,394) |
| Disposals/retirements | – | (2,644,901) | (148,498) | (163,128) | (57,536) | (99,186) | (35,118) | (31,879) | (11,474) | (3,191,720) |
| **Balance as at December 31, 2012** | **₱2,412,990** | **₱4,369,288** | **₱7,576,904** | **₱4,538,804** | **₱3,982,501** | **₱3,369,046** | **₱4,989,941** | **₱593,227** | **₱1,234,953** | **₱33,067,654** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | |
| Balance as at December 31, 2010 | ₱– | ₱2,262,529 | ₱4,544,869 | ₱2,394,063 | ₱1,300,562 | ₱1,454,709 | ₱1,172,404 | ₱303,829 | ₱– | ₱13,432,965 |
| Depreciation and amortization | – | 246,322 | 713,596 | 418,680 | 427,925 | 296,607 | 533,033 | 47,467 | – | 2,683,630 |
| Reclassifications | – | (582) | (598,186) | (31,281) | (106,226) | (115,046) | (88,726) | (2,934) | – | (942,981) |
| Disposals/retirements | – | – | (85,128) | (41,815) | (26,695) | (1,306) | – | (66,826) | – | (221,770) |
| Balance as at December 31, 2011 | – | 2,508,269 | 4,575,151 | 2,739,647 | 1,595,566 | 1,634,964 | 1,616,711 | 281,536 | – | 14,951,844 |
| Depreciation and amortization | – | 381,307 | 825,626 | 493,886 | 500,992 | 387,047 | 706,389 | 52,514 | – | 3,347,761 |
| Reclassifications | – | (127,122) | (236,144) | (3,049) | (42,307) | (53,726) | 32,125 | (99) | – | (430,322) |
| Disposals/retirements | – | (1,535,720) | (154,118) | (120,030) | (50,391) | (90,035) | (18,228) | (19,624) | – | (1,988,146) |
| **Balance as at December 31, 2012** | **₱–** | **₱1,226,734** | **₱5,010,515** | **₱3,110,454** | **₱2,003,860** | **₱1,878,250** | **₱2,336,997** | **₱314,327** | **₱–** | **₱15,881,137** |
| **Net Book Value** | | | | | | | | | | |
| **As at December 31, 2012** | ₱2,412,990 | ₱3,142,554 | ₱2,566,389 | ₱1,428,350 | ₱1,978,641 | ₱1,490,796 | ₱2,652,944 | ₱278,900 | ₱1,234,953 | ₱17,186,517 |
| As at December 31, 2011 | ₱2,974,095 | ₱2,147,303 | ₱2,145,892 | ₱1,392,914 | ₱1,861,659 | ₱1,166,482 | ₱2,139,782 | ₱299,058 | ₱965,169 | ₱15,092,354 |

As at December 31, 2012 and 2011, the Group has no idle property and equipment and the carrying amount of fully depreciated property and equipment still in use amounted to ₱4,644.3 million and ₱4,148.3 million, respectively.

## 14. Investment Properties

The movements in this account are as follows:

| | Land and Improvements and Land Use Rights | Buildings and Improvements | Building Equipment, Furniture and Others | Construction in Progress | Total |
|---|---:|---:|---:|---:|---:|
| | | | *(In Thousands)* | | |
| **Cost** | | | | | |
| Balance as at December 31, 2010 | ₱27,302,498 | ₱84,785,047 | ₱15,973,989 | ₱12,828,906 | ₱140,890,440 |
| Additions | 2,606,363 | 2,762,132 | 932,825 | 14,839,591 | 21,140,911 |
| Reclassifications | 508,106 | 6,742,227 | 549,958 | (7,138,201) | 662,090 |
| Translation adjustment | 153,159 | 387,953 | 64,394 | 186,433 | 791,939 |
| Disposals | – | (6,113) | – | (48,474) | (54,587) |
| Balance as at December 31, 2011 | 30,570,126 | 94,671,246 | 17,521,166 | 20,668,255 | 163,430,793 |
| Additions | 4,766,518 | 10,150,742 | 2,907,309 | 10,107,534 | 27,932,103 |
| Reclassifications | (186,572) | 7,850,434 | 1,260,406 | (13,493,898) | (4,569,630) |
| Translation adjustment | (159,893) | (611,091) | (71,572) | (220,612) | (1,063,168) |
| **Balance as at December 31, 2012** | **₱34,990,179** | **₱112,061,331** | **₱21,617,309** | **₱17,061,279** | **₱185,730,098** |
| **Accumulated Depreciation, Amortization and Impairment Loss** | | | | | |
| Balance as at December 31, 2010 | ₱1,123,236 | ₱18,075,582 | ₱8,024,378 | ₱– | ₱27,223,196 |
| Depreciation and amortization | 46,470 | 3,186,275 | 1,276,725 | – | 4,509,470 |
| Reclassifications | – | 217,003 | – | – | 217,003 |
| Impairment loss | – | – | – | 123,564 | 123,564 |
| Translation adjustment | 7,731 | 51,228 | 22,690 | – | 81,649 |
| Balance as at December 31, 2011 | 1,177,437 | 21,530,088 | 9,323,793 | 123,564 | 32,154,882 |
| Depreciation and amortization | 72,584 | 3,229,407 | 1,408,119 | – | 4,710,110 |
| Reclassifications | (323,275) | (664,505) | (179) | – | (987,959) |
| Translation adjustment | (10,232) | (76,254) | (31,139) | – | (117,625) |
| Balance as at December 31, 2012 | ₱916,514 | ₱24,018,736 | ₱10,700,594 | ₱123,564 | ₱35,759,408 |
| **Net Book Value** | | | | | |
| **As at December 31, 2012** | **₱34,073,665** | **₱88,042,595** | **₱10,916,715** | **₱16,937,715** | **₱149,970,690** |
| As at December 31, 2011 | ₱29,392,689 | ₱73,141,158 | ₱8,197,373 | ₱20,544,691 | ₱131,275,911 |

The movements in allowance for impairment loss on land and improvements and land use rights, and construction in progress are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balance | **₱923,272** | ₱799,708 |
| Provision for the year (see Note 23) | **–** | 123,564 |
| Ending balance | **₱923,272** | ₱923,272 |

The fair values of investment properties as at December 31, 2011 were determined by independent appraisers based on various appraisal reports made in 2010, which amounted to ₱291,671.9 million. The fair value, which is based on market data approach, represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

Included under "Land" account are the 212,119 square meters and 223,474 square meters of real estate properties with a carrying value of ₱447.0 million and ₱474.0 million as at December 31, 2012 and 2011, respectively, and a fair value of ₱13,531.0 million as at August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make Enterprises Limited and Affluent Capital Enterprises Limited (Oriental Land) with Grand China and Oriental Land Development Limited on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱4,852 million and ₱3,896 million as at December 31, 2012 and 2011, respectively, and estimated fair value of ₱10,874 million and ₱13,541 million as at December 31, 2012 and 2011, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱24,155.6 million, ₱20,472.8 million and ₱17,904.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱13,995.2 million, ₱12,277.5 million and ₱11,271.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Construction in progress account includes shopping mall complex under construction of SM Prime. In 2012, Shopping Mall Complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF-Paranaque, SM Seaside City Cebu, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Clark, SM City Dasmarinas, SM City Sta. Rosa and SM Megamall. In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin.

Shopping mall complex under construction includes cost of land amounting to ₱1,615.0 million and ₱1,575.0 million as at December 31, 2012 and 2011, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱53,964.0 million and ₱39,240.0 million as at December 31, 2012 and 2011, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as at December 31, 2012 and 2011 are valued at ₱14,393.0 million and ₱10,268.0 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱114.4 million and ₱54.3 million in 2012 and 2011, respectively. Capitalization rates used were 6.13% and 5.71% in 2012 and 2011, respectively.

## 15. Land and Development and Condominium Units for Sale

This account consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Condominium units for sale | **₱2,670,943** | ₱1,115,878 |
| Land and development | **30,197,862** | 23,012,453 |
| | **₱32,868,805** | ₱24,128,331 |

Land and development, which amounted to ₱30,197.9 million and ₱23,012.5 million as at December 31, 2012 and 2011, respectively, include land and cost of ongoing condominium projects.

Condominium units for sale amounting to ₱2,670.9 million and ₱1,115.9 million as at December 31, 2012 and 2011, respectively, pertain to completed projects of SMDC, Costa and ICDC. The amounts were included under "Other current assets" account in the consolidated balance sheets (see Note 10).

The movements in "Condominium units for sale" account are as follows:

| | 2012 | 2011 |
|---|---|---|
| At beginning of year | **₱1,115,878** | ₱1,531,486 |
| Transfer from land and development | **2,624,448** | – |
| Additions | **89,698** | 165,613 |
| Recognized as real estate sold | **(1,159,081)** | (581,221) |
| At end of year | **₱2,670,943** | ₱1,115,878 |

The movements in "Land and development" account are as follows:

| | 2012 | 2011 |
|---|---|---|
| At the beginning of year | **₱23,012,453** | ₱19,703,595 |
| Land acquired during the year | **4,909,701** | 4,394,807 |
| Development cost incurred | **15,384,282** | 9,363,199 |
| Borrowing cost capitalized | **1,003,610** | 411,743 |
| Recognized as real estate sold | **(11,204,375)** | (10,571,767) |
| Transfer to condominium units for sale | **(2,624,448)** | – |
| Transfer to property and equipment (see Note 13) | **(208,897)** | (289,124) |
| Transfer to investment property (see Note 14) | **(74,464)** | – |
| At end of year | **₱30,197,862** | ₱23,012,453 |

The condominium units for sale and land and development are stated at cost as at December 31, 2012 and 2011.

Borrowing costs capitalized by the Group to land and development account amounted to ₱1,003.6 million and ₱411.7 million in 2012 and 2011, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.3% to 8.3% in 2012 and 3.7% to 7.5% in 2011. Interest expense charged to operations amounted to ₱469.0 million, ₱488.3 million and ₱311.3 million in 2012, 2011 and 2010, respectively.

SMDC
Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱29,012.9 million and ₱30,587.9 million as at December 31, 2012 and 2011, respectively.

In 2012, SMDC acquired GLC, LLCI and MSDPC for ₱1,500.0 million, ₱600.0 million and ₱498.4 million, respectively, and became its wholly owned subsidiaries. The purchase of GLC, LLCI and MSDPC was accounted for as an acquisition of asset. At acquisition date, these subsidiaries own parcels of land which are to be developed into commercial/residential condominium projects.

In 2011, SMDC acquired TTFOPI for ₱195.6 million and became a wholly owned subsidiary. The purchase of TTFOPI was accounted for as an acquisition of asset. TTFOPI owns a parcel of land which is currently being developed into a commercial/residential condominium project.

In 2010, SMDC acquired VLI for ₱566.6 million and became its wholly owned subsidiary. The purchase of VLI was accounted for as an acquisition of asset. VLI owns a parcel of land which will be developed into a commercial/residential condominium project.

On June 30, 2004, SMDC entered into a Joint Venture Agreement with Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS. As at December 31, 2012, the development of the said project has not yet started.

Costa
Costa's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As at December 31, 2012, Costa completed the construction of four condominium projects and the beach and country club. Total estimated cost to complete the ongoing projects amounted to ₱113.9 million and ₱283.8 million as at December 31, 2012 and 2011, respectively.

In April 2010, the construction of Pico de Loro by Costa was completed but the ownership of the risk and rewards of the beach and country club was transferred to Pico de Loro in June 2010. The total actual cost of beach and country club, in exchange for a total of 4,000 club shares amounted to ₱1,128.2 million as at December 31, 2010.

## 16. Intangibles and Other Noncurrent Assets

Intangibles

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Goodwill | **₱9,321,057** | ₱9,321,057 |
| Less accumulated impairment loss | **91,619** | 91,619 |
| Net book value | **9,229,438** | 9,229,438 |
| Trademarks and brand names | **6,124,762** | 6,124,762 |
| | **₱15,354,200** | ₱15,354,200 |

Goodwill is allocated to SM Prime, SM Land, Pilipinas Makro, Inc. (PMI), Supervalue, Inc. (SVI) and Super Shopping Market, Inc. (SSMI) as separate cash generating units. Trademarks and brand names pertain to that of the supermarket and hypermarket business of the Group which were acquired in a business combination in 2006. The trademarks and brand names were assessed to have an indefinite life and was valued using the Relief-from-Royalty Method. The royalty rate was 3.5%, which was the prevailing royalty rate in 2006 in the retail assorted category where the two entities fall.

The recoverable amount of goodwill, trademarks and brand names have been determined using the cash flow projections based on the financial budgets approved by senior management covering a three-year period. The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 6.61% to 9.14% and 8.18% to 10.82% as at December 31, 2012 and 2011, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. Management assessed that no reasonable possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2012 and 2011 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Receivables from real estate buyers (see Note 9) | **₱14,401,513** | ₱8,739,412 |
| Deposits and advance rentals | **8,149,028** | 5,030,882 |
| Advances for project development (see Note 21) | **1,962,578** | – |
| Deferred input VAT | **962,629** | 380,994 |
| Defined benefit asset (see Note 25) | **452,910** | 394,713 |
| Long-term notes (see Note 21) | **306,724** | 506,724 |
| Derivative assets (see Notes 28 and 29) | **109,979** | 159,461 |
| Receivable from a related party and escrow fund (see Note 21) | **98,996** | 8,195,691 |
| Treasury bonds (see Note 10) | **–** | 200,000 |
| Others | **1,322,879** | 476,538 |
| | **₱27,767,236** | ₱24,084,415 |

- Deposits and advance rentals substantially pertain to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to future rentals. Consequently, the said deposits and advance rentals are not remeasured at amortized cost.

- Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.50% as at December 31, 2012 and 2011. The ₱200.0 million will mature on November 21, 2017, ₱88.6 million will mature on May 29, 2018 and the remaining ₱218.1 million will mature on March 20, 2019. In November 2012, the Group received a full payment from BDO for the early redemption of the long-term note amounting to ₱200.0 million.

- Treasury bonds pertain to quoted Philippine government treasury bonds classified as held-to-maturity investment which bear fixed interest rates ranging from 8.5% to 9.0% and payable quarterly. The ₱200.0 million treasury bonds will mature on July 31, 2013.

- In 2009, various cash advances were provided to a related party for payment of interest, purchase of shares and other operating requirements totaling to ₱6,000.0 million, which bears a fixed interest of 7.0%, payable semi-annually and will mature in 2013 (see Note 21). At various dates in 2012, the cash advances were prepaid by the related party.

