SM INVESTMENTS CORPORATION

INNOVATING FOR A BETTER TOMORROW

ANNUAL REPORT 2016

Contents

The Cube in
SM City Seaside Cebu

INNOVATING FOR A BETTER TOMORROW

SM Investments Corporation (SM) is one of the leading conglomerates in the Philippines, with highly synergistic businesses in retail, property development and banking. It is a dynamic company that thrives on innovation and long-term value creation.

Since opening its first store in 1958, SM has built a leading presence across the Philippines. It is committed to being a catalyst for development wherever it operates and to sharing its successes with all its stakeholders — its millions of customers, its employees, suppliers, tenants, partners, shareholders and host communities.

SM continues to innovate, invest in people, protect the environment and pursue sustainable practices and strong governance standards in all its businesses.

SM strives to deliver long-term sustained growth and to make a difference in the lives of millions.

OUR VISION

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

OUR MISSION

We will partner with our host communities to provide a consistently high standard of service to our customers, look after the welfare of our employees and deliver sustainable returns to our shareholders, at all times upholding the highest standards of corporate governance in all our businesses.

SM at a Glance

Core Investments*

77%
SM Retail, Inc.

Retail

50%
SM Prime Holdings, Inc.

Property

44%
BDO Unibank, Inc.

20%
China Banking Corporation

Banking

Numbers indicate Effective Ownership

Portfolio Investments*

28%
Belle Corporation

29%
Atlas Consolidated Mining

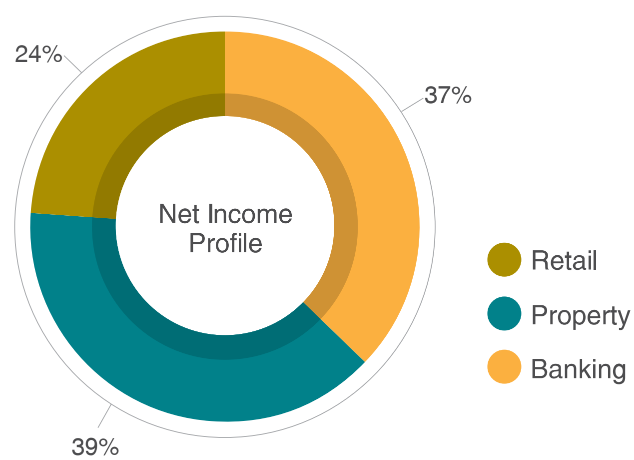
34%
CityMall Commercial Corporation

90%
Net Group

Numbers indicate Effective Ownership

Consolidated Net Income

Php31.2bn 8.1%
as of end-December 2016



Share Price

Php655.00 13.7%
as of end-December 2016

Market Capitalization

Php789.0bn 13.7%
as of end-December 2016

Note: Growth figures vs. 2015

FY 2016 Highlights
Core Businesses

	Revenues	Net Income
Retail	Php276.5bn SM Retail, Inc. Consolidated Gross Revenues ↑ 8.4%	Php10.6bn SM Retail, Inc. Consolidated Net Income ↑ 7.4%
Property	Php79.8bn SM Prime Holdings, Inc. Consolidated Revenues ↑ 11.6%	Php23.8bn SM Prime Holdings, Inc. Consolidated Net Income ↑ 13.9%* *excludes extraordinary gains in 2015*
Banking	Php65.6bn BDO Unibank, Inc. Net Interest Income ↑ 15.2% Php16.7bn China Banking Corp. Net Interest Income ↑ 10.7%	Php26.1bn BDO Unibank, Inc. Net Income ↑ 4.3% Php6.5bn China Banking Corp. Net Income ↑ 15.3%

Note: Growth figures vs. 2015

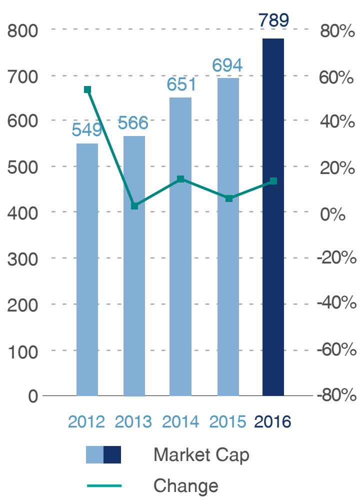
Consolidated Financial Highlights

	2016	2015 (Restated)	2014 (Restated)
Balance Sheet Highlights (PHP billion)			
Total Assets	**861.46**	785.49	725.75
Current Assets	**219.09**	174.15	193.81
Non-current Assets	**642.37**	611.34	531.94
Current Liabilities	**134.83**	126.80	110.26
Non-current Liabilities	**311.88**	274.70	264.23
Total Liabilities	**446.71**	401.50	374.49
Stockholders' Equity	**414.75**	383.99	351.26
Book Value per Share (PHP)	**344.31**	318.77	293.24
Income Statement Highlights (PHP billion)			
Revenues	**362.83**	332.81	310.07
Income from Operations	**66.94**	61.55	56.22
Other Income (Charges)	**(7.62)**	(7.18)	(5.94)
Income before Income Tax	**59.32**	54.37	50.28
Consolidated Net Income	**31.20**	28.87	28.39
Basic EPS	**25.90**	24.07	23.70
Financial Ratios			
Current Ratio (X)	**1.62**	1.37	1.76
Return on Equity	**10.8%**	10.8%	12.1%
Debt-equity Ratio (Gross)	**52:48**	50:50	51:49
Revenue Growth	**9.0%**	7.3%	7.6%
Net Income Growth	**8.1%**	1.7%	5.5%
EBITDA (PHP billion)	**79.80**	73.39	67.57
EBITDA Margin	**22.0%**	22.1%	21.8%
Net Margin	**13.2%**	13.1%	13.4%
Revenue Profile			
Retail	**76.3%**	76.8%	76.6%
Property	**20.0%**	19.3%	19.5%
Banking*	**3.7%**	3.9%	3.9%
Net Income Profile			
Retail	**23.8%**	24.1%	22.2%
Property	**39.1%**	37.1%	37.1%
Banking*	**37.1%**	38.8%	40.7%

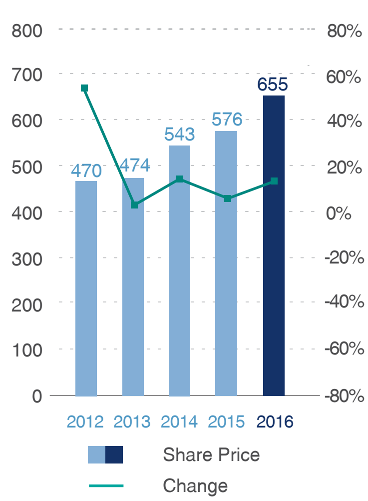
*Banks are not consolidated with SMIC

Shareholder Value

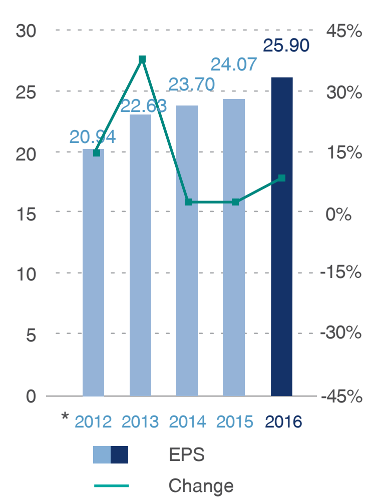
Market Capitalization
(in billion pesos)



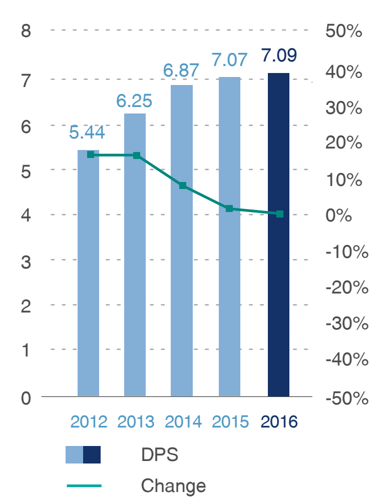
Share Price**
(in pesos)



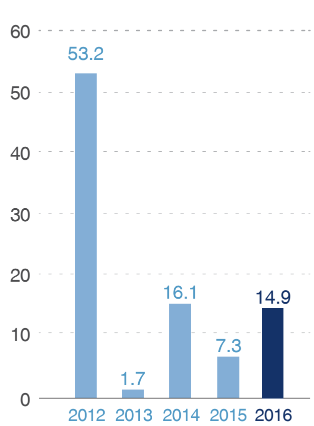
Earnings per Share**
(in pesos)



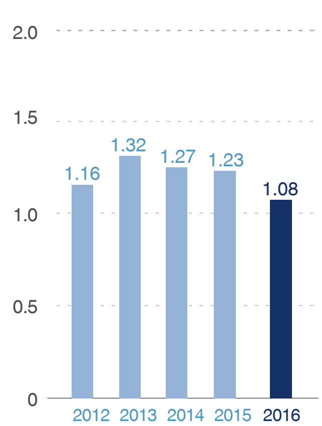
Dividends per Share**
(in pesos)



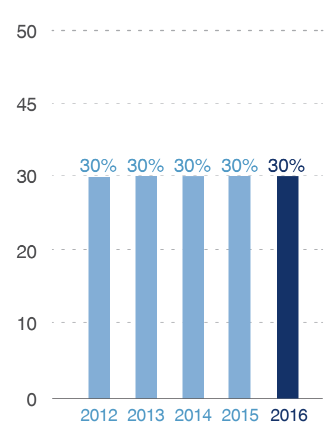
Total Shareholder Return
(in percent)



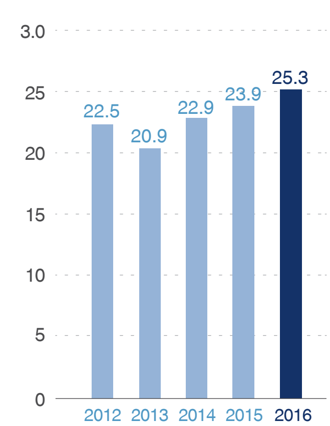
Dividend Yield**
(in percent)