  Escrow fund amounting to ₱99.0 million and ₱2,195.7 million as at December 31, 2012 and 2011, respectively, pertains mainly to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration.

## 17. Bank Loans

This account consists of:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Parent Company - | | |
| U.S. dollar-denominated loans | **₱2,052,500** | ₱3,857,920 |
| Peso-denominated loans | **11,783,400** | 15,500,000 |
| Subsidiaries - | | |
| Peso-denominated loans | **17,958,075** | 6,390,000 |
| | **₱31,793,975** | ₱25,747,920 |

The U.S. dollar-denominated loans amounting to US$50 million (₱2,052.5 million) and US$88.0 million (₱3,857.9 million) as at December 31, 2012 and 2011, respectively, bear interest at 3-month London Inter-Bank Offered Rate (LIBOR) plus margin (see Note 28). The peso-denominated loans bear annual interest rates ranging from 3.25% to 5.00% and 3.60% to 4.26% in 2012 and 2011, respectively. These loans have maturities of less than one year (see Note 21).

## 18. Accounts Payable and Other Current Liabilities

This account consists of:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Trade | **₱34,304,241** | ₱28,639,479 |
| Payable arising from acquisition of land | **6,100,508** | 3,116,058 |
| Due to related parties (see Note 21) | **3,265,015** | 2,734,415 |
| Accrued interest (see Notes 17, 19 and 21) | **2,537,777** | 1,702,660 |
| Derivative liabilities (see Notes 28 and 29) | **2,493,651** | 124,222 |
| Payable to government agencies | **2,334,796** | 1,426,230 |
| Nontrade | **2,276,078** | 2,078,768 |
| Gift checks redeemable and others | **2,672,556** | 2,088,702 |
| Accrued expenses (see Note 21) | **1,881,254** | 1,738,068 |
| Subscriptions payable | **–** | 1,101,205 |
| | **₱57,865,876** | ₱44,749,807 |

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on a 30 to 60 days' term.

- Payable arising from, nontrade payables, accrued interest and others are expected to be settled within the next financial year.

- Payable arising from acquisition of land is expected to be settled within one to three years.

- The terms and conditions relating to due to related parties are discussed in Note 21.

- Gift checks are redeemable at face value.

- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.

- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.

- In September 2011, the Group exercised its 1:6 stock rights entitlement with Belle for 734.1 million shares at ₱3 per share. The availment did not affect the Group's direct ownership with Belle which remained at 46.0%. The unpaid subscription amounted to ₱1,101.2 million as at December 31, 2011. This was settled in April 2012.

## 19. Long-term Debt

This account consists of:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Gross Amount** | **Debt Issue Cost** | **Net Amount** | Gross Amount | Debt Issue Cost | Net Amount |
| | | | *(In Thousands)* | | | |
| **Parent Company** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Fixed rate bonds | **₱61,813,938** | **(₱449,782)** | **₱61,364,156** | ₱43,990,263 | (₱357,171) | ₱43,633,092 |
| Convertible bonds | **9,407,559** | **(183,247)** | **9,224,312** | 979,645 | (8,256) | 971,389 |
| Peso-denominated: | | | | | | |
| Seven-year and ten-year fixed rate corporate notes | **4,995,000** | **(37,757)** | **4,957,243** | 5,000,000 | (42,578) | 4,957,422 |
| Five-year fixed rate corporate notes | **6,699,043** | **(36,984)** | **6,662,059** | 6,700,000 | (49,708) | 6,650,292 |
| Five-year and seven-year retail bonds | **9,400,000** | **(32,107)** | **9,367,893** | 9,400,000 | (47,422) | 9,352,578 |
| Seven-year and ten-year retail bonds | **14,282,270** | **(118,549)** | **14,163,721** | – | – | – |
| Bank loans collateralized with time deposits | **3,000,000** | **(6,635)** | **2,993,365** | 8,950,000 | (15,070) | 8,934,930 |
| Preferred shares | **–** | **–** | **–** | 200,000 | (131) | 199,869 |
| Other bank loans | **8,050,000** | **(10,945)** | **8,039,055** | 9,548,500 | (17,921) | 9,530,579 |
| **Subsidiaries** | | | | | | |
| U.S. dollar-denominated: | | | | | | |
| Five-year term loans | **11,083,500** | **(186,538)** | **10,896,962** | 6,356,800 | (255,267) | 6,101,533 |
| Two-year, three-year and five-year bilateral loans | **1,026,250** | **(5,008)** | **1,021,242** | 1,096,000 | (11,071) | 1,084,929 |
| Other bank loans | **2,463,000** | **(24,888)** | **2,438,112** | 3,068,800 | (38,021) | 3,030,779 |
| China yuan-renminbi denominated: | | | | | | |
| Three-year loan | **1,111,112** | **–** | **1,111,112** | 1,299,441 | – | 1,299,441 |
| Five-year loan | **2,272,374** | **–** | **2,272,374** | 2,599,819 | – | 2,599,819 |
| Eight-year loan | **–** | **–** | **–** | 277,388 | – | 277,388 |
| Peso-denominated: | | | | | | |
| Three-year and five-year fixed rate notes | **18,313,000** | **(84,747)** | **18,228,253** | 10,000,000 | (55,774) | 9,944,226 |
| Five-year and ten-year fixed and floating rate notes | **7,500,000** | **(57,081)** | **7,442,919** | – | – | – |
| Five-year, seven-year and ten-year fixed and floating rate notes | **5,000,000** | **(33,540)** | **4,966,460** | – | – | – |
| Five-year, seven-year and ten-year corporate notes | **6,860,000** | **(36,161)** | **6,823,839** | 6,930,000 | (45,829) | 6,884,171 |
| Five-year and ten-year corporate notes | **1,100,000** | **(7,849)** | **1,092,151** | 4,289,350 | (24,457) | 4,264,893 |
| Five-year floating rate notes | **4,950,000** | **(29,172)** | **4,920,828** | 5,000,000 | (37,587) | 4,962,413 |
| Five-year, seven-year and ten-year fixed rate notes | **800,000** | **(4,658)** | **795,342** | 1,997,030 | (11,355) | 1,985,675 |
| Five-year bilateral loans | **500,000** | **(2,009)** | **497,991** | 546,875 | (2,584) | 544,291 |
| Other bank loans | **9,133,550** | **(20,510)** | **9,113,040** | 9,203,500 | (28,229) | 9,175,271 |
| | **189,760,596** | **(1,368,167)** | **188,392,429** | 137,433,411 | (1,048,431) | 136,384,980 |
| Less current portion | **13,889,278** | **(29,720)** | **13,859,558** | 7,935,231 | (14,270) | 7,920,961 |
| Noncurrent portion | **₱175,871,318** | **(₱1,338,447)** | **₱174,532,871** | ₱129,498,180 | (₱1,034,161) | ₱128,464,019 |

Parent Company

Fixed Rate Bonds

On October 17, 2012, SMIC issued US$500.0 million senior bonds, with peso equivalent of ₱20,525.0 million as at December 31, 2012, which bear a fixed interest rate of 4.25% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019.

On October 13, 2010, SMIC issued US$400.0 million bonds (₱15,641.8 million) which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱7,356.2 million) additional bonds, and US$82.9 million (₱3,199.4 million) and US$130.8 million (₱5,086.2 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.0% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

On September 22, 2009, SMIC issued US$500.0 million bonds, with peso equivalent of ₱15,564.4 million and ₱16,622.2 million as at December 31, 2012 and 2011, which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱10,082.8 million and ₱10,768.1 million as at December 31, 2012 and 2011, respectively, which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed at the option of the relevant holder beginning July 18, 2011 at the principal amount.

Convertible Bonds

*US$250.0 million Convertible Bonds*

On February 15, 2012, SMIC issued at face value 1.625% coupon US$250.0 million (₱9,407.6 million) convertible bonds, with a yield to maturity of 2.875% due on February 15, 2017 at 106.67%. Interest on the bonds is payable semi-annually in arrears. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 29.

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, unless previously redeemed, converted or purchased and cancelled, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. No conversion options were exercised as at December 31, 2012.

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

Lastly, the call option gives right to the Parent Company to redeem the Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US Dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

*US$300.0 million Convertible Bonds*
On March 19, 2007, SMIC issued at face zero coupon US$300.0 million Convertible Bonds (financial liability component amounted to nil and ₱979.6 million as at December 31, 2012 and 2011, respectively), with a yield to maturity of 3.5% due on March 20, 2012 at 118%. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 29.

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted or purchased and cancelled. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2012 and 2011, the bondholders of US$16.0 million (₱813.6 million) and US$1.7 million (₱82.2 million) bonds, respectively, opted to convert their holdings into 1,710,587 and 181,364 of SMIC's shares (see Note 20). The fair value of the related derivative liability derecognized upon conversion amounted to US$4.2 million (₱181.5 million) and US$0.3 million (₱11.0 million) in 2012 and 2011, respectively (see Notes 18 and 29).

The remaining value of convertible bond amounting to US$4.7 million (₱201.4 million) matured on March 20, 2012, resulted to a gain of ₱28.8 million, shown under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon maturity amounted to US$3.9 million (₱28.8 million) (see Note 29).

The put option entitles the bondholders to require the Parent Company to redeem all or some of its Bonds on March 19, 2010 (put date) at 110.97%. A total of US$246.3 million (₱11,253.5 million) bonds were redeemed, which resulted in a gain of ₱844.6 million shown under "Gain (loss) on fair value changes on derivatives - net" account in the 2010 consolidated statements of income. The fair value of the related derivative liability derecognized upon early redemption amounted to US$35.2 million (₱1,609.7 million) (see Note 29).

Lastly, the call option gives right to the Parent Company to redeem the remaining Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US Dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

Seven-year and Ten-year Fixed Rate Corporate Notes
On September 26, 2011, SMIC issued fixed rate corporate notes comprised of seven-year or Series A Notes and ten-year or Series B Notes due on September 26, 2018 and September 26, 2021, respectively. The total issuance amounted to ₱916.0 million and ₱4,084.0 million for the Series A and Series B Notes, respectively.

The Series A Notes have a term of seven years from the issue date, with a fixed interest rate equivalent to 5.75% per annum payable semi-annually in arrears starting March 26, 2012. The Series B Notes have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.625% per annum payable semi-annually in arrears starting March 26, 2012.

The Series A and B Notes have principal repayment of 0.1% of the principal amount in annual installments that will commence on the twelfth (12th) month from the issue date, with the last installment payment to be made on maturity date.

Outstanding balance as at December 31, 2012 for the Series A and B Notes amounted to ₱915.1 million and ₱4,079.9 million, respectively.

Five-year Fixed Rate Corporate Notes
On February 7, 2011, SMIC issued corporate notes amounting to ₱6,700.0 million, which bear a fixed interest rate of 6.17% per annum, payable semi-annually in arrears. The corporate notes will mature on February 8, 2016. The notes have principal repayment of ₱1.0 million that will commence on the twelfth month from the issue date, with the last installment payment to be made on maturity date. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱6,699.0 million and ₱6,700.0 million, respectively.

Five-year and Seven-year Retail Bonds
On June 25, 2009, SMIC issued fixed rate bonds, which comprised of five-year or Series A Bonds and seven-year or Series B Bonds due on June 26, 2014 and June 25, 2016, respectively. The total issuance amounted to ₱8,400.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

The Series A Bonds have a term of five years and one day from the issue date, with a fixed interest rate equivalent to 8.25% per annum payable semi-annually in arrears starting December 26, 2009. The Series B Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 9.10% per annum payable semi-annually in arrears starting December 25, 2009.

Seven-year and Ten-year Retail Bonds
On July 16, 2012, SMIC issued fixed rate bonds, which comprised of seven-year or Series C Bonds and ten-year or Series D Bonds due on July 16, 2019 and July 16, 2022, respectively. The total issuance amounted to ₱5,623.5 million and ₱8,658.8 million for the Series C and Series D Bonds, respectively.

The Series C Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 6.00% per annum payable semi-annually in arrears starting January 16, 2013. The Series D Bonds have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.94% per annum payable semi-annually in arrears starting January 16, 2013.

Bank Loans Collateralized with Time Deposits
On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The loans are based on a three-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus an agreed margin. Interest on these loans is payable quarterly in arrears.

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest based on a three-month PDST-F rate plus an agreed margin, payable quarterly in arrears. On October 12, 2011, SMIC paid ₱50.0 million of this loan. The remaining value amounting to ₱5,950.0 million matured on October 16, 2012.

These loans are collateralized by a portion of SMIC's time deposits amounting to US$475.0 million with peso equivalents of ₱19,498.8 million and ₱20,824.0 million as at December 31, 2012 and 2011, respectively (see Note 7).

Preferred Shares
On August 6, 2007, SMIC issued Series 1 and Series 2 of non-convertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. Each share has a par value of ₱10.0 a share and an offer price of ₱10,000 a share.

The Series 1 preferred shares carry a fixed dividend rate of 7.51% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus an agreed margin. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

The preferred shares are mandatorily redeemable on August 6, 2012 at redemption price, which consists of (1) 100% of the offer price; (2) all unpaid cash dividends accruing thereon, if any, and/or in the event no cash dividends are declared for the relevant period, an amount equivalent to the sum of the cash dividends on the preferred shares had dividends been declared and paid for the relevant period; and (3) any charges on unpaid amounts due then outstanding. SMIC has an option to early redeem the preferred shares subject to certain conditions. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million. Series 2 preferred shares amounting to ₱200.0 million was redeemed on August 6, 2012.

Other Peso Bank Loans
This account includes the following:

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Ten-year term loans | **₱2,050,000** | ₱2,050,000 |
| Seven-year term loans | **3,000,000** | 4,498,500 |
| Five-year term loans | **3,000,000** | 3,000,000 |
| | **₱8,050,000** | ₱9,548,500 |

- In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear fixed interest rates of 6.85% and 6.71% per annum, respectively. Outstanding balances of these loans as at December 31, 2012 and 2011 amounted to ₱1,550.0 million.

- In April 2008, SMIC obtained seven-year and ten-year term loans amounting to ₱500.0 million each, which bear fixed interest rates of 8.56% and 8.79% per annum, respectively. The seven-year term loan has annual principal repayment of ₱0.5 million that will commence on the twelfth (12th) month from the issue date, with the last installment payment to be made on maturity date. On April 25, 2012, SMIC paid the total outstanding balance of the seven-year term loan amounting to ₱498.5 million. Outstanding balance of the seven-year and ten-year term loans amounted to nil and ₱500.0 million as at December 31, 2012, respectively, and ₱498.5 million and ₱500.0 million as at December 31, 2011, respectively.

- In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest rate of 7.28% per annum. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱1,000.0 million.