Dividend Payout Ratio

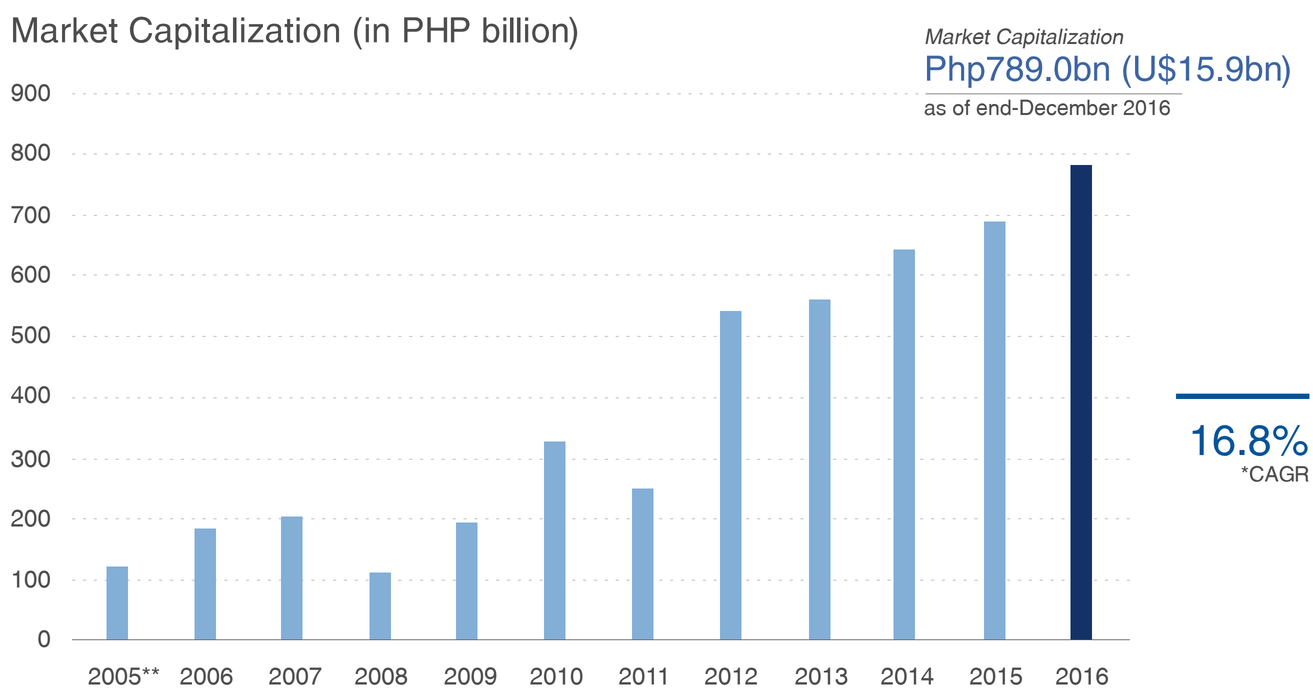


Price/ Earnings Ratio**

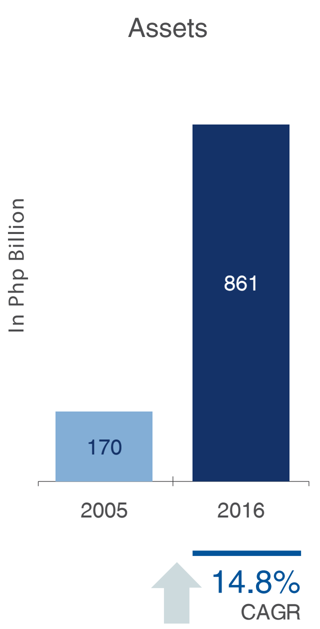


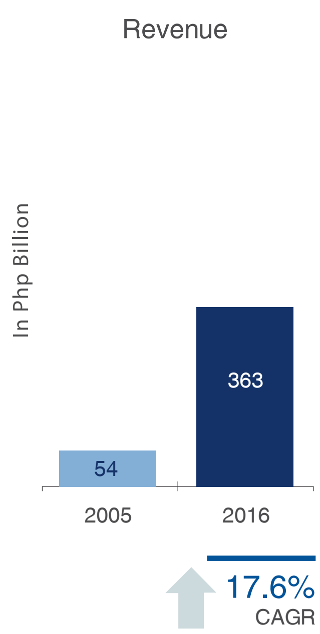
*2012 not restated to reflect the impact of Retail merger
**Adjusted to reflect the 50% stock dividends in 2016 and 25% stock dividends in 2013

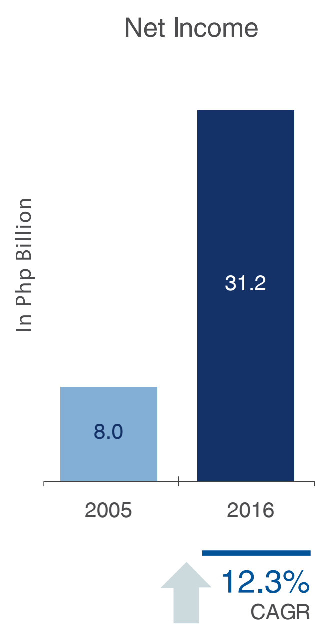
Growth Track Since Listing



**CAGR - Compounded Annual Growth Rate*
*** SM was listed on the Philippine Stock Exchange in 2005*







Message to Shareholders
Unwavering Commitment to Sustained Growth

Dear Fellow Shareholders,

Our company delivered solid results this year. Our core businesses delivered robust growth driven by the country's strong economic development and our unrelenting commitment to sustainable expansion. Since our listing in the Philippine Stock Exchange (PSE) in 2005, SM Investments Corporation (SM) has continued to outperform the average returns for companies listed on the PSE. We remain optimistic about continued development in the Philippines supported by government investment plans and we will continue to prioritize expansion in underserved regions across the country.

In 2016 we delivered consolidated revenues of PHP362.8 billion, up 9.0%, while our consolidated net income increased by 8.1% to PHP31.2 billion. This was driven by the strong performance of our core investments, namely property, banking and retailing, which contributed 39.1%, 37.1% and 23.8% of our earnings respectively.

In property, SM Prime Holdings, Inc. (SM Prime) emerged to be the largest publicly-listed company in the Philippines in terms of market capitalization with PHP818.7 billion as of end-December 2016. SM Prime recorded recurring net income growth of 13.9% to PHP23.8 billion on 11.6% higher consolidated revenues of PHP79.8 billion. Revenue growth was driven by higher construction accomplishments of the company's residential projects, sustained mall expansion, delivery of integrated master-planned properties in strategic locations, and increased rental revenues from its mall and commercial leasing operations. The company successfully opened four new malls in the Philippines as well as its largest mall in China, SM City Tianjin, with gross floor area (GFA) of 320,000 square meters (sqm). To date, SM Prime has 60 malls in the Philippines with a combined GFA of 7.7 million sqm and seven malls in China with a GFA of 1.3 million sqm.

Our retail business achieved 8.4% revenue growth to PHP276.5 billion while net income grew 7.4% to PHP10.6 billion in 2016. This was due to stronger retail performance as the company benefitted from increased consumer spending. In 2016, we opened four SM STORES, 153 specialty stores and 33 stores in food retail.

"As we grow and focus on regional expansion, we continue to prioritize investing in sustainable businesses and in championing environmental, social and governance practices. These are crucial to securing our long-term success."

We completed the merger of our retail businesses in July 2016 creating a diverse retail portfolio to serve the growing needs of our customers and to ensure that the interests of majority shareholders and minority investors are fully aligned.

With this merger we now have a stronger retail portfolio, making your company the leading and most diversified retail operation in the country with an increased presence in discretionary retailing. We now cater to a much wider range of consumer needs in the communities we serve and are able to apply this in ways that leverage our strengths wherever we grow. The merger also allows us to achieve higher top line growth and margin improvement for the retail business and to unlock further opportunities leveraging synergies across the group.

We ended this year with a larger retail footprint across the country with over 2.6 million sqm of total retail space.

In banking, BDO and China Bank sustained their growth in 2016. BDO posted all-time record earnings of PHP26.1 billion on the back of strong results across the bank's core businesses. Meanwhile, China Banking Corporation (China Bank) achieved tremendous growth with consolidated net income growth of 15.3% to PHP6.5 billion. Both BDO and China Bank remain well capitalized with total capital bases of PHP217.5 billion and PHP63.4 billion respectively.