- The seven-year term loans also include ₱2,000.0 million and ₱1,000.0 million fixed rate loans with interest rates of 6.90% and 6.91%, respectively. It likewise includes ₱2,000.0 million floating rate loan with interest based on 3-month PDST-F plus an agreed margin. The loans will mature in October and November 2014. On January 31, 2011 and November 23, 2012, SMIC prepaid the ₱2,000.0 million and ₱1,000.0 million fixed rate loans respectively. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱2,000.0 million and ₱3,000.0 million, respectively.

- In February 2009, SMIC obtained a five-year term loan amounting to ₱3,000.0 million which bears a floating interest rate based on a 6-month PDST-F plus margin. Outstanding balance as at December 31, 2012 and 2011 amounted to ₱3,000.0 million.

- The five-year term loans obtained in 2006 amounting to ₱600.0 million and ₱400.0 million bear fixed interest rates of 7.58% and 6.65% per annum and matured in October and November 2011, respectively.

*Subsidiaries*

US Dollar-denominated Five-year Term Loans
This represents a US$270.0 million unsecured loans obtained on various dates in 2012 and 2011 by SM Prime. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016.

US Dollar-denominated Two-year, Three-year and Five-year Bilateral Loans
The US$75.0 million unsecured loans were obtained by SM Prime in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. SM Prime prepaid the US$30.0 million (₱1,386.0 million) and the US$20.0 million (₱950.4 million) unsecured loans on November 30, 2010 and June 1, 2009, with original maturity dates of November 28, 2011 and November 19, 2010, respectively. The related unamortized debt issuance costs charged to expense amounted ₱4.0 million in 2010. The remaining balance of US$25.0 million will mature on November 20, 2013.

Other US Dollar-denominated Bank Loans
This consists of the following:

- *US Dollar-denominated Five-year Bilateral Loans.* This represents the US$10.0 million (₱410.5 million) out of US$50.0 million unsecured loan obtained by SM Prime on December 7, 2012. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017. The balance of US$40.0 million will be fully drawn in 2013.

- *US Dollar-denominated Five-year Bilateral Loans.* The US$20.0 million (₱821.0 million) and US$30.0 million (₱1,231.5 million) five-year bilateral unsecured loans were obtained by SM Prime on April 15, 2011 and November 30, 2010, respectively. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on November 30, 2015.

- *US Dollar-denominated Three-year Bilateral Loans.* The US$40.0 million (₱1,753.6 million) three-year bilateral unsecured loans were obtained by SM Prime on July 13, 2010 and October 15, 2009. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on January 14, 2013 and October 15, 2012, respectively. The US$20.0 million (₱876.8 million) loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2.0 million. The remaining US$20.0 million loan was prepaid on January 13, 2012.

China Yuan Renminbi-denominated Three-year Loan
This represents a three-year loan obtained by SM Prime on March 28, 2011 amounting to ¥250.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥187.4 million (₱1,299.4 million) was made as at December 31, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears an interest rate of 6.20% and 6.66% in 2012 and 2011, respectively.

China Yuan Renminbi-denominated Five-year Loan
This consists of the following:

- This represents a five-year loan obtained by SM Prime on August 26, 2009 amounting to ¥350.0 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2012 and 6.21% in 2011 (see Note 29).

- This represents a five-year loan obtained by SM Prime on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥0.9 million (₱6.2 million) and ¥60.0 million (₱408.8 million) was made in 2012 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2012 and 5.32% in 2011 (see Note 29).

China Yuan Renminbi-denominated Eight-year Loan
This represents an eight-year loan obtained by SM Prime on December 28, 2005 amounting to ¥155.0 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.35% in 2012 and 2011. The loan matured and was paid in December 2012 (see Note 29).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 14).

Philippine Peso-denominated Three-year and Five-year Fixed Rate Notes
This consists of the following:

- On December 27, 2012, SMDC obtained long-term loan amounting to ₱2,000.0 million from a local bank with an interest rate of 4.72%, payable quarterly and will mature on December 23, 2015.

- On April 27, 2012, SMDC issued five-year fixed rate corporate notes amounting to ₱6,313.0 million which will mature on various dates starting April 27, 2013 up to July 27, 2017. The notes have fixed interest rate of 6.01% payable semi-annually.

- On June 1, 2010, SMDC issued a three-year and five-year fixed rate corporate notes amounting to ₱2,000.0 million and ₱8,000.0 million, respectively. The three-year and five-year fixed rate notes bear fixed interest rates of 6.8% and 7.7%, respectively, payable semi-annually and will mature on June 1, 2013 and June 2, 2015, respectively. SMDC has an option to prepay the notes subject to a fixed prepayment penalty. The prepaid amount shall include the outstanding principal obligation, any accrued interest on the notes and the prepayment penalty.

Philippine Peso-denominated Five-year and Ten-year Fixed and Floating Rate Notes
This represents a five-year and ten-year floating and fixed rate notes obtained by SM Prime on June 19, 2012 amounting to ₱3,450.0 million and ₱1,000.0 million for the floating and ₱680.0 million and ₱2,370.0 million for the fixed, respectively. The loans bear an interest rate based on PDST-F plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtainedby SM Prime on January 12, 2012 amounting to ₱200.0 million, ₱1,012.0 million, ₱133.0 million, and ₱3,655.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes obtained by SM Prime amounting to ₱3,000.0 million, ₱1,134.0 million, ₱52.5 million and ₱813.5 million, respectively, out of ₱7,000.0 million facility obtained on December 20, 2010. The remaining ₱2,000.0 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 29).

Philippine Peso-denominated Five-year and Ten-year Corporate Notes
This represents a five-year floating and fixed rate notes and ten-year fixed rate note obtained by SM Prime on April 14, 2009 amounting to ₱200.0 million, ₱3,700.0 million and ₱1,100.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively . SM Prime prepaid the ₱200.0 million and ₱3,700.0 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17.0 million (see Note 29).

Philippine Peso-denominated Five-year Floating Rate Notes
This represents a five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000.0 million and ₱1,000.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 29).

Philippine Peso-denominated Five-year, Seven-year and Ten-year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000.0 million and ₱1,200.0 million were prepaid on June 17, 2011 and 2012, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4.0 million and ₱ 5.0 million in 2011 and 2012, respectively (see Notes 29).

Philippine Peso-denominated Five-year Bilateral Loans
This consists of the following:

- Five-year term loan obtained by a subsidiary of SM Prime on October 24, 2011 amounting to ₱500.0 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 29).

- Five-year term loan obtained by a subsidiary of SM Prime on September 28, 2007 and November 6, 2007 amounting to ₱250.0 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 29). The loan matured and was paid in September 2012.

Other Bank Loans - Subsidiaries
This account includes the following:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Ten-year term loan | **₱1,200,000** | ₱1,200,000 |
| Five-year term loans | **7,933,550** | 8,003,500 |
| | **₱9,133,550** | ₱9,203,500 |

- On August 16, 2006, SM Prime obtained a ten-year bullet fixed rate loan amounting to ₱1,200.0 million which bears a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 29).

- The following five-year term loans were obtained by various subsidiaries:

| Year Obtained | Maturity | Subsidiary | **2012** | 2011 | Interest Rate (see Note 30) |
|---|---|---|---|---|---|
| | | | *(In Millions)* | | |
| 2010 | 2015 | SM Prime | **₱2,000.0** | ₱2,000.0 | PDST-F plus an agreed margin |
| | | SM Prime | **980.0** | 990.0 | Agreed fixed rate less PDST-F |
| | | SM Land | **222.8** | 225.0 | Fixed rate of 6.75% |
| | | Costa | **118.8** | 120.0 | Fixed rate of 7.0% |
| | | SM Land | **75.0** | 75.0 | PDST-F plus an agreed margin |
| 2009 | 2014 | SM Prime | **3,000.0** | 3,000.0 | PDST-F plus an agreed margin |
| | | SM Land | **1,387.0** | 1,393.5 | Fixed rate of 5.69-6.75% |
| | | SM Land | **150.0** | 200.0 | PDST-F plus an agreed margin |
| | | | **₱7,933.6** | ₱8,003.5 | |

The repricing frequencies of floating rate loans range from three to six months.

A portion of these loans is collateralized by temporary investment and shares of stocks. The carrying values of the collaterals approximate the amounts of the loans (see Note 11)

Debt Issue Cost
The movements in unamortized debt issue cost in 2012 and 2011 are as follows:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱1,048,431** | ₱956,541 |
| Additions | **652,989** | 483,475 |
| Amortization (see Note 24) | **(296,977)** | (264,457) |
| Prepayments | **(36,276)** | (127,128) |
| Balance at end of year | **₱1,368,167** | ₱1,048,431 |

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

| | Gross Loan | Debt Issue Cost | Net |
|---|---|---|---|
| | | *(In Thousands)* | |
| 2013 | ₱13,889,278 | (₱29,720) | ₱13,859,558 |
| 2014 | 33,227,646 | (128,321) | 33,099,325 |
| 2015 | 25,906,340 | (92,701) | 25,813,639 |
| 2016 | 28,418,203 | (265,365) | 28,152,838 |
| 2017 | 37,035,204 | (408,208) | 36,626,996 |
| 2018 | 3,844,303 | (17,927) | 3,826,376 |
| 2019 | 27,455,949 | (273,848) | 27,182,101 |
| 2020 | 814,619 | (5,996) | 808,623 |
| 2021 | 4,117,494 | (31,380) | 4,086,114 |
| 2022 | 15,051,560 | (114,701) | 14,936,859 |
| | ₱189,760,596 | (₱1,368,167) | ₱188,392,429 |

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2012 and 2011, the Group is in compliance with the terms of its loan covenants.

## 20. Equity

Capital Stock
As at December 31, 2012 and 2011, SMIC's authorized capital stock is composed of 690,000,000 common shares and 10,000,000 redeemable preferred shares with a par value of ₱10.0 a share. The issued and subscribed redeemable preferred shares are nil and 20,000 as at December 31, 2012 and 2011, respectively, and accounted for as a liability (see Note 19). SMIC's issued and subscribed common shares are 622,974,620 and 612,164,033 as at December 31, 2012 and 2011, respectively.

As at December 31, 2012, the Company is compliant with the minimum public float as required by the PSE.

At various dates in 2012 and 2011, 1,710,587 common shares and 181,364 common shares, respectively, were issued as a result of conversion of SMIC's convertible bonds (see Note 19). The excess of conversion price over par value totaling ₱977.8 million and ₱80.4 million, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

On August 24, 2012, SMIC entered into a Placement Agreement with certain shareholders and Macquarie Capital PTE. Limited (the "Placement Agent"), where the selling shareholders shall sell 9.1 million SMIC common shares (the "Sale Shares") at ₱700.00 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

Simultaneously, SMIC entered into a Subscription Agreement with the selling shareholders, where SMIC agreed to issue new SMIC common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by the Selling Shareholders and the Selling Shareholders agreed to subscribe to the said shares.

The placement and subscription agreements increased "Capital Stock" and "Additional paid-in capital" in the amount of ₱91.0 million and ₱6,238.7 million, respectively.

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

| Date of SEC Approval | Authorized Shares | No. of Shares Issued | Issue/Offer Price |
|---|---|---|---|
| March 2005 | | 105,000,000 | ₱250 |
| November 6, 2007 | | 56,000,000 | 218 |
| June 14, 2007 | 100,000,000 | | 10 |
| April 25, 2007 | | 25,023,038 | 10 |
| October 4, 2010 | | 340,858 | 453 |
| November 3, 2010 | | 309,387 | 453 |
| November 25, 2010 | | 309,386 | 453 |
| August 17, 2011 | | 10,668 | 453 |
| September 26, 2011 | | 170,696 | 453 |
| January 2, 2012 | | 21,337 | 453 |
| January 10, 2012 | | 16,002 | 453 |
| January 11, 2012 | | 298,718 | 453 |
| January 26, 2012 | | 90,682 | 453 |
| February 3, 2012 | | 679,584 | 453 |
| February 8, 2012 | | 279,515 | 453 |
| March 8, 2012 | | 250,070 | 453 |
| March 12, 2012 | | 10,668 | 453 |
| March 13, 2012 | | 64,011 | 453 |
| September 24, 2012 | | 9,100,000 | 700 |

The Parent Company declared stock dividends in 2007. The total number of shareholders of the Parent Company is 1,263 and 1,304 as at December 31, 2012 and 2011, respectively.

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

The cost of common shares held by subsidiaries at December 31, 2012 amounting to ₱125.9 million pertains to 390,491 shares with an average cost of ₱322.4 per share. The cost of common shares held by subsidiaries as at December 31, 2011 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

In various dates in 2012, SM Land and MRDC disposed a total of 430,000 Parent common shares at a total selling price of ₱323.9 million. The disposal resulted in a total gain of ₱184.5 million where the portion of the gain pertaining to the interest of the Parent Company and Non-controlling interest is recognized under "Additional paid-in capital" and "Non-controlling interests" account, respectively, in the consolidated balance sheets.

Additional Paid-in Capital
The movements in "Additional paid-in capital" account in the consolidated balance sheets are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **₱35,536,615** | ₱35,456,200 |
| Adjustments from additional issuance of shares | **7,216,451** | 80,415 |
| Gain on sale of Parent common shares held by subsidiaries | **105,854** | – |
| Balance at end of year | **₱42,858,920** | ₱35,536,615 |

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

Retained Earnings
On December 14, 2012, the BOD approved the appropriation of ₱30,000.0 million retained earnings. As at December 31, 2012, the total appropriated retained earnings is ₱35,000.0 million.

| Projects | Timeline | 2012 |
|---|---|---|
| | *(In Thousands)* | |
| Hotel projects | 2013–2015 | ₱8,000,000 |
| Commercial buildings | 2012–2016 | 10,000,000 |
| Acquisition of investments | 2012–2013 | 17,000,000 |
| | | ₱35,000,000 |

On April 26, 2012, the BOD approved the declaration of cash dividends of 104.0% of the par value or ₱10.40 per share for a total amount of ₱6,383.6 million in favor of stockholders on record as at May 22, 2012. This was paid on June 21, 2012.

On April 27, 2011, the BOD approved the declaration of cash dividends of 90.4% of the par value or ₱9.04 per share for a total amount of ₱5,532.3 million in favor of stockholders on record as at May 27, 2011. This was paid on June 22, 2011.

On April 28, 2010, the BOD approved the declaration of cash dividends of 78.8% of the par value or ₱7.88 per share for a total amount of ₱4,814.9 million in favor of stockholders on record as at May 27, 2010. This was paid on June 21, 2010.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱93,346.9 million and ₱75,086.8 million as at December 31, 2012 and 2011, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

## 21. Related Party Transactions

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2012, 2011 and 2010, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year-end by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Related parties under common stockholders refer to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Rent
The Group have existing lease agreements for office and commercial spaces with related companies (retail entities under common stockholder, banking group and other related parties under common stockholder).

Management and Service Fees
The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. (related parties under common stockholder) for the management of the office and mall premises. The Group also provides manpower and other services to related parties under common stockholder.

SMIC and SM Retail also receive management and service fees from retail entities under common stockholder for management, consultancy, manpower and other services.

Dividend Income
The Group has investment in certain related parties under common stockholder classified as AFS equity instruments. The Group earn income from these investments upon the declaration of dividends by the investees.

Cash Placements and Loans
The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 6, 7 and 16).

The Group also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

Others
The Group, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

The consolidated balance sheets and statements of income include the following amounts resulting from the above transactions with related parties as at December 31:

| Category | Year | Amount/ Volume | Outstanding balance | Terms | Condition |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| **Bank Associates** | | | | | |
| Cash placement and | **2012** | **₱54,171,200** | **₱114,014,248** | Interest bearing | Unsecured; no |
| investment in debt | 2011 | (41,171,620) | 59,843,048 | 0.5% to 6.55% | impairment |
| securities | 2010 | 16,896,687 | 101,014,668 | | |
| Interest income | **2012** | **3,950,656** | **1,011,987** | Interest bearing | Unsecured; no |
| | 2011 | 3,125,270 | 841,418 | 4.9% to 6.47% | impairment |
| | 2010 | 3,013,880 | 754,064 | | |
| Loans | **2012** | **(5,175,006)** | **32,021,644** | Interest-bearing | Unsecured; no |
| | 2011 | 10,084,368 | 37,196,650 | 3.25% to 8.79% | impairment |
| | 2010 | 18,100,663 | 27,112,282 | | |
| Interest expense | **2012** | **859,134** | **286,719** | Interest-bearing | Unsecured; no |
| | 2011 | 738,231 | 190,583 | 3.25% to 8.79% | impairment |
| | 2010 | 1,161,073 | 115,581 | | |
| Rent income | **2012** | **52,860** | **2,547** | Noninterest bearing | Unsecured; no |
| | 2011 | 40,408 | 351 | | impairment |
| | 2010 | 27,744 | 2,263 | | |
| **Retail Entities under Common Stockholders** | | | | | |
| Rent income | **2012** | **4,002,084** | **1,516,066** | Noninterest bearing | Unsecured; no |
| | 2011 | 2,945,053 | 1,267,728 | | impairment |
| | 2010 | 2,985,019 | 878,452 | | |
| Management fee income | **2012** | **713,226** | **154,172** | Noninterest bearing | Unsecured; no |
| | 2011 | 564,160 | 95,892 | | impairment |
| | 2010 | 695,395 | 353,691 | | |
| Management fee expense | **2012** | **872,853** | **2,020** | Noninterest bearing | Unsecured; no |
| | 2011 | 779,814 | 104,963 | | impairment |
| | 2010 | 656,131 | 86,287 | | |
| Dividend income | **2012** | **552,768** | **292,917** | Noninterest bearing | Unsecured; no |
| | 2011 | 222,089 | 42,015 | | impairment |
| | 2010 | 188,472 | – | | |
| Service income | **2012** | **1,097** | **49,098** | Noninterest bearing | Unsecured; no |
| | 2011 | 127,589 | – | | impairment |
| | 2010 | 26,202 | – | | |
| Due from related parties | **2012** | **1,040,720** | **2,413,171** | Noninterest bearing | Unsecured; no |
| | 2011 | (384,608) | 1,372,451 | | impairment |
| | 2010 | (1,966,159) | 1,757,059 | | |
| Due to related parties | **2012** | **530,600** | **3,265,015** | Noninterest bearing | Unsecured; no |
| | 2011 | 766,475 | 2,734,415 | | impairment |
| | 2010 | 510,696 | 1,967,940 | | |
| **Other Related Parties** | | | | | |
| Receivable under | **2012** | **(7,312,107)** | **52,800** | Interest-bearing | Unsecured; no |
| common Stockholders | 2011 | (281,621) | 7,312,107 | Fixed at 4.5% in 2012 | impairment |
| | 2010 | 1,593,728 | 7,593,728 | and 7.0% in 2011 & 2010 | |
| Receivable for project | **2012** | **1,962,578** | **3,084,143** | Noninterest-bearing | Unsecured; no |
| development | 2011 | (88) | 1,121,565 | | impairment |
| | 2010 | 172,358 | 1,121,653 | | |

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2012, 2011 and 2010 consist of short-term employee benefits amounting to ₱708.7 million, ₱644.3 million and ₱585.7 million, respectively, and post-employment benefits (pension benefits) amounting to ₱144.4 million, ₱99.5 million and ₱86.6 million, respectively.

## 22. Cost of Sales

This account consists of:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Merchandise inventories at beginning of year | **₱13,436,456** | ₱10,485,903 | ₱7,760,762 |
| Purchases | **117,862,994** | 115,143,309 | 106,225,486 |
| Total goods available for sale | **131,299,450** | 125,629,212 | 113,986,248 |
| Less merchandise inventories at end of year | **13,402,762** | 13,436,456 | 10,485,903 |
| | **₱117,896,688** | ₱112,192,756 | ₱103,500,345 |

## 23. Selling, General and Administrative Expenses

This account consists of:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Personnel cost (see Note 21) | **₱10,942,505** | ₱9,842,436 | ₱8,728,907 |
| Depreciation and amortization (see Notes 13 and 14) | **8,057,871** | 7,193,100 | 6,321,252 |
| Utilities | **6,295,496** | 5,346,665 | 4,577,600 |
| Rent (see Note 27) | **4,876,327** | 3,463,656 | 3,016,022 |
| Taxes and licenses | **3,964,767** | 3,212,041 | 2,740,926 |
| Outside services | **2,802,479** | 2,351,613 | 1,974,286 |
| Commission expense | **2,084,339** | 570,807 | 404,679 |
| Advertising and promotions | **1,444,162** | 1,802,823 | 1,215,989 |
| Repairs and maintenance | **1,062,124** | 958,955 | 899,266 |
| Management fees (see Note 21) | **910,614** | 944,098 | 725,212 |
| Supplies | **838,943** | 739,183 | 698,628 |
| Insurance | **470,633** | 357,743 | 356,054 |
| Professional fees | **460,268** | 199,378 | 206,447 |
| Transportation and travel | **436,156** | 341,716 | 287,649 |
| Donations | **297,629** | 201,533 | 31,835 |
| Pension expense (see Note 25) | **235,499** | 234,746 | 281,567 |
| Entertainment, representation and amusement | **196,185** | 239,943 | 287,665 |
| Communications | **122,666** | 104,357 | 92,602 |
| Data processing | **98,472** | 8,825 | 160,840 |
| Provision for (reversal of) impairment loss and others (see Notes 9, 10, 11, 12 and 14) | **(2,635,569)** | 553,386 | 557,536 |
| Others | **2,017,256** | 1,745,746 | 1,931,372 |
| | **₱44,978,822** | ₱40,412,750 | ₱35,496,334 |

## 24. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Interest income on: | | | |
| Time deposits and short-term investments (see Note 7) | **₱2,080,949** | ₱1,921,384 | ₱2,071,015 |
| AFS investments and others (see Notes 8 and 11) | **853,249** | 1,227,952 | 849,554 |
| Cash in banks and temporary investments (see Note 6) | **1,439,218** | 1,083,460 | 763,649 |
| Investments held for trading (see Note 8) | **43,330** | 41,844 | 32,234 |
| | **₱4,416,746** | ₱4,274,640 | ₱3,716,452 |
| Interest expense on: | | | |
| Long-term debt (see Note 19) | **₱7,325,871** | ₱6,249,515 | ₱7,177,322 |
| Bank loans (see Note 17) | **3,253,656** | 2,288,844 | 132,967 |
| Others (see Note 29) | **232,209** | 297,654 | 342,268 |
| | **₱10,811,736** | ₱8,836,013 | ₱7,652,557 |

## 25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest appraisal valuation report is as at December 31, 2012.

The following tables summarize the components of net benefit expense recognized by Market Strategic Firm, Inc., Manduriao Star, Inc., Mindanao Shoppers Daily Destination Corp., Mindanao Shoppinglane Cebu Corp., CF_Mgt. Corp., LTBG_Mgmt. Corp., MCLG Mgmt. Corp., MF_Mgt Corp., Accessories Management Corp., and LF_Mgt. Corp. (subsidiaries of SM Retail); Manila Southcoast Development Corp. (subsidiary of Mt. Bliss); Forever Agape and Glory, Inc. and SM Hotels, as included in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (Included under "Selling, General and Administrative Expenses", see Note 23)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In Thousands) | |
| Current service cost | **₱30,196** | ₱33,872 | ₱60,962 |
| Interest cost | **14,789** | 27,398 | 61,573 |
| Expected return on plan assets | **(12,685)** | (24,820) | (27,501) |
| Recognized actuarial gain | **(1,280)** | (4,509) | (1,961) |
| Others | **1,497** | 1,497 | 14,305 |
| Net benefit expense | **₱32,517** | ₱33,438 | ₱107,378 |

Defined Benefit Liability (Included under "Tenants' deposits and others")

| | 2012 | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Present value of obligation | **₱276,936** | ₱442,619 |
| Fair value of plan assets | **302,376** | 494,554 |
| Funded status | **(25,440)** | (51,935) |
| Unrecognized actuarial gain | **60,513** | 131,766 |
| Others | **(6,763)** | (3,344) |
| Defined benefit liability | **₱28,310** | ₱76,487 |

Changes in the Present Value of the Defined Benefit Obligation

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Defined benefit obligation at beginning of year | **₱442,619** | ₱695,108 | ₱922,784 |
| Reclassifications to defined benefit assets | **(232,674)** | (352,155) | (386,635) |
| Interest cost | **14,789** | 27,398 | 61,573 |
| Current service cost | **30,196** | 33,872 | 60,962 |
| Actuarial loss on defined benefit obligations | **30,464** | 47,023 | 23,505 |
| Benefits paid | **(6,307)** | (13,696) | (22,581) |
| Transfer from related parties | **(2,151)** | 2,778 | 17,504 |
| Other adjustments | **–** | 2,291 | 17,996 |
| Defined benefit obligation at end of year | **₱276,936** | ₱442,619 | ₱695,108 |

Changes in the Fair Value of Plan Assets

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Fair value of plan assets at beginning of year | **₱494,554** | ₱732,189 | ₱731,047 |
| Reclassifications to defined benefit assets | **(253,032)** | (343,747) | (317,680) |
| Actual contributions | **28,169** | 102,835 | 149,592 |
| Actuarial gain on plan assets | **28,458** | 10,104 | 146,806 |
| Expected return on plan assets | **12,685** | 24,820 | 27,501 |
| Benefits paid | **(6,307)** | (13,696) | (22,581) |
| Transfer from related parties | **(2,151)** | 2,778 | 17,504 |
| Other adjustments | **–** | (20,729) | – |
| Fair value of plan assets at end of year | **₱302,376** | ₱494,554 | ₱732,189 |

Unrecognized Actuarial Gain

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Net cumulative unrecognized actuarial gain at beginning of year | **₱131,766** | ₱219,047 | ₱157,729 |
| Actuarial gain (loss) on: | | | |
| Plan assets | **28,458** | 10,104 | 146,806 |
| Defined benefit obligation | **(30,464)** | (47,023) | (23,505) |
| Reclassifications to defined benefit assets | **(67,967)** | (24,722) | (60,022) |
| Recognized actuarial gain | **(1,280)** | (4,509) | (1,961) |
| Other adjustments | **–** | (21,131) | – |
| Net cumulative unrecognized actuarial gain at end of year | **₱60,513** | ₱131,766 | ₱219,047 |

The amounts for the current and previous four periods are as follows:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| Present value of defined benefit obligation | **₱276,936** | ₱442,619 | ₱695,108 | ₱922,784 | ₱643,307 |
| Fair value of plan assets | **302,376** | 494,554 | 732,189 | 731,047 | 571,629 |
| Deficit (Surplus) | **(25,440)** | (51,935) | (37,081) | 191,737 | 71,678 |
| Experience adjustment arising on plan asset | **28,458** | 10,104 | 146,806 | 108,771 | (89,871) |
| Experience adjustment arising on plan liabilities | **30,464** | 47,023 | 23,505 | 305,898 | (765,951) |

Certain subsidiaries have defined benefit assets as at December 31, 2012 and 2011. The following tables summarize the components of net benefit expense recognized by the Parent Company; SM Land; SM Prime; SMDC; SM Retail; Mainstream Business, Inc., Major Shopping Management Corporation, Metro Main Star Asia Corporation, Meridien Business Leader, Inc., Madison Shopping Plaza, Inc., Multi Stores Corporation, Metro Manila Shopping Mecca Corp., Mercantile Stores Group, Inc., Mindanao Shopping Destination Corp., Manila Southern Associates, Inc., SM Mart, Inc., Sanford Marketing Corporation, SVI, SSMI, Accessories_Management Corp., LTBG_Management Corp., MF_Mgmt. Corp., Hyperhome Corp., Hyperfashion Corp. and MCLG_Mgmt. Corp., (subsidiaries of SM Retail); Costa; and Hotel Specialists (Tagaytay) Inc. and SMX Convention Specialist Corp. (subsidiaries of SM Hotels); and MRDC, as recognized in the consolidated statements of income, and the funded status and amounts as recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (Included under "Selling, General and Administrative Expenses", see Note 23)

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Current service cost | **₱232,910** | ₱206,172 | ₱150,541 |
| Interest cost | **177,343** | 150,945 | 148,216 |
| Expected return on plan assets | **(186,269)** | (162,260) | (107,419) |
| Recognized actuarial loss (gain) | **(13,888)** | 10,583 | (27,508) |
| Effect of asset limit | **(2,860)** | 1,435 | 4,409 |
| Others | **(4,254)** | (5,567) | 5,950 |
| Net benefit expense | **₱202,982** | ₱201,308 | ₱174,189 |

Defined Benefit Asset (Recorded as part of "Other Noncurrent Assets", see Note 16)

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Present value of obligation | **₱3,234,528** | ₱2,269,976 |
| Fair value of plan assets | **3,967,810** | 2,994,978 |
| Funded status | **(733,282)** | (725,002) |
| Unrecognized actuarial gain | **292,384** | 321,952 |
| Amount not recognized due to asset limit | **(7,404)** | 12,797 |
| Others | **(4,608)** | (4,460) |
| Defined benefit asset | **(₱452,910)** | (₱394,713) |