As we grow and focus on regional expansion, we continue to prioritize investing in sustainable businesses and in championing environmental, social and governance practices. These are crucial to securing our long-term success. We ensure that the companies we manage are good corporate citizens. We will continue to uphold the rights of minority investors, develop and provide growth opportunities for our employees, provide the excellence our customers demand from us, support and nurture the environment and respond to the needs of underserved communities.

A healthy balance sheet remains one of the key drivers of our long-term goals. Our commitment is anchored on prudent financial management, strong execution and an ongoing focus on good corporate governance. We will explore ways to enhance our customers' experience through technology and innovation and by working with our business partners and host communities. In this way we will continue to deliver sustainable value to our shareholders.

We would like express our gratitude to Mr. Vicente S. Perez, Jr. for his valuable contributions to the company over the last 11 years and welcome Ms. Tomasa H. Lipana to the Board as an Independent Director. Her proven track record, extensive knowledge and experience in accounting, auditing, risk management and corporate governance will enable her to make significant contributions to the Board and as Chairperson of the Audit Committee.

We sincerely thank our colleagues, suppliers and business partners for their hard work, passion and dedication. We are indeed very grateful to our customers and our shareholders for their generous support. Your trust and confidence in SM has helped us to build one of the most successful and leading conglomerates in the Philippines today. We remain committed in ensuring continued growth in the years ahead.

Henry Sy, Sr.
Chairman

Henry T. Sy, Jr.
Vice Chairperson

Teresita T. Sy-Coson
Vice Chairperson

President's Report
Delivering Solid Growth Across Our Businesses

SM Investments Corporation (SM) completed the financial year 2016 with record earnings. Our core businesses in retail, property, and banking delivered solid growth in line with the country's strong economic fundamentals.

For full year 2016, SM posted a net income of PHP31.2 billion, up 8.1%. Our consolidated revenues grew 9.0% to PHP362.8 billion from PHP332.8 billion in 2015. This was driven by an 8.4% and an 11.6% increase in retail and property revenues respectively.

Our property arm, SM Prime Holdings, Inc. (SM Prime) contributed 39.1% while our banks, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), accounted for 37.1% of our consolidated earnings. SM Retail, Inc. contributed 23.8%.

Retail

SM Retail, Inc. sustained growth in gross revenues increasing 8.4% to PHP276.5 billion from PHP255.2 billion in 2015. We have strategically expanded and diversified our retail operations with the retail merger in July that resulted in earnings and margin accretion. The success of our retail merger has placed our retail operations as the most diversified retailing business in the country today.

Net income increased by 7.4% to PHP10.6 billion from PHP9.9 billion. Strong domestic consumption and discretionary spending boosted the performance of the group particularly that of specialty retail stores such as home furnishings and do-it-yourself goods, which opened 153 stores in 2016.

Meanwhile, four new SM STORES were opened in SM San Jose Del Monte, SM Trece Martires, SM Molino and SM East Ortigas, increasing retail space by 4.9% to 745,649 square meters. The retail segment will continue to grow with the SM malls which is expanding more aggressively in provincial areas.

In food retail, we further strengthened market penetration by expanding all formats in both urban and provincial communities across the

“We remain committed in further expanding our domestic footprint across our investments and in seizing opportunities that will enable broader regional growth. We will continue to act as catalyst for growth and development in the communities we serve.”

country with particular focus on aggressively growing the number of mid-sized and small format stores. We opened 22 Savemore stores, three SM Supermarkets, one SM Hypermarket, seven WalterMart stores and 111 Alfamart stores in 2016. Eighty percent of store openings were outside Metro Manila.

As of end-December 2016, SM Retail had 2,303 stores nationwide comprised of 48 SM Supermarkets, 44 SM Hypermarkets, 156 Savemore stores, 39 WalterMart stores, 210 Alfamart stores, 57 SM STOREs and 1,749 Specialty stores.

Property

SM Prime posted a recurring net income growth of 13.9% in 2016 to PHP23.8 billion. Consolidated revenues increased 11.6% to PHP79.8 billion from PHP71.5 billion in 2015, boosted by growth in sales of residential units and rental revenues generated from new malls and commercial buildings. New malls that contributed to the growth are those that opened in 2015 and 2016, namely SM Seaside City Cebu, SM City Cabanatuan, SM City San Mateo, SM Center Sangandaan, SM San Jose Del Monte, SM Trece Martires, and S Maison in Mall of Asia Complex as well as the expansion of shopping spaces in SM City Iloilo and SM Center Molino and retail podiums in Light, Shine, Shell and Green Residences.

In December 2016, SM Prime opened its seventh mall in China, SM City Tianjin with a gross floor area (GFA) of 320,000 sqm. SM City Tianjin, SM Prime’s largest mall located in Tianjin’s Airport Economic Area, increased the company’s mall portfolio in China. To date, SM Prime has 60 malls in the Philippines with a combined GFA of 7.7 million square meters (sqm) and seven malls in China with a combined GFA of 1.3 million sqm.

Meanwhile, total revenues under SM Prime’s residential group led by SM Development Corporation, grew 12.6% in 2016 to PHP25.4 billion from PHP22.2 billion in 2015. This was due to the strong sales take-up in ready for occupancy units (RFO) from projects such as Princeton Residences, M Place Residences and Mezza II in Quezon City and Jazz Residences in Makati City. Reservation sales in 2016 grew 21.2% to PHP47.7 billion, translating to a 17.2% improvement in unit sales equivalent to 16,670 residential units. Real Estate gross margin increased to 47.5% from 45.7% in 2015 due to efficient management and tighter monitoring and control of construction costs.

In commercial leasing operations, rental revenues increased 32.6% to PHP2.7 billion as new spaces opened in FiveE-Com Center and in the expanded SM Clark office tower in 2015.

SM Prime’s hotel group, SM Hotels and Conventions Corp., delivered 31.5% growth in revenues to PHP3.2 billion attributable to improvement in average room and occupancy rates and the opening of Park Inn Clark in 2015 and Conrad Manila in June 2016.

Banking

BDO and China Bank sustained strong financial results in 2016.