Changes in the Present Value of the Defined Benefit Obligation

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Defined benefit obligation at beginning of year | **₱2,269,976** | ₱1,618,563 | ₱926,755 |
| Reclassifications from defined benefit liability | **232,674** | 352,155 | 386,635 |
| Current service cost | **232,910** | 206,172 | 150,541 |
| Interest cost | **177,343** | 150,945 | 148,216 |
| Actuarial loss on defined benefit obligations | **366,834** | 140,848 | 58,868 |
| Benefits paid | **(68,621)** | (181,173) | (46,489) |
| Transfer to related parties | **(57,896)** | (12,590) | (14,063) |
| Other adjustments | **81,308** | (4,944) | 8,100 |
| Defined benefit obligation at end of year | **₱3,234,528** | ₱2,269,976 | ₱1,618,563 |

Changes in the Fair Value of Plan Assets

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Fair value of plan assets at beginning of year | **₱2,994,978** | ₱2,437,705 | ₱1,306,847 |
| Actual contributions | **313,700** | 337,732 | 392,338 |
| Actuarial gain on plan assets | **333,746** | 56,398 | 373,973 |
| Reclassifications from defined benefit liability | **253,031** | 343,747 | 317,680 |
| Expected return on plan assets | **186,269** | 162,260 | 107,419 |
| Benefits paid | **(68,621)** | (181,173) | (46,489) |
| Transfer to related parties | **(57,896)** | (12,590) | (14,063) |
| Other adjustments | **12,603** | (149,101) | – |
| Fair value of plan assets at end of year | **₱3,967,810** | ₱2,994,978 | ₱2,437,705 |

Unrecognized Actuarial Gain

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | | *(In Thousands)* | |
| Net cumulative unrecognized actuarial gain at beginning of year | **₱321,952** | ₱510,542 | ₱159,972 |
| Actuarial gain (loss) on: | | | |
| Defined benefit obligation | **(366,834)** | (140,848) | (58,868) |
| Plan assets | **333,746** | 56,398 | 373,973 |
| Reclassifications from defined benefit liability | **67,968** | 24,722 | 60,022 |
| Recognized actuarial (gain) loss | **(13,888)** | 10,583 | (27,508) |
| Other adjustments | **(50,560)** | (139,445) | 2,951 |
| Net cumulative unrecognized actuarial gain at end of year | **₱292,384** | ₱321,952 | ₱510,542 |

The amounts for the current and previous four periods follow:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | | | *(In Thousands)* | | |
| Fair value of plan assets | **₱3,967,810** | **₱2,994,978** | ₱2,437,705 | ₱1,306,847 | ₱743,477 |
| Present value of defined benefit obligation | **3,234,528** | **2,269,976** | 1,618,563 | 926,755 | 492,166 |
| Surplus | **733,282** | **725,002** | 819,142 | 380,092 | 251,311 |
| Experience adjustment on plan asset | **333,746** | **56,398** | 373,973 | 62,727 | (82,300) |
| Experience adjustment on plan liabilities | **366,834** | **140,848** | 58,868 | 143,281 | (227,645) |

The expected overall rate of return on assets is determined based on historical returns, applicable to the period over which obligation is to be settled. These are reflected in the principal assumptions below.

| | **2012** | 2011 |
|---|---|---|
| Discount rate | **4%–7%** | 5%–7% |
| Expected rate of return on assets | **5%–8%** | 5%–7% |
| Future salary increases | **10%–11%** | 10% |

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by Board of Trustees of the Retirement Plan. The following table presents the carrying amounts and estimated fair values of the assets of the Plan:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Cash and cash equivalents | **₱171,751** | **₱171,751** | ₱182,785 | ₱182,785 |
| Investment in debt and other Securities | **450,728** | **450,728** | 240,635 | 240,635 |
| Investment in common trust funds | **1,736,086** | **1,736,086** | 1,244,928 | 1,244,928 |
| Investment in equity securities | **183,913** | **183,913** | 173,693 | 173,693 |
| Investment in government Securities | **1,692,804** | **1,692,804** | 1,617,703 | 1,617,703 |
| Others | **34,904** | **34,904** | 29,788 | 29,788 |
| | **₱4,270,186** | **₱4,270,186** | ₱3,489,532 | ₱3,489,532 |

The Plans' assets and investments consist of the following:

- Cash and cash equivalents includes regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 5.45% to 8.46% and have maturities from April 2014 to September 2022;
- Investment in common trust funds consists of unit investment trust fund.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 5.00% to11.14% and have maturities from July 2013 to October 2037; and
- Other financial assets held by the Plan are primarily accrued interest income on cash deposits and debt securities held by the Plan.

As at and for the year ended December 31, 2012, the following table summarizes the outstanding balances and transactions of the Plan with the reporting entity and BDO Unibank, Inc., a related party:

| | 2012 |
|---|---|
| | *(In Thousands)* |
| Cash and cash equivalents | ₱171,151 |
| Interest income from cash and cash equivalents | 2,826 |
| Investment in common trust funds | 1,736,086 |
| Gains from Investment in common trust funds | 456,634 |
| | ₱2,366,697 |

The Group expects to contribute about ₱341.9 million to its defined benefit pension plan in 2013.

## 26. Income tax

The details of the Group's deferred tax assets and liabilities are as follows:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Deferred tax assets - net: | | |
| Unamortized past service cost and defined benefit liability | **₱100,129** | ₱188,582 |
| Unrealized foreign exchange loss and others | **362,005** | 305,681 |
| Accrued leases | **43,070** | 105,585 |
| MCIT | **79,253** | 61,248 |
| Unrealized marked-to-market loss on investments | **40,517** | 36,708 |
| Deferred income on sale of real estate | **–** | (12,823) |
| NOLCO | **17,131** | 9,663 |
| | **₱642,105** | ₱694,644 |
| Deferred tax liabilities - net: | | |
| Trademarks and brand names | **₱1,837,429** | ₱1,879,000 |
| Capitalized interest | **1,276,303** | 1,293,396 |
| Unrealized foreign exchange gain | **791,671** | 783,361 |
| Unrealized gross profit on sale of real estate | **301,382** | 366,982 |
| Accrued/deferred rent income | **169,831** | 88,842 |
| Unrealized marked-to-market gain on investments | **45,723** | 63,052 |
| Unamortized past service cost and defined benefit asset | **54,905** | 46,969 |
| Others | **65,674** | (13,623) |
| | **₱4,542,918** | ₱4,507,979 |

The Group's consolidated deferred tax assets as at December 31, 2012 and 2011 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertain to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Net unrealized foreign exchange loss | **₱2,011,810** | ₱2,011,810 |
| Allowance for impairment losses | **1,889,215** | 1,889,215 |
| NOLCO | **1,630,269** | – |
| Accretion on convertible bonds | **297,707** | 296,428 |
| MCIT | **122,669** | – |
| Non-refundable advance rentals | **66,456** | 65,280 |
| Past service cost | **36,672** | 15,817 |
| | **₱6,054,798** | ₱4,278,550 |

NOLCO and MCIT applied as deduction from taxable income and income tax due amounted to nil in 2012, and P467.5 million and P155.6 million in 2011, respectively.

The following are the movements in NOLCO and MCIT:

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| NOLCO: | | |
| Balance at beginning of year | **₱–** | ₱467,458,462 |
| Additions | **1,630,269** | – |
| Applications | **–** | (467,458,462) |
| Balance at end of year | **₱1,630,269** | ₱– |
| MCIT: | | |
| Balance at beginning of year | **₱–** | ₱155,551,401 |
| Additions | **122,669** | – |
| Applications | **–** | (155,551,401) |
| Balance at end of year | **₱122,669** | ₱– |

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Statutory income tax rate | **30%** | 30% | 30% |
| Add (deduct) income tax effects of reconciling items: | | | |
| Equity in net earnings of associates | **(7)** | (5) | (5) |
| Dividend income exempt from tax | **(1)** | (1) | (1) |
| Interest income subjected to final tax | **(3)** | (3) | (3) |
| Gain on sale of shares of stock | **–** | (3) | (2) |
| Others | **(3)** | (2) | (2) |
| Change in unrecognized deferred tax assets | **–** | (1) | 1 |
| Effective income tax rates | **16%** | 15% | 18% |

## 27. Lease Agreements

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

The Parent Company's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for 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. Tenants' deposits amounted to ₱11,691.8 million and ₱10,104.6 million as at December 31, 2012 and 2011, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at December 31 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Within one year | **₱738,122** | ₱763,355 |
| After one year but not more than five years | **2,230,084** | 1,937,989 |
| After five years | **5,512,218** | 4,180,161 |
| Balance at end of year | **₱8,480,424** | ₱6,881,505 |

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases of SM Prime as at December 31 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Within one year | **₱427,541** | ₱425,473 |
| After one year but not more than five years | **1,809,929** | 1,767,203 |
| After five years | **21,041,694** | 21,511,962 |
| Balance at end of year | **₱23,279,164** | ₱23,704,638 |

SVI has finance leases for several computer equipment included under "Property and equipment" account. The leases provide options to SVI to purchase the computer equipment at the end of the lease terms.

SVI's obligation under finance lease ended on May 27, 2011. Total lease payments amounted to nil in 2012 and ₱3.6 million in 2011.

## 28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized in the following tables. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk
The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2012 and 2011:

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Below 1 Year | 1-2 Years | 2-3 Years | 3-5 Years | Over 5 Years | Total | Debt Issue Cost | Carrying Amount |
| | | | | (In Thousands) | | | | |
| **Fixed Rate** | | | | | | | | |
| Foreign Currency Loans: | | | | | | | | |
| US$400 million fixed rate bonds | $– | $– | $– | $381,042 | $– | ₱15,641,760 | (₱127,984) | ₱15,513,776 |
| Interest rate | – | – | – | 5.50% | – | | | |
| US$500 million fixed rate bonds | – | 379,156 | – | – | – | 15,564,354 | (89,610) | 15,474,744 |
| Interest rate | – | 6.00% | – | – | – | | | |
| US$350 million fixed rate bonds | 245,623 | – | – | – | – | 10,082,824 | (17,119) | 10,065,705 |
| Interest rate | 6.75% | – | – | – | – | | | |
| US$250 million convertible bonds | – | – | 229,173 | – | – | 9,407,559 | (183,247) | 9,224,312 |
| Interest rate | – | – | 1.63% | – | – | | | |
| US$500 million Senior bonds | – | – | – | – | 500,000 | 20,525,000 | (215,069) | 20,309,931 |
| Interest rate | – | – | – | – | 4.25% | | | |
| Peso Loans: | | | | | | | | |
| Three-year, five-year, seven-year and ten-year fixed rate notes | ₱2,078,500 | ₱78,500 | ₱10,078,500 | ₱8,077,400 | ₱6,650,100 | 26,963,000 | (144,816) | 26,818,184 |
| Interest rate | 5.86%-6.81% | 5.86%-6.81% | 5.86%-7.73% | 5.86%-6.81% | 5.86%-9.85% | | | |
| Five-year and seven-year retail bonds | – | 8,400,000 | – | 1,000,000 | – | 9,400,000 | (32,108) | 9,367,892 |
| Interest rate | – | 8.25% | – | 9.10% | – | | | |
| Seven-year and Ten-year retail bonds | – | – | – | – | 14,282,270 | 14,282,270 | (118,549) | 14,163,721 |
| Interest rate | – | – | – | – | 6.00%-6.94% | | | |
| Five-year fixed rate notes | 1,000 | 1,000 | 1,000 | 6,696,043 | – | 6,699,043 | (36,984) | 6,662,059 |
| Interest rate | 6.17% | 6.17% | 6.17%– | 6.17% | – | | | |
| Five-year and ten-year corporate notes | – | – | – | – | 1,100,000 | 1,100,000 | (7,849) | 1,092,151 |
| Interest rate | – | – | – | – | 10.11% | | | |
| Seven-year and ten-year corporate notes | 5,000 | 5,000 | 5,000 | 10,000 | 4,970,000 | 4,995,000 | (37,757) | 4,957,243 |
| Interest rate | 5.75%-6.63% | 5.75%-6.63% | 5.75%-6.63% | 5.75%-6.63% | 5.75%-6.63% | | | |
| Five-year, seven-year and ten-year corporate notes | 20,000 | 20,000 | 1,097,300 | 66,145 | 756,555 | 1,960,000 | (10,332) | 1,949,668 |
| Interest rate | 5.79%-6.65% | 5.79%-6.65% | 5.79%-6.65% | 5.89%-6.65% | 6.65% | | | |
| Other bank loans | 8,750 | 1,380,500 | 1,339,300 | 1,200,000 | 2,050,000 | 5,978,550 | (13,070) | 5,965,480 |
| Interest rate | 6.75% | 5.69%-6.75% | 3.6%-7.28% | 9.75% | 6.71%-8.79% | | | |
| **Variable Rate** | | | | | | | | |
| Foreign Currency Loans: | | | | | | | | |
| US$ five-year term loans | $– | $– | $– | $280,000 | $– | 11,494,000 | (195,854) | 11,298,146 |
| Interest rate | – | – | – | LIBOR+margin % | – | | | |
| China Yuan renminbi loans | ¥77,476 | ¥375,168 | ¥60,900 | ¥– | ¥– | 3,383,486 | – | 3,383,486 |
| Interest rate | 5.76%-6.20% | 5.76%-6.20% | 5.76% | | – | | | |
| US$ bilateral loans | $25,000 | $– | $– | $– | $– | 1,026,250 | (5,008) | 1,021,242 |
| Interest rate | LIBOR+margin % | – | $– | – | – | | | |
| Other bank loans | $– | $– | $50,000 | $– | $– | 2,052,500 | (15,572) | 2,036,928 |
| Interest rate | – | – | LIBOR+margin % | – | – | | | |
| Peso Loans: | | | | | | | | |
| Peso loans collateralized with time deposits | – | – | 3,000,000 | – | – | 3,000,000 | (6,635) | 2,993,365 |
| Interest rate | – | – | PDST-F+margin% | – | – | | | |
| Five-year, seven-year and ten-year corporate notes | 30,000 | 30,000 | 2,880,000 | – | – | 2,940,000 | (25,829) | 2,914,171 |
| Interest rate | PDST-F+margin% | – | PDST-F+margin% | – | – | | | |
| Five-year floating rate loan | 96,500 | 96,500 | 96,500 | 8,360,500 | 950,000 | 9,600,000 | (64,382) | 9,535,618 |
| Interest rate | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | | | |
| Five-year bilateral loans | – | – | – | 500,000 | – | 500,000 | (2,009) | 497,991 |
| Interest rate | – | – | – | PDST-F+margin% | – | | | |
| Other bank loans | 30,000 | 5,180,000 | 4,955,000 | 3,000,000 | – | 13,165,000 | (18,384) | 13,146,616 |
| Interest rate | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | – | | | |
| | | | | | | ₱189,760,596 | (₱1,368,167) | ₱188,392,429 |