BDO posted a net interest income growth of 15.2% to PHP65.6 billion, driven by a 15.8% increase in gross customer loans to PHP1.5 trillion. Total deposits grew by 14.5% to PHP1.9 trillion due to the bank’s sustained growth in current account/ savings account (CASA) deposits. Net income rose 4.3% to PHP26.1 billion. Total capital base stood at PHP217.5 billion with Capital Adequacy Ratio (CAR) of 12.3%. The bank set aside

PHP3.8 billion in provisions for the year even as gross non-performing loan (NPL) ratio held steady at 1.3% while NPL cover remained high at 139.3%.

In 2016, BDO accelerated its strategic initiatives to tap into growth opportunities across its market segments. BDO ramped up its remittance operations to service the needs of Filipinos in Japan by commencing the operations of its online trading services, BDO Nomura Securities. BDO likewise expanded its banking and financial services through strategic partnerships, aggressive growth of its branches and distribution networks.

Meanwhile, China Bank achieved a net interest income of PHP16.7 billion, up 10.7%, driven by 12.5% growth in interest income loans to PHP17.9 billion. Deposits on the other hand grew 23.3% to PHP541.6 billion, attributable to growth of 21.5% in CASA deposits to PHP276.4 billion due to stronger business franchise. China Bank reported a consolidated net income of PHP6.5 billion, up 15.3% from PHP5.6 billion in 2015. With total capital funds of PHP63.4 billion, China Bank remains well capitalized resulting in healthy capital ratios with CAR at 12.2%. It continues to be one of the leading banks in the industry and the sixth largest private universal bank in terms of assets. China Bank's strong financial performance in its 96th year in Philippine banking was a result of the bank's focus on its strategy of delivering significant growth in major market segments and its commitment in striving to be the best bank for its clients.

Outlook

Looking ahead, we are confident about the country's continued development and optimistic economic forecasts for 2017. We remain committed in further expanding our domestic footprint for our stores, real estate properties and bank branches and in seizing opportunities that will enable broader regional growth. We will continue to act as a catalyst for growth and development in the communities we serve.

In retail, we will widen market penetration across all our retail formats, especially catering to the evolving needs and preferences of our customers through diverse and quality products and enhanced customer experience.

In property, we will continue our land banking initiatives in 2017 and aggressively increase our portfolio through mall expansion and the development of integrated master-planned properties.

In banking, we will continue to take advantage of the country's growth opportunities and focus on emerging regions of the Philippines. We will maintain successful client relationship management and strengthen our businesses to sustain our growth trajectory.

We will continue to build on our past successes and leverage our strengths and synergies while maintaining a healthy balance sheet. We remain committed to championing environmental, social, and governance practices and to creating long-term value through sustainable practices in all our businesses.

Harley T. Sy
President

Retail

57
THE SM STOREs

48
SM Supermarkets

44
SM Hypermarkets

156
Savemore Stores

39
WalterMart Stores

1,749
Specialty Stores

2,303
Total Retail Stores

Php276.5bn
Consolidated Gross Revenues ↑ 8.4%

Php10.6bn
Net Income ↑ 7.4%

SM Retail, Inc.
Most Diversified Retail Operations

In 2016, SM's retail business became the most diverse in the country as well as the largest.

In February 2016, SM's Board approved the merger of SM Retail, Inc. with several leading local specialty retail stores which received final approval from the Securities and Exchange Commission in July 2016.

SM Retail now comprises market leading brands across food retailing, department stores and specialty retailing. Specialty retailing now includes a wide assortment of quality products offered through stores such as Ace Hardware, SM Appliances, Homeworld, Our Home, Toy Kingdom, Watsons, Kultura, Baby Company, Sports Central, Pet Express and others.

In 2016, SM Retail posted gross revenues of PHP276.5 billion, growing 8.4%, while net income grew 7.4% to PHP10.6 billion from PHP9.9 billion the previous year. The strong results reflected the impact of the merger where the performance of retail affiliates were largely fuelled by discretionary spending on homes and do-it-yourself activities which track the strong consumption and overall economic growth of the Philippines.

The merger also expanded SM Retail's nationwide footprint to 2,303 outlets at the end of 2016. This comprises 1,749 specialty retail outlets, 57 department stores (THE SM STOREs), 48 SM Supermarkets, 44 SM Hypermarkets and 156 Savemore stores (collectively SM Markets), as well as 39 WalterMart and 210 Alfamart stores.

SM Retail still sees more opportunities for expansion across the country. Store penetration in the Philippines remains one of the lowest in Asia, presenting tremendous opportunities for growth and diversification especially in northern and southern Philippines which have not been reached by organized retail. Through its wide range of retail formats, SM Retail can tailor its expansion program to meet the needs of different communities nationwide. In 2016, 80% of SM Retail's store expansion was outside of Metro Manila.

Recognizing the high traffic in rural and urban areas, SM's food retail group, led by SM Markets, added 33 new stores in 2016, most of which were focused on communities outside of Metro Manila.

Specialty Stores

- SM Appliance Center
- Ace Hardware
- Toy Kingdom
- Baby Company
- Our Home
- Homeworld
- Watsons
- Kultura
- Sports Central
- Pet Express

MARKETS

Php138.8bn
Gross Revenues ↑ 7.7%

Php4.6bn
Net Income ↑ 11.4%

33
New stores opened in 2016

1,246,521sqm
Gross Selling Area ↑ 4.3%

SM Markets Fast Facts

287
Total Number of Stores

48
Supermarkets

44
Hypermarkets

156
Savemore Stores

39
WalterMart Stores

With this expansion, SM Markets maintained its lead amid the strong competition in the food retail industry. It continued to focus on improving the assortment of products on its shelves based on consumer preferences while ensuring that services offered by its stores are complete and innovative.

SM Markets introduced certain innovations and enhancements which included exploring new formats to provide convenience for shoppers of impulse products and strengthening its *Halal* and other specialized offerings. It also expanded its ready-to-eat menu to include other snacks and piloted 24-hour operations in Mall of Asia during high seasons.

THE SM STORE opened four stores in SM San Jose Del Monte in Bulacan, SM Trece Martires and SM Molino in Cavite and SM East Ortigas in Pasig. Total gross selling areas of all 57 department stores stood at 745,649 sqm at the end of the year.

As well as benefiting from strong macroeconomic trends, growth for THE SM STORE came from its merchandise assortment, promotions and overall in-store improvements to enhance customer shopping experience. This included the use of eco-friendly LED lighting, infusion of ambient scents for a full sensory experience and the expansion of in-store services such as styling, makeover and personal shopper service. Moreover, THE SM STORE featured new and innovative ways of displaying merchandise that help promote a diversified mix of product ranges.

THE SM STORE embarked on innovative partnership programs such as its widely popular and exclusive Viber sticker on mobile phone apps. THE SM STORE's online shopping site www.smstore.com also uses online retailer Lazada's digital platform where

THE SM STORE

Php91.4bn
Gross Revenues ↑ 7.2%

Php2.5bn
Net Income ↑ 10.9%

745,649sqm
Gross Selling Area ↑ 4.9%

shoppers can now buy men's, women's and children's fashion and accessories, toys, shoes and bags, as well as beauty, home and office products.

Holistic marketing and promotional tie-ins, such as its Fly & Shop boarding pass privileges with Philippine Airlines, helped address new shopper segments. It also continued to enhance its shop-in-shop concept, providing brands with their own identity in the store while benefiting from its high foot traffic. Moreover, it highlighted exclusive collections such as Top K-Beauty Brands in SM Beauty, creating more selections for shoppers.

With a focus on customer engagement, SM Retail will likewise continue to provide the same high quality products and exceptional level of service as it expands its reach into new regions.

THE SM STORE
Fast Facts

4
New Stores
Opened in 2016

57
Total Number of Stores

8.2M
Active Members of the
SM Loyalty Program

Property

Php79.8bn
Consolidated Revenues ↑ 11.6%

Php23.8bn
Net Income ↑ 13.9%

Php818.7bn
Market Capitalization ↑ 30.6%

60
Philippine Malls

7
China Malls

43
Residential Projects

6
Office Buildings

6
Hotels

4
Convention Centers

3
Trade Halls

SM Prime Holdings, Inc.
Sustaining Growth Momentum

SM City Tianjin

PRIME

Php48.6bn
Mall Revenues ↑ 9.1%

Php25.4bn
Residences Revenues ↑ 12.6%

Php2.7bn
Commercial Revenues ↑ 32.4%

Php3.2bn
Hotels & Convention Centers Revenues ↑ 31.5%

SM Prime Holdings, Inc. (SM Prime) had another eventful year with a strong financial performance in 2016. Consolidated revenues grew by 11.6% to PHP79.8 billion from PHP71.5 billion in 2015. The company's recurring net income increased by 13.9% to PHP23.8 billion. Apart from the steady growth in rental income from malls and office buildings, SM Prime's revenues were boosted by the strong sales take-up of housing units.

In 2016, revenues from malls increased 9.1% to PHP48.6 billion from PHP44.5 billion in the previous year. Revenue growth was attributable to rental contributions from new malls and same-mall sales growth. Under SM Prime's mall portfolio in the Philippines, four new malls were added in 2016, namely, SM City San Jose Del Monte, SM City Trece Martires, SM Cherry Congressional and SM City East Ortigas. It also expanded SM City San Pablo in Laguna and SM City Molino in Cavite. These bolstered SM Prime's total retail space by 4.7% with a combined gross floor area (GFA) of 7.7 million square meters (sqm).

SM City Trece Martires

SM City San Jose del Monte

In China, SM Prime opened SM City Tianjin with a GFA of 320,000 sqm, located in Tianjin's Airport Economic Area. SM City Tianjin is SM Prime's seventh mall in China boosting its combined GFA to 1.3 million sqm. Its other malls are SM City Xiamen, SM City Jinjiang, SM City Chengdu, SM City Suzhou, SM City Chongqing and SM City Zibo.

SM Prime capped 2016 with a total of 67 malls, 60 of which are in the Philippines and seven are in China. The former has 29 malls in Luzon, 22 in Metro Manila, five in the Visayas and four in Mindanao.

Malls & Residential Fast Facts

3.7M
Visitors
Average Daily Mall Pedestrian Count
(Philippines & China)

9.0M sqm
Total Mall GFA
(Philippines & China)

18,266
Mall Tenants
(Philippines & China)

154,509
Cinema Seats
(Philippines & China)

10,783
Total Number of Residential Units Launched in 2016

Meanwhile, revenues from SM Prime's residential group, led by SM Development Corporation (SMDC), grew 12.6% to PHP25.4 billion from PHP22.5 billion in 2015. Sales were strong due to higher take-up on ready for occupancy (RFO) units in Princeton Residences, M Place Residences, Mezza II Residences in Quezon City and Jazz Residences in Makati City. SMDC's reservation sales increased by 21.2% in sales value to PHP47.7 billion, due to strong sales take-up in S Residences, Shore 2 Residences and Coast Residences in Pasay City.

South Residences

S Residences

ThreeE-com Center

SM Prime's Commercial Properties Group posted a growth of 32.4% in revenues to PHP2.7 billion from PHP2.1 billion year-on-year. Growth came from rental revenues of FiveE-com Center at the Mall of Asia Complex in Pasay City. With the construction of the 15-storey ThreeE-com Center in full swing, the Commercial Properties Group will have an additional GFA of 114,000 sqm. Currently, the Commercial Properties Group has six office buildings, the largest of which are located in the Mall of Asia Complex with an estimated GFA of 383,000 sqm.

FiveE-com Center

Commercial, Hotels & Conventions Fast Facts

6
Office Buildings

383,000sqm
Commercial GFA

4
Convention Centers

3
Trade Halls

6
Hotels

1,510
Total Number of Rooms

Conrad Manila

Brasserie on 3

For SM Hotels and Convention Centers, revenues increased by 31.5% to PHP3.2 billion from PHP2.4 billion. Growth came from a mix of improved occupancy in its existing hotels and with the opening of Park Inn Clark in Pampanga in December 2015 and Conrad Manila in Pasay City in June 2016. To date, SM Prime has a total of 1,510 hotel rooms from Taal Vista in Tagaytay, Radisson Blu Cebu, Pico Sands Hotel in Hamilo Coast, Park Inn Davao, Park Inn Clark and Conrad Manila.