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Below 1 Year | 1-2 Years | 2-3 Years | 3-5 Years | Over 5 Years | Total | Debt Issue Cost | Carrying Amount |
| | | | | *(In Thousands)* | | | | |
| **Fixed Rate** | | | | | | | | |
| Foreign Currency Loans: | | | | | | | | |
| US$400 million fixed rate bonds | $– | $– | $– | $– | $378,649 | ₱16,599,952 | (₱160,739) | ₱16,439,213 |
| Interest rate | – | – | – | – | 5.50% | | | |
| US$500 million fixed rate bonds | – | – | 379,156 | – | – | 16,622,199 | (146,602) | 16,475,597 |
| Interest rate | – | – | 6.00% | – | – | | | |
| US$350 million fixed rate bonds | – | 245,623 | – | – | – | 10,768,112 | (49,831) | 10,718,281 |
| Interest rate | – | 6.75% | – | – | – | | | |
| Peso Loans: | | | | | | | | |
| Three-year, five-year, seven-year and ten-year fixed rate notes | ₱990 | ₱2,000,990 | ₱990 | ₱9,194,060 | ₱800,000 | 11,997,030 | (67,129) | 11,929,901 |
| Interest rate | 9.60% | 6.76% | 9.60% | 7.73%-9.60% | 9.85% | | | |
| Five-year and seven-year retail bonds | – | – | 8,400,000 | 1,000,000 | – | 9,400,000 | (47,421) | 9,352,579 |
| Interest rate | – | – | 8.25% | 9.10% | – | | | |
| Five-year fixed rate notes | – | – | – | 6,700,000 | – | 6,700,000 | (49,708) | 6,650,292 |
| Interest rate | – | – | – | 6.16% | – | | | |
| Five-year and ten-year corporate notes | 5,550 | – | 5,550 | 2,978,850 | 1,100,000 | 4,089,950 | (23,804) | 4,066,146 |
| Interest rate | 8.4% | – | 8.4% | 8.4% | 10.11% | | | |
| Seven-year and ten-year corporate notes | – | – | – | – | 5,000,000 | 5,000,000 | (42,578) | 4,957,422 |
| Interest rate | – | – | – | – | 5.75%-6.63% | | | |
| Five-year, seven-year and ten-year corporate notes | 20,000 | 20,000 | 20,000 | 1,105,960 | 814,040 | 1,980,000 | (16,074) | 1,963,926 |
| Interest rate | 5.79%-6.65% | – | 5.79%-6.65% | 5.79%-6.65% | 5.79%-6.65% | | | |
| Other bank loans | 500 | 500 | – | 4,236,000 | 3,250,000 | 7,487,000 | (19,660) | 7,467,340 |
| Interest rate | 8.57% | 8.57% | – | 7%-8.57% | 6.71%-9.75% | | | |
| **Variable Rate** | | | | | | | | |
| Foreign Currency Loans: | | | | | | | | |
| US$ five-year term loans | $– | $– | $– | $145,000 | $– | 6,356,800 | (255,267) | 6,101,533 |
| Interest rate | – | – | – | LIBOR+margin % | – | | | |
| China Yuan renminbi loans | ¥40,000 | ¥– | ¥501,382 | ¥60,900 | ¥– | 4,176,648 | – | 4,176,648 |
| Interest rate | 5.32%-6.65% | – | 5.32%-6.65% | 5.32%-6.65% | – | | | |
| US$ bilateral loans | $– | $– | $25,000 | $– | $– | 1,096,000 | (11,071) | 1,084,929 |
| Interest rate | – | – | LIBOR+margin % | – | – | | | |
| US$300 million convertible bonds | 22,346 | – | – | – | – | 979,645 | (8,256) | 971,389 |
| Interest rate | 6.65% | – | – | – | – | | | |
| Other bank loans | $– | $20,000 | $– | $50,000 | $– | 3,068,800 | (38,021) | 3,030,779 |
| Interest rate | – | LIBOR+margin % | – | LIBOR+margin % | – | | | |
| Peso Loans: | | | | | | | | |
| Peso loans collateralized with time deposits | ₱5,950,000 | ₱– | ₱– | ₱3,000,000 | ₱– | 8,950,000 | (15,070) | 8,934,930 |
| Interest rate | PDST-F+margin% | – | – | PDST-F+margin% | – | | | |
| Five-year, seven-year and ten-year corporate notes | 50,000 | 50,000 | 50,000 | 4,800,000 | – | 4,950,000 | (29,755) | 4,920,245 |
| Interest rate | PDST-F+margin% | – | PDST-F+margin% | PDST-F+margin% | – | | | |
| Five-year floating rate loan | 50,000 | – | 50,000 | 100,000 | 4,800,000 | 5,000,000 | (37,587) | 4,962,413 |
| Interest rate | PDST-F+margin% | – | PDST-F+margin% | PDST-F+margin% | PDST-F+margin% | | | |
| Redeemable preferred shares - Series 2 | 200,000 | – | – | – | – | 200,000 | (131) | 199,869 |
| Interest rate | PDST-F+margin% | – | – | – | – | | | |
| Corporate notes | 300 | – | 300 | 198,800 | – | 199,400 | (653) | 198,747 |
| Interest rate | PDST-F+margin% | – | PDST-F+margin% | PDST-F+margin% | – | | | |
| Five-year bilateral loans | 46,875 | – | – | – | 500,000 | 546,875 | (2,584) | 544,291 |
| Interest rate | PDST-F+margin% | – | – | – | PDST-F+margin% | | | |
| Other bank loans | 10,000 | – | 5,010,000 | 6,245,000 | – | 11,265,000 | (26,490) | 11,238,510 |
| Interest rate | PDST-F+margin% | – | PDST-F+margin% | PDST-F+margin% | – | | | |
| | | | | | | ₱137,433,411 | (₱1,048,431) | ₱136,384,980 |

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional amount. These swaps economically hedge the underlying debt obligations. As at December 31, 2012 and 2011, after taking into account the effect of interest rate swaps, approximately 64% and 56%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

*Interest Rate Risk Sensitivity Analysis.* The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as at FVPL and AFS investments, respectively.

| | Increase (Decrease) in Basis Points | Effect on Income Before Tax | Effect on Equity After Income Tax |
|---|---|---|---|
| | | *(In Millions)* | |
| **2012** | **100** | **(₱437.2)** | **(₱133.5)** |
| | **50** | **(218.6)** | **(58.9)** |
| | **(100)** | **437.2** | **174.8** |
| | **(50)** | **218.6** | **95.2** |
| 2011 | 100 | (482.7) | (265.1) |
| | 50 | (241.3) | (174.2) |
| | (100) | 482.7 | 112.5 |
| | (50) | 241.3 | 14.5 |

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign currency call options, non-deliverable forwards and foreign currency range options with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2012 and 2011:

| | **2012** | |
|---|---|---|
| | **US$** | **PhP** |
| | *(In Thousands)* | |
| Current assets: | | |
| Cash and cash equivalents | **$20,355** | **₱835,593** |
| Time deposits and short-term investments | **111,941** | **4,595,167** |
| AFS investments | **17,875** | **733,752** |
| Receivables | **334,142** | **13,716,529** |
| Noncurrent assets: | | |
| AFS investments | **146,028** | **5,994,458** |
| Time deposits | **1,095,480** | **44,969,454** |
| Derivative assets | **2,679** | **109,973** |
| Other noncurrent assets | **24,151** | **991,431** |
| Total foreign currency-denominated financial assets | **1,752,651** | **71,946,357** |
| Current liabilities: | | |
| Bank loans | **50,000** | **2,052,500** |
| Accounts payable and other current liabilities | **92,297** | **3,788,792** |
| Current portion of long-term debt | **245,623** | **10,082,824** |
| Noncurrent liabilities: | | |
| Long-term debt - net of current portion | **1,762,239** | **72,339,915** |
| Derivative liabilities | **5,952** | **244,330** |
| Total foreign currency-denominated financial liabilities | **2,156,111** | **88,508,361** |
| Net foreign currency-denominated financial liabilities | **$403,460** | **₱16,562,004** |

| | 2011 | |
|---|---|---|
| | US$ | PhP |
| | *(In Thousands)* | |
| Current assets: | | |
| Cash and cash equivalents | $11,636 | ₱510,101 |
| Time deposits and short-term investments | 24,999 | 1,095,974 |
| Investments held for trading | 5,175 | 226,872 |
| Receivables | 222,916 | 9,772,656 |
| Noncurrent assets: | | |
| AFS investments | 133,237 | 5,841,108 |
| Time deposits | 853,480 | 37,416,563 |
| Derivative assets | 2,637 | 115,619 |
| Total foreign currency-denominated financial assets | 1,254,080 | 54,978,893 |
| Current liabilities: | | |
| Bank loans | 88,000 | 3,857,920 |
| Accounts payable and other current liabilities | 19,024 | 834,001 |
| Current portion of long-term debt | 23,258 | 1,019,613 |
| Noncurrent liabilities: | | |
| Long-term debt - net of current portion | 1,228,338 | 53,850,334 |
| Derivative liabilities | 7,262 | 318,359 |
| Total foreign currency-denominated financial liabilities | 1,365,882 | 59,880,227 |
| Net foreign currency-denominated financial liabilities | $111,802 | ₱4,901,334 |

As at December 31, 2012 and 2011, approximately 39.5% and 36.4%, respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱565.1 million, ₱242.9 million and ₱407.2 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2012, 2011 and 2010, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso as shown in the following table:

| | U.S. Dollar to Peso |
|---|---|
| December 31, 2010 | 43.84 |
| December 31, 2011 | 43.84 |
| December 31, 2012 | 41.05 |

*Foreign Currency Risk Sensitivity Analysis.* The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments).

| | Appreciation (Depreciation) of ₱ | Effect on Income Before Tax |
|---|---|---|
| | | *(In Millions)* |
| **2012** | **1.50** | **₱605.2** |
| | **1.00** | **403.5** |
| | **(1.50)** | **(605.2)** |
| | **(1.00)** | **(403.5)** |
| 2011 | 1.50 | 167.7 |
| | 1.00 | 111.8 |
| | (1.50) | (167.7) |
| | (1.00) | (111.8) |

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of its liquidity risk management program, the Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments-bonds and corporate notes amounting to ₱60,714.2 million, ₱29,090.3 million, ₱459.3 million and ₱1,734.0 million, respectively, as at December 31, 2012 and ₱56,050.3 million, ₱879.4 million, ₱457.5 million and ₱1,000.0 million, respectively, as at December 31, 2011 (see Notes 7, 8 and 9). The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2012 and 2011 based on the contractual undiscounted payments:

| | **2012** | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **Less than 1 Year** | **2 to 5 Years** | **More than 5 Years** | **Total** |
| | | | *(In Thousands)* | | |
| Bank loans | **₱–** | **₱33,146,253** | **₱–** | **₱–** | **₱33,146,253** |
| Accounts payable and other current liabilities* | **–** | **55,531,106** | **–** | **–** | **55,531,106** |
| Long-term debt (including current portion) | **–** | **16,077,517** | **144,860,929** | **69,106,024** | **230,044,470** |
| Derivative liabilities:** | | | | | |
| Non-deliverable forward | **–** | **18,501** | **–** | **–** | **18,501** |
| Interest rate swaps | **–** | **–** | **244,330** | **–** | **244,330** |
| Foreign currency swap | **–** | **2,020** | **–** | **–** | **2,020** |
| Multiple derivatives on convertible bonds | **–** | **2,473,130** | **–** | **–** | **2,473,130** |
| Dividends payable | **–** | **97,282** | **–** | **–** | **97,282** |
| Tenants' deposits | **–** | **146,360** | **11,123,172** | **77,786** | **11,347,318** |
| | **₱–** | **₱107,492,169** | **₱156,228,431** | **₱69,183,810** | **₱332,904,410** |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 1 Year | 2 to 5 Years | More than 5 Years | Total |
| | | | (In Thousands) | | |
| Bank loans | ₱– | ₱25,947,425 | ₱– | ₱– | ₱25,947,425 |
| Accounts payable and other current liabilities* | – | 43,323,757 | – | – | 43,323,757 |
| Long-term debt (including current portion) | – | 10,010,330 | 120,904,570 | 36,026,066 | 166,940,966 |
| Derivative liabilities:** | | | | | |
| Non-deliverable forwards | – | – | 43,842 | – | 43,842 |
| Interest rate swaps | – | – | 237,980 | – | 237,980 |
| Multiple derivatives on convertible bonds | – | 80,380 | – | – | 80,380 |
| Dividends payable | – | 25,696 | – | – | 25,696 |
| Tenants' deposits | – | 290,923 | 13,459,693 | – | 13,750,616 |
| | ₱– | ₱79,678,511 | ₱134,646,085 | ₱36,026,066 | ₱250,350,662 |

**Excluding payable to government agencies of ₱2,334.8 million and ₱1,426.2 million at December 31, 2012 and 2011, respectively, the amounts of which are not considered as financial liabilities.*

***Based on estimated future cash flows.*

Credit Risk
The Group trades only with recognized, creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral.

Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2012 and 2011, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

*High Quality.* This pertains to a counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

*Standard Quality.* Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2012 and 2011, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

| | | **2012** | |
|---|---|---|---|
| | **High Quality** | **Standard Quality** | **Total** |
| | | *(In Thousands)* | |
| Cash and cash equivalents (excluding cash on hand) | **₱59,646,460** | **₱–** | **₱59,646,460** |
| Time deposits and short-term investments (including noncurrent portion) | **58,523,185** | **–** | **58,523,185** |
| Investments held for trading - | | | |
| Bonds | **459,343** | **–** | **459,343** |
| AFS investments | **19,303,356** | **4,488** | **19,307,844** |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | **25,883,925** | **4,623,017** | **30,506,942** |
| Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet) | **11,148,979** | **–** | **11,148,979** |
| Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet) | **200,000** | **–** | **200,000** |
| Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet) | **306,724** | **–** | **306,724** |
| Derivative assets | **128,480** | **–** | **128,480** |
| | **₱175,600,452** | **₱4,627,505** | **₱180,227,957** |

| | | 2011 | |
|---|---|---|---|
| | High Quality | Standard Quality | Total |
| | | *(In Thousands)* | |
| Cash and cash equivalents (excluding cash on hand) | ₱54,991,002 | ₱– | ₱54,991,002 |
| Time deposits and short-term investments (including noncurrent portion) | 38,295,972 | – | 38,295,972 |
| Investments held for trading - | | | |
| Bonds | 457,496 | – | 457,496 |
| AFS investments | 13,930,761 | 4,633 | 13,935,394 |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | 16,428,092 | 3,873,746 | 20,301,838 |
| Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet) | 8,816,370 | – | 8,816,370 |
| Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet) | 6,000,000 | – | 6,000,000 |
| Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet) | 200,000 | – | 200,000 |
| Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet) | 506,724 | – | 506,724 |
| Derivative assets | 159,461 | – | 159,461 |
| | ₱139,785,878 | ₱3,878,379 | ₱143,664,257 |

Equity Price Risk
The Group's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2012 and 2011) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

| | **2012** | |
|---|---|---|
| | **Change in Equity Price** | **Effect on Equity After Income Tax** |
| | | **(In Millions)** |
| AFS investments | **+14.37%** | **₱1,950.50** |
| | **-14.37%** | **(1,950.50)** |

| | 2011 | |
|---|---|---|
| | Change in Equity Price | Effect on Equity After Income Tax |
| | | *(In Millions)* |
| AFS investments | +17.58% | ₱1,209.09 |
| | -17.58% | (1,209.09) |

Capital Management
Capital includes equity attributable to the owners of the Parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50.

As at December 31, 2012 and 2011, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱31,793,975** | ₱25,747,920 |
| Current portion of long-term debt | **13,859,558** | 7,920,961 |
| Long-term debt - net of current portion and pledged time deposits | **174,532,871** | 128,464,019 |
| Less cash and cash equivalents, time deposits (net of pledged) and short-term investments, investments in held for trading bonds, AFS investments (bonds and corporate notes and redeemable preferred shares) and long-term notes included under "Other noncurrent assets" account | **(126,574,773)** | (100,803,702) |
| Total net interest-bearing debt (a) | **93,611,631** | 61,329,198 |
| Total equity attributable to owners of the Parent | **188,074,132** | 157,666,331 |
| Total net interest-bearing debt and equity attributable to owners of the Parent (b) | **₱281,685,763** | ₱218,995,529 |
| Gearing ratio (a/b) | **33%** | 28% |

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

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Bank loans | **₱31,793,975** | ₱25,747,920 |
| Current portion of long-term debt | **13,859,558** | 7,920,961 |
| Long-term debt - net of current portion and pledged time deposits | **174,532,871** | 128,464,019 |
| Total interest-bearing debt (a) | **220,186,404** | 162,132,900 |
| Total equity attributable to owners of the Parent | **188,074,132** | 157,666,331 |
| Total interest-bearing debt and equity attributable to owners of the Parent (b) | **₱408,260,536** | ₱319,799,231 |
| Gearing ratio (a/b) | **54%** | 51% |

## 29. Financial Instruments

Fair Values
The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31, 2012 and 2011:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | | *(In Thousands)* | | |
| **Financial Assets** | | | | |
| Financial assets at FVPL: | | | | |
| Investments held for trading - | | | | |
| Bonds | **₱459,343** | **₱459,343** | ₱457,496 | ₱457,496 |
| Derivative assets | **128,480** | **128,480** | 159,461 | 159,461 |
| | **587,823** | **587,823** | 616,957 | 616,957 |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **60,714,720** | **60,714,720** | 56,050,322 | 56,050,322 |
| Time deposits and short-term investments (including noncurrent portion) | **58,523,185** | **62,048,610** | 38,295,972 | 42,325,254 |
| Receivables - net (including noncurrent portion of receivables from real estate buyers) | **30,767,065** | **29,466,700** | 20,504,264 | 19,517,334 |
| Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets) | **11,316,886** | **11,316,886** | 8,816,370 | 8,816,370 |
| Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheets) | – | – | 6,000,000 | 6,292,484 |
| Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets) | **306,724** | **331,519** | 506,724 | 523,977 |
| | **161,628,580** | **163,878,435** | 130,173,652 | 133,525,741 |
| Held-to-Maturity - | | | | |
| Treasury bonds (included under “Other current assets and other noncurrent assets” account in the consolidated balance sheets) | **200,000** | **225,695** | 200,000 | 220,468 |
| AFS Investments: | | | | |
| Shares of stock | **11,618,836** | **11,618,836** | 7,088,955 | 7,088,955 |
| Bonds and corporate notes | **7,728,240** | **7,728,240** | 6,841,109 | 6,841,109 |
| Club shares | **5,900** | **5,900** | 5,330 | 5,330 |
| | **19,352,976** | **19,352,976** | 13,935,394 | 13,935,394 |
| | **₱181,769,379** | **₱184,044,929** | ₱144,926,003 | ₱148,298,560 |
| **Financial Liabilities** | | | | |
| Financial Liabilities at FVPL - | | | | |
| Derivative liabilities | **₱2,737,981** | **₱2,737,981** | ₱362,202 | ₱362,202 |
| Other Financial Liabilities: | | | | |
| Bank loans | **31,793,975** | **31,793,975** | 25,747,920 | 25,747,920 |
| Accounts payable and other current liabilities* | **55,531,106** | **55,531,106** | 43,323,577 | 43,323,577 |
| Long-term debt (including current portion and net of unamortized debt issue cost) | **188,392,429** | **230,044,469** | 136,384,980 | 150,553,342 |
| Dividends payable | **97,282** | **97,282** | 25,696 | 25,696 |
| Tenants’ deposits and others | **14,500,317** | **14,976,358** | 13,713,302 | 13,718,285 |
| | **290,315,109** | **332,443,190** | 219,195,475 | 233,368,820 |
| | **₱293,053,090** | **₱335,181,171** | ₱219,557,677 | ₱233,731,022 |

**Excluding payable to government agencies of ₱2,334.8 million and ₱1,426.2 million as at December 31, 2012 and 2011, respectively, the amounts of which are not considered financial liabilities.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Investments Held for Trading.* The fair values are based on the quoted market prices of the instruments.

*Cash and Cash Equivalents.* The carrying amounts reported in the consolidated balance sheets approximate its fair value, due to its short-term nature.

*Time Deposits and Short-term Investments.* The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 0.50%% to 6.55% and 1.13% to 1.65% as at December 31, 2012 and 2011, respectively.

*Receivables and Advances and Other Receivables included under “Other current assets” account.* The carrying values of short-term receivables approximate their fair values due to their short-term maturities. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of Group’s accounts receivable. The discount rates used ranged from 5.5% to 8.0% and 8.0% to 10.0% as at December 31, 2012 and 2011, respectively.

*Receivable from a Related Party and Long-term Notes included under “Other noncurrent assets” account.* The estimated fair values of receivable from a related party and long-term notes are based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 2.21% to 5.41% as at December 31, 2011. Discount rates used for long-term notes range is 7.5% and 2.21% to 5.41% as at December 31, 2012 and 2011, respectively.

*Held-to-Maturity Investments.* The fair value is based on quoted market prices of the investments at a rate of 112.85% and 110.23% as at December 31, 2012 and 2011, respectively.

*AFS Investments.* The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used is 3.88% to 8.25% and 4.24% as at December 31, 2012 and 2011, respectively. For unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

*Bank Loans.* The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

*Accounts Payable and Other Current Liabilities and Dividends Payable.* The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

| Debt Type | Fair Value Assumptions |
|---|---|
| Fixed Rate Loans | Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.52% to 9.10% and 2.60% to 6.48% as at December 31, 2012 and 2011, respectively. |
| Variable Rate Loans | For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.73% to 5.91% and 1.98% to 2.70% as at December 31, 2012 and 2011, respectively. |

*Tenants' Deposits.* The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 0.50% to 5.91% and 2.97% to 3.67% as at December 31, 2012 and 2011, respectively.

*Derivative Assets and Liabilities.* The fair values of the interest rate swaps and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the Parent Company's convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3 and redeemable preferred shares categorized as AFS investments under Level 2;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the Group's financial instruments carried at fair value as at December 31:

| | | 2012 | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| | | *(In Thousands)* | |
| Financial Assets | | | |
| Financial assets at FVPL: | | | |
| Investments held for trading - bonds | **₱459,343** | **₱–** | **₱–** |
| Derivative assets | **–** | **128,480** | **–** |
| | **459,343** | **128,480** | **–** |
| AFS investments: | | **–** | **–** |
| Shares of stocks | **11,471,584** | **–** | **102,120** |
| Bonds and corporate notes | **7,728,240** | **–** | **–** |
| Club shares | **5,900** | **–** | **–** |
| | **19,205,724** | **–** | **102,120** |
| | **₱19,665,067** | **₱128,480** | **₱102,120** |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL - Derivative liabilities | **₱–** | **₱264,851** | **₱2,473,130** |

| | | 2011 | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | | *(In Thousands)* | |
| **Financial Assets** | | | |
| Financial assets at FVPL: | | | |
| Investments held for trading - bonds | ₱457,496 | ₱– | P=– |
| Derivative assets | – | 159,461 | – |
| | 457,496 | 159,461 | – |
| AFS investments: | | | |
| Shares of stocks | 7,031,822 | – | – |
| Bonds and corporate notes | 6,841,109 | – | – |
| Club shares | 5,330 | – | – |
| | 13,878,261 | – | – |
| | ₱14,335,757 | ₱159,461 | ₱– |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL - Derivative liabilities | ₱– | ₱281,822 | ₱80,380 |

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instrument classified under Level 3 pertains to the derivative liability arising from the options in the Parent Company's convertible bonds. This was classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values. To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

| | Increase (Decrease) in Credit Spread | Net Effect on Fair Values of Option |
|---|---|---|
| | | *(In Thousands)* |
| **2012** | **100 bps** | **(₱370,183)** |
| | **(100) bps** | **387,334** |
| 2011 | 100 bps | (2,278) |
| | (100) bps | 2,294 |

Derivative Financial Instruments
To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The Group also has embedded derivatives bifurcated from the Parent Company's bonds.

Derivative Assets

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Parent - | | |
| Non-deliverable forwards | **₱18,501** | ₱43,842 |
| Subsidiary - | | |
| Interest rate swaps | **109,979** | 115,619 |
| | **₱128,480** | ₱159,461 |

Derivative Liabilities

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Parent - | | |
| Non-deliverable forwards | **₱18,501** | ₱43,842 |
| Options arising from convertible bonds | **2,473,130** | 80,380 |
| Foreign currency swap | **2,020** | - |
| Subsidiary - | | |
| Interest rate swaps | **244,330** | 237,980 |
| | **₱2,737,981** | ₱362,202 |

Derivative liabilities of the Parent Company are included under "Accounts payable and other current liabilities" account in the consolidated balance sheets (see Note 18).

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

| | 2012 | | |
|---|---|---|---|
| | **<1 Year** | **>1-<2 Years** | **>2-<5 Years** |
| | | *(Amounts in Thousands)* | |
| **Floating-Fixed** | | | |
| Outstanding notional amount | **$145,000** | **$145,000** | **$145,000** |
| | **6 months** | **6 months** | **6 months** |
| Receive-floating rate | **LIBOR+margin%** | **LIBOR+margin%** | **LIBOR+margin%** |
| Pay-fixed rate | **2.91%–3.28%** | **2.91%–3.28%** | **2.91%–3.28%** |
| Outstanding notional amount | **$30,000** | **$30,000** | **$30,000** |
| | **6 months** | **6 months** | **6 months** |
| Receive-floating rate | **LIBOR+margin%** | **LIBOR+margin%** | **LIBOR+margin%** |
| Pay-fixed rate | **3.53%** | **3.53%** | **3.53%** |
| Outstanding notional amount | **$20,000** | **$20,000** | **$–** |
| | **6 months** | **6 months** | |
| Receive-floating rate | **LIBOR+margin%** | **LIBOR+margin%** | |
| Pay-fixed rate | **3.18%** | **3.18%** | |
| Outstanding notional amount | **$25,000** | **$–** | **$–** |
| | **6 months** | | |
| Receive-floating rate | **LIBOR+margin%** | | |
| Pay-fixed rate | **4.10%** | | |
| **Fixed-Floating** | | | |
| Outstanding notional amount | **₱970,000** | **₱960,000** | **₱950,000** |
| Receive-fixed rate | **5.44%** | **5.44%** | **5.44%** |
| Pay-floating rate | **3MPDST-F** | **3MPDST-F** | **3MPDST-F** |
| Outstanding notional amount | **₱970,000** | **₱960,000** | **₱950,000** |
| Receive-fixed rate | **7.36%** | **7.36%** | **7.36%** |
| Pay-floating rate | **3MPDST-F+margin%** | **3MPDST-F+margin%** | **3MPDST-F+margin%** |

| | 2011 | | |
|---|---|---|---|
| | <1 Year | >1-<2 Years | >2-<5 Years |
| | | (Amounts in Thousands) | |
| **Floating-Fixed** | | | |
| Outstanding notional amount | $145,000 | $145,000 | $145,000 |
| Receive-floating rate | 6 months LIBOR+margin% | 6 months LIBOR+margin% | 6 months LIBOR+margin% |
| Pay-fixed rate | 2.91%-3.28% | 2.91%-3.28% | 2.91%-3.28% |
| Outstanding notional amount | $50,000 | $50,000 | $50,000 |
| Receive-floating rate | 6 months LIBOR+margin% | 6 months LIBOR+margin% | 6 months LIBOR+margin% |
| Pay-fixed rate | 3.18%-3.53% | 3.18%-3.53% | 3.18%-3.53% |
| Outstanding notional amount | $25,000 | $25,000 | $– |
| Receive-floating rate | 6 months LIBOR+margin% | 6 months LIBOR+margin% | |
| Pay-fixed rate | 4.10% | 4.10% | |
| Outstanding notional amount | $20,000 | $20,000 | $– |
| Receive-floating rate | 6 months LIBOR+margin% | 6 months LIBOR+margin% | |
| Pay-fixed rate | 3.41% | 3.41% | |
| Fixed-Floating | | | |
| Outstanding notional amount | ₱980,000 | ₱970,000 | ₱960,000 |
| Receive-floating rate | 5.44% | 5.44% | 5.44% |
| Pay-fixed rate | 3MPDST-F | 3MPDST-F | 3MPDST-F |
| Outstanding notional amount | 980,000 | 970,000 | 960,000 |
| Receive-fixed rate | 7.36% | 7.36% | 7.36% |
| Pay-floating rate | 3MPDST-F +margin% | 3MPDST-F +margin% | 3MPDST-F +margin% |

*Options Arising from Investment in Convertible Bonds.* The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options which were accounted for as compound derivatives. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 (₱26.9 at present) per share at the fixed exchange rate of ₱40.6 per US$1.0 until January 31, 2013, subject to a cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option, which expired on February 11, 2011, pertains to the right of the Parent Company to require the issuer to redeem the bonds at 115.6%.