Banking

1,645
Total Number of Branches
BDO & China Bank

4,460
Total Number of ATMs
BDO & China Bank

Php2,958.2bn
Total Resources
BDO & China Bank
15.6%

Php129.0bn
Gross Operating Income
BDO & China Bank
18.9%

BDO Unibank, Inc.
Delivering Solid Results

BDO
Fast Facts

Php2,325.0bn
Total Resources ↑ 14.5%

PHP1,482.0bn
Gross Customer Loans ↑ 15.8%

1,104
Operating Branches

3,655
ATM Network

2016 was another year of solid results for BDO Unibank.

The bank delivered a net income of PHP26.1 billion on the back of strong results across its core businesses. This matched the earnings guidance it has set and is a record net income for the bank.

Customer loan portfolio increased by 15.8% to PHP1.5 trillion, while total deposits rose by 14.5% to PHP1.9 trillion on the sustained growth in the bank's low-cost CASA deposits. Net interest income went up by 15.2% to PHP65.6 billion, reflecting the quality growth in the loan portfolio.

Meanwhile, fee-based income grew by 14.5% to PHP22.2 billion and insurance premiums contributed PHP8.1 billion, reflecting the bank's efforts at diversifying its income streams. These fee income sources compensated for the decline in trading & FX gains to PHP4.8 billion. Overall, gross operating income was at PHP107.2 billion.

The bank's operating expenses grew 27.2% to PHP70.1 billion, primarily reflecting the consolidation of One Network Bank (ONB) and BDO Life Insurance. Excluding these, operating expenses would have risen only by 11.4%.

The bank set aside PHP3.8 billion in provisions for the year even as gross non-performing loan (NPL) ratio held steady at 1.3% while NPL cover remained high at 139.3%. The bank's capital base stood at PHP217.5 billion, with Capital Adequacy Ratio (CAR) and Common Equity Tier 1 (CET1) ratio at 12.4% and 10.7%, respectively.

In 2016, the acquisition and integration of BDO Life as a wholly-owned subsidiary of BDO was also completed. This will accelerate the process of tapping the insurance needs of the Bank's growing client base and open more doors towards building synergies between BDO Life and BDO's various business units that will maximize cross-selling opportunities.

Meanwhile, the Bank also entered into an agreement with TPG Growth, the middle market and growth equity investment platform of TPG, to acquire a 40 percent stake in One Network Bank (ONB), the rural banking arm of BDO. Following the transaction, BDO will retain approximately 60 percent ownership in ONB. Through the partnership, the Davao-based ONB will benefit from TPG's global experience in financial services, especially microfinance in developing markets.

With a strengthened capital base, robust business franchise and extensive distribution network, BDO is well-positioned to benefit from the country's growth momentum.

BDO
Fast Facts

Php107.2bn
Gross Operating Income ↑ 20.6%

Php26.1bn
Net Profit ↑ 4.3%

12.4%
Capital Adequacy Ratio

China Banking Corporation
Sustained Growth and Performance

China Bank
Fast Facts

541
Domestic Branches

805
ATM Network

PHP389.0bn
Gross Customer Loans 23.5%

12.2%
Capital Adequacy Ratio

China Banking Corporation (China Bank) reported a consolidated net income growth of 15.3% to PHP6.5 billion in 2016, driven by sustained growth in its core businesses across all market segments. Return on equity (ROE) stood at 10.4% and return on assets (ROA) at 1.2%.

Net interest income was up 10.7% to PHP16.7 billion, driven by 12.5% growth in interest income on loans to PHP17.9 billion.

China Bank's core business drivers showed robust growth in 2016. Total assets grew 20.2% to PHP633.2 billion as loans and deposits grew faster than industry. Gross loans climbed 23.5% to PHP389.0 billion, driven by the solid 26.5% growth in consumer loans. Total deposits grew 23.3% to PHP541.6 billion, underpinned by growth of 21.5% in current account/savings account (CASA) deposits to PHP276.4 billion. Fee-based revenues rose by 13.5% to PHP5.1 billion, attributable to trading and securities gains, revenue growth from service charges and trust fees, and an increase in gains on sale of acquired assets.

China Bank continues to be one of the leading banks in the industry and the sixth largest private universal bank in terms of assets. Total capital funds stood at PHP63.4 billion, resulting in healthy capital ratios with the bank's CET 1 Tier 1 at 11.3% and total capital adequacy ratios (CAR) at 12.2%.

As China Bank celebrated its 96 years in Philippine banking, it upgraded its online personal banking portal and equipped its ATM cards with the more secure Europay MasterCard Visa (EMV) technology – one of the first banks to comply with the BSP directive to convert all ATM and credit cards to EMV standard by the end of 2016 to help combat fraud and protect customer data.

Driven by its mission to be a catalyst of wealth creation for its customers, the bank is continually expanding its geographic footprint and product offerings. It began an aggressive branch network expansion program in 2007 and has more than tripled its number of branches from 148 in 2006 to 541 in 2016 (including 150 China Bank Savings branches).

To support its strategic initiatives and business growth, China Bank issued the first tranche (PHP9.6 billion) of its Long-Term Negotiable Certificates of Deposits (LTNCDs) in November, marking its return to the Peso debt market after the successful maiden release of five-year, PHP5 billion LTNCDs in 2008.

It likewise provided capital transfer of PHP2.5 billion to its thrift banking subsidiary, China Banks Savings, Inc. (CBSI) in support of its business expansion, bringing it to PHP6.5 billion as total capital transfer to CBSI since September 2014. Its investment arm, China Bank Capital Corporation, established two subsidiaries in 2016 to provide a complete suite of investment banking services: China Bank Securities Corporation, a stock brokerage house and CBC Assets One (SPC) Inc, a special purpose corporation subsidiary. China Bank's bancassurance partnership through the Manulife China Bank Life Assurance (MCBL) is now a major contributor in fee-based revenues and will mark its 10th anniversary in 2017.

For the fifth straight year, China Bank won the Philippine Stock Exchange (PSE) Bell Awards for consistently being among the top five out of 268 listed companies for exemplary corporate governance practices. It was also recognized for Best Bank Governance by London-based *Global Banking and Finance Review* and by *Capital Finance International Awards* and was cited by journal *Corporate Governance Asia* as Outstanding in Corporate Governance. Additionally UK-based magazine *Finance Monthly Global Awards* awarded China Bank as Banking and Finance Firm of the Year 2016 Philippines.