As at December 31, 2012 and 2011, all outstanding embedded derivatives have nil values.

*Options Arising from Convertible Bonds.* The Parent Company's convertible bonds contain multiple embedded derivatives such as short equity call option, long call option and short put option, which were bifurcated and accounted for as compound derivatives.

Short equity call option pertains to the option of the bondholders to convert the bonds into SMIC's common shares prior to maturity. If a bondholder exercised its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares, and such option on the part of the Parent Company is a long call option.

<u>US$300.0 Million Convertible Bonds</u>
The Bonds are denominated in U.S. dollar while the currency of the underlying shares is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱48.37 per US$1. Considering the exposure of the Parent Company, the option was assessed as a short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bond at 110.79% of the principal amount on March 19, 2010.

As at December 31, 2012 and 2011, the fair value of these options, which is shown as a current liability in the consolidated balance sheets amounted to nil and ₱80.4 million, respectively. Net fair value change recognized by the Group in the 2012 consolidated statement of income includes ₱219.3 million option value that was transferred to "Additional paid-in capital" account in the consolidated balance sheets as a result of the exercise of the conversion option (see Note 20), ₱131.5 million mark-to-market loss on derivatives and ₱28.8 million gain arising from the expiry of options which are reflected under "Gain (loss) on fair value changes on derivatives - net"account in the consolidated statements of income. Net fair value change recognized by the Group in 2011 amounting to positive ₱36.3 million is also included under "Gain (loss) on fair value changes on derivatives - net".

<u>US$250.0 Million Convertible Bonds</u>
The Bonds are denominated in U.S. dollar while the currency of the underlying shares is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱42.71 per US$1. Considering the exposure of the Parent Company, the option was assessed as a short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bonds on February 15, 2015 at their Early Redemption Amount, together with accrued but unpaid interest.

As at December 31, 2012, the fair value of these options, which is shown as a current liability in the consolidated balance sheets, amounted to ₱2,473.1 million. At inception date, the negative fair value of these options amounted to ₱1,193.9 million. In 2012, the Group recognized a fair value change from these options amounting to ₱1,279.2 million loss which is recognized under "Gain (loss) on fair value changes on derivatives – net" account in the consolidated statements of income.

*Interest Rate Swaps.* In 2011, SM Prime entered into US$ interest rate swap agreements with notional amount of US$145 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swap has negative fair value of ₱157.9 million and ₱142.4 million, respectively.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swaps has negative fair value of ₱16.7 million and ₱14.8 million, respectively.

In 2010, SM Prime entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30.0 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). As at December 31, 2012 and 2011, the floating to fixed interest rate swap has a negative fair values of ₱47.7 million and ₱37.8 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). As at December 31, 2012 and 2011, these swaps have positive fair values of ₱110.0 million and ₱115.6 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 19). On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4.0 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 19). As at December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱3.2 million. On January 13, 2012, the interest rate swap was preterminated as a result of prepayment of the underlying loan. Fair value changes from the preterminated swap recognized on the consolidated statements of income amounted to ₱1.1 million loss in 2012.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 19). SM Prime preterminated the US$30.0 million swap on November 30, 2010 and the US$90.0 million swap on May 16, 2011. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to P9.0 million loss in 2011 P6.0 million gain in 2010. As at December 31, 2012 and 2011, the outstanding US$25.0 million floating to fixed interest rate swap has negative fair values of ₱22.1 million and ₱39.8 million, respectively.

In 2009, SM Prime entered into Philippine peso interest rate swap agreement with a notional amount of ₱750.0 million. Under these agreement, SM Prime effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 19). On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Negative fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱14.0 million in 2011.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 19). On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27.0 million loss in 2011.

*Foreign Currency Options.* In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As at December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

*Foreign Currency Swap.* In 2012, the Parent Company entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Parent Company recognized derivative liability with a corresponding negative on net fair value changes amounting to ₱2.0 million loss and ₱9.0 million gain from the outstanding and settled foreign currency swaps, respectively, as at December 31, 2012.

*Non-deliverable Forwards.* In 2012, 2011 and 2010, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Group recognized derivative asset and derivative liability amounting to ₱18.5 million and ₱43.8 million from the outstanding forward contracts as at December 31, 2012 and 2011, respectively. Net fair value changes from the settled forward contracts of the Group amounted to ₱87.7 million and ₱480.0 million gain, in 2012 and 2011, respectively.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative instruments as at December 31 are as follows:

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Balance at beginning of year | **(₱202,741)** | (₱98,312) |
| Net change in fair value | **(2,304,958)** | (295,268) |
| Fair value of derivatives on settled contracts | **(101,802)** | 190,839 |
| Balance at end of year | **(₱2,609,501)** | (₱202,741) |

In 2012, the net changes in fair value amounting to negative ₱2,305.0 million comprise of interest paid amounting to ₱26.8 million, which is included under "Interest expense" account in the consolidated statements of income, net marked-to-market loss on derivatives amounting to ₱1,403.4 million, which is included under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income, ₱1,193.7 million pertaining to the valuation of the option on convertible bond, ₱219.3 million transferred to "Additional paid-in capital" account in the consolidated balance sheets and ₱99.6 million gain recognized under "Foreign exchange gain – net".

In 2011, the net changes in fair value amounting to negative ₱295.3 million comprise of interest paid amounting to ₱22.0 million, which is included under "Interest expense" account in the consolidated statements of income, net marked-to-market gain on derivatives amounting to ₱366.2 million, which is included under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statements of income and ₱639.5 million loss recognized under Other expenses.

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

| | **2012** | 2011 |
|---|---|---|
| | *(In Thousands)* | |
| Derivative assets (see Notes 10 and 16) | **₱128,480** | ₱159,461 |
| Derivative liabilities (see Note 18) | **(2,737,981)** | (362,202) |
| Balance at end of year | **(₱2,609,501)** | (₱202,741) |

## 30. EPS Computation

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | *(In Thousands, Except for Per Share Data)* | | |
| **Net Income Attributable to Common Owners of the Parent** | | | |
| Net income attributable to common owners of the Parent for basic earnings (a) | **₱24,674,381** | ₱21,224,592 | ₱18,440,169 |
| Effect on net income of convertible bonds, net of tax | **–** | 43,813 | – |
| Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b) | **₱24,674,381** | ₱21,268,405 | ₱18,440,169 |
| **Weighted Average Number of Common Shares Outstanding** | | | |
| Weighted average number of common shares outstanding for the period (c) | **619,166** | 612,038 | 611,218 |
| Dilutive effect of convertible bonds | **12,146** | 2,132 | – |
| Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d) | **631,312** | 614,170 | 611,218 |
| **Basic EPS (a/c)** | **₱39.85** | ₱34.68 | ₱30.17 |
| **Diluted EPS (b/d)** | **₱39.08** | ₱34.63 | ₱30.17 |

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱30.32 in 2010.

## 31. Reclassification

The comparative information in 2011 and 2010 consolidated statements of income has been reclassified to conform to the presentation of the financial statements for the period ended December 31, 2012.

## 32. Other Matters

In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a negotiated sale and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from DBP.

Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge, filed with the Regional Trial Court (RTC) of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of the mortgages of these properties. The Parent Company was impleaded as a party defendant in 1995. The RTC of Makati voided the foreclosure by the DBP on the mortgaged properties and declared the Parent Company a buyer in bad faith.

The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration with the Court of Appeals and on November 9, 2007, the Court of Appeals issued a resolution denying the appellees' Motion for Reconsideration. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC Makati. On December 23, 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on October 24, 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated June 21, 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court.

## 33. Events After the Reporting Period

a) At various dates in January 1 to March 6, 2013, the bondholders of US$19.4 million (₱796.4 million) opted to convert their holdings into 1,060,328 SMIC's shares. This resulted to an increase in capital stock and additional paid-in capital amouting to ₱10.6 million and ₱1,030.6 million, respectively, and a decrease in liability of ₱1,041.2 million.

b) On January 7, 2013, SM Prime and SM Retail have entered into a joint venture with Waltermart Mall Group of Companies (Waltermart). Waltermart is engaged in the business of shopping and supermarket businesses. Waltermart currently operates 17 shopping centers accross Metro Manila, North and South Luzon. As at March 6, 2013, the final terms and conditions of the joint venture are still subject to due diligence and discussion.

SM INVESTMENTS CORPORATION

# 2012 AWARDS

## SM Investments Corporation

**The Asset Corporate Awards**
Platinum Awardee 2009, 2010, 2011 and 2012
For All Around Excellence in:
Financial Performance
Management Acumen
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

**Finance Asia**
Best Managed Company (Rank 10)

**Institute of Corporate Directors**
Gold Award for Corporate Governance

**Alpha Southeast Asia, 2nd Annual Southeast Asia Institutional Investor Corporate Awards**
Most Organized Investor Relations
Strongest Adherence to Corporate Governance
Best Strategic Corporate Social Responsibility
Mr. Jose Sio, Best CFO in the Philippines

**8th Corporate Governance Asia Recognition Awards**
One of the recipients of the Annual Corporate Governance Awards-The Best of Asia (2007-2012)

**Corporate Governance Asia's 3rd Asian Corporate Director Awards 2012**
Ms. Teresita Sy-Coson and Mr. Henry Sy, Jr.
Corporate Governance Asia's 2nd Asian Excellence Recognition Awards
Best Investor Relations
Best Investor Relations Website
Best CSR
Mr. Jose Sio-Asia's Best CFO (Investor Relations)
Ms. Corazon Guidote-Best Investor Relations Professional

**Philippine Quill Awards**
2011 SM Unified Annual Reports (Finalist)

## SM Prime Holdings, Inc.

**The Asset Corporate Awards**
Platinum Awardee (2010, 2011 and 2012)
For All Around Excellence in:
Financial Performance
Management Acumen
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

**Institute of Corporate Directors**
Gold Award for Corporate Governance

**Philippine Stock Exchange 1st Bell Awards**
One of the best listed firms that garnered the Bell Award for Corporate Governance

**8th Corporate Governance Asia Recognition Awards**
One of the recipients of the Annual Corporate Governance Awards-The Best of Asia (2006-2012)

**Corporate Governance Asia's 2nd Asian Excellence**
Recognition Awards
Best Environmental Responsibility

**Asia Pacific Real Estate Association (Aprea) Best Practices Awards 2012**
Merit Award for Corporate Governance

**FINEX-ING CFO of the Year**
Mr. Jeffrey Lim

**Finance Asia**
Mr. Jeffrey Lim- Best CFO in the Philippines (Rank 3)

**International Council of Shopping Centers (ICSC) Asia Pacific Awards**
SM Supermalls- Asia Pacific Community Support Award for Operation Sendong: People Helping People to Rebuild a City and Digital Media Marketing Gold Award for its iButterfly Hunt Campaign

**Asian Publishing Awards**
SM Shopmag Magazine of SM Supermalls-Innovative Custom/Trade Category

**City of Manila**
One of the Top Ten Business and Real Estate Taxpayers

**City of Mandaluyong**
SM Megamall-Top Taxpayer

**City of Antipolo**
SM City Masinag-Top Taxpayer

**City of Valenzuela**
SM Center Las Pinas-Top Taxpayer

**City of Naga**
SM Prime Holdings, Inc.-Top Taxpayer, Real Property Tax Category for Corporations
SM City Naga-Top Taxpayer, Jobs Fair Employer of the Year and "On the Spot" Hirer of the Year

## BDO

**The Asset Corporate Awards**
Platinum Awardee 2010, 2011 and 2012
For All Around Excellence in:
Financial Performance
Management Acumen
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

**Institute of Corporate Directors**
Silver Award for Corporate Governance

**Asiamoney**
BDO's USD1.04bn Rights Offering-Philippine Deal of the Year

**Corporate Governance Asia's 2nd Asian Excellence Recognition Awards**
Best Investor Relations
Mr. Luis Reyes, Jr.-Best Investor Relations Professional

**Alpha Southeast Asia, 2nd Annual Southeast Asia**
Institutional Investor Corporate Awards
Most Organized Investor Relations
Alpha Southeast Asia 6th Annual Best Financial Institution Awards
BDO-Best Bank in the Philippines and Best FX Bank for Corporates and Financial Institutions
BDO Capital and Investment Corp.-Best Investment Bank and Best Bond House
BDO Private Bank-Best Private Wealth Management Bank

**Alpha Southeast Asia**
Ms. Teresita Sy-Coson- One of the Most Powerful Women in Southeast Asia

**Euromoney**
Best Private Bank in the Philippines, BDO Private Bank

**The Asian Banker**
BDO, Best Retail Bank
Ms. Teresita Sy-Coson, Retail Banker of the Year

**Finance Asia Country Awards 2012**
BDO Private Bank- Best Private Bank

**The Asset Triple A Country Awards**
BDO USD1 Billion Rights Issue-Best Deal
BDO Capital and Investment Corporation- Best Domestic Investment Bank

**The Asset Triple A Investment Awards**
BDO Private Bank-Best Private Bank

**Asian Banking and Finance 1st Wholesale Banking Awards**
BDO-Philippines' Domestic Cash Management Bank of the Year

**Asian Banking and Finance 6th Retail Banking Awards**
BDO-Credit Card Initiative of the Year

## China Bank

**Institute of Corporate Directors**
Gold Award for Corporate Governance

**Philippine Stock Exchange 1st Bell Awards**
One of the best listed firms that garnered the Bell Award for Corporate Governance

## SM Land, Inc.

**Asia Pacific Property Awards**
Two E-com Center, Best Office Development in the Philippines

## SM Development Corporation

**Institute of Corporate Directors**
Gold Award for Corporate Governance

**Corporate Governance Asia's 3rd Asian Corporate Director Awards**
Mr. Henry Sy, Jr.

**Corporate Governance Asia's 2nd Asian Excellence Recognition Awards**
Mr. Henry Sy, Jr.-Asia's Best CEO (Investor Relations)

**Forbes Asia**
Among the 200 Best Companies in Asia "Under A $Billion"

## Highlands Prime, Inc.

**Institute of Corporate Directors**
Silver Award for Corporate Governance

## SM Hotels and Conventions Corporation

**Carlson Rezidor Hotels and Resorts Asia Pacific**
Radisson Blu Hotel Cebu- Hotel of the Year

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CORPORATION

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