International rating agency Fitch affirmed China Bank's Long-Term Issuer Default Rating at 'BB+' and its Viability Rating at 'bb+' with Stable outlook, following an upgrade in July 2016, underpinning the bank's broadly steady asset quality, adequate capital buffers and stable funding and liquidity profile. This view was recently affirmed in their latest rating review.

China Bank's 2016 strong performance reflects the bank's teamwork and dedication in achieving significant growth in major market segments — corporate, middle market and entrepreneurs — and its intensified presence in the consumer segment and in the capital markets. It remains committed to its ongoing objectives of acquiring customers, deepening relationships and striving to be the best bank for its clients. The bank is sharpening the focus of its segmentation strategy that maximizes presence and returns from its targeted markets, strengthening its balance sheet, capitalizing on process and technology upgrades to enhance customer experience and achieve operational efficiency.

China Bank
Fast Facts

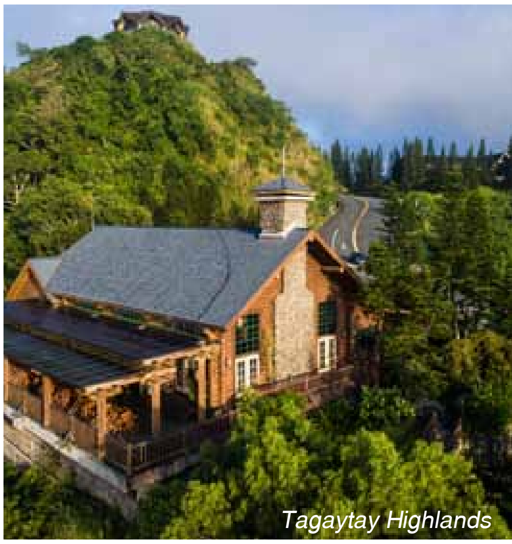
Php633.2bn
Total Resources 20.2%

Php6.5bn
Net Income 15.3%

Php21.8bn
Gross Operating Income 11.3%

5th Year Awardee
of the PSE Bell Award

Portfolio Investments: Belle Corporation
Redefining Leisure Living



Tagaytay Highlands

City of Dreams

Belle Corporation has successfully evolved from a specialty niche player in the real estate industry to a diversified holding company, providing better and premium leisure experience to customers while delivering value to shareholders.

Belle achieved a consolidated net income of PHP3.1 billion in 2016, up 74.7% from PHP1.8 billion in 2015. Excluding the capital gain of PHP352 million from the sale of 26 million shares of SM Prime Holdings Inc., Belle's recurring net income of PHP2.0 billion was higher by 55.2% than the recurring net income in 2015.

The increase in revenue of City of Dreams Manila was the prime earnings growth driver for 2016. Belle's share in the gaming income of City of Dreams Manila, through its subsidiary, Premium Leisure Corporation (PLC), amounted to PHP1.6 billion, which is more than double the recorded revenue for 2015.

City of Dreams Manila is an integrated gaming, entertainment and hospitality complex in the Entertainment City by Manila Bay. Only two years after it opened to the public, the integrated casino resort received accolades from various award-giving bodies including the prestigious Casino/Integrated Resort of the Year Award at the 8th International Gaming Awards. The three luxury hotels in the complex – Crown Towers, Nobu Hotel Manila and Hyatt – consistently receive excellent reviews from customers and critics alike.

Belle Corporation thrives in leisure real estate development as well. Its premier mountain resort development, Tagaytay Highlands, delivered a net recurring income growth of 119.1% compared to the previous year.

Tagaytay Highlands, the pioneer in luxury mountain resort living in the country, remains a sanctuary for Club members and homeowners. Sycamore Heights, a contemporary Asian-themed community that offers breathtaking views of the Taal Lake, Taal Volcano and the mountainside is now 99.1% complete. Plantation Hills, Belle's leisure farm community in the Greenlands, is scheduled to roll out in 2017. This combined residential and eco-farming concept attracts customers who yearn for a relaxing lifestyle.

Belle Kaagapay, the company's corporate social responsibility arm, progresses its mission to uplift the citizens' quality of life through initiatives on health, social service, protection of the environment, education and livelihood. Throughout the year, Belle Kaagapay held feeding programs, medical missions and tree planting activities. Kabalikat sa Kabuhayan (KSK), a farmers' training program, taught participants sustainable ways of farming that now benefits the local farmers in Batangas. Through these efforts, Belle Kaagapay envisions a future of thriving possibilities for the communities it serves.

Sustainability

Impact to Date

536,479
Total Number of Trees Planted

179,049 tons
Reduction in GHG emission per year

33.2%
Recycled Water

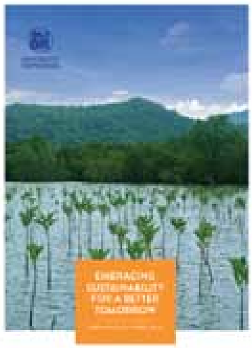
10 ha
Mangroves Planted

15,389
Total Number of Farmers Trained

3,637
College Scholars Nationwide

1,644
Technical-Vocational Scholars

155
Total Number of Renovated Public Health Centers & Medical Facilities



SM's complete Environmental, Social and Governance (ESG) Report may be viewed or downloaded at www.sminvestments.com/esg-reports

SMIC Sustainability Report 2016 Highlights
Embracing Sustainability for a Better Tomorrow

Kabalikat sa Kabuhayan (Farmers' Training)

SM impacts the lives of millions in the country through its operations and activities. Where SM operates, it helps create jobs, provides opportunities for micro, small and medium enterprises (MSMEs) to participate in its supply chain, provides financial access through innovative banking services and weaves sustainability into the fabric of its business.

SM continues to seek alignment of its sustainability programs with the **17 Sustainable Development Goals (SDGs)** set by the United Nations. The company focuses its efforts in four areas, namely education, health and wellness, zero hunger through farmers' training and environmental sustainability. These serve as the company's drivers in delivering results and creating impact to the rest of the SDGs.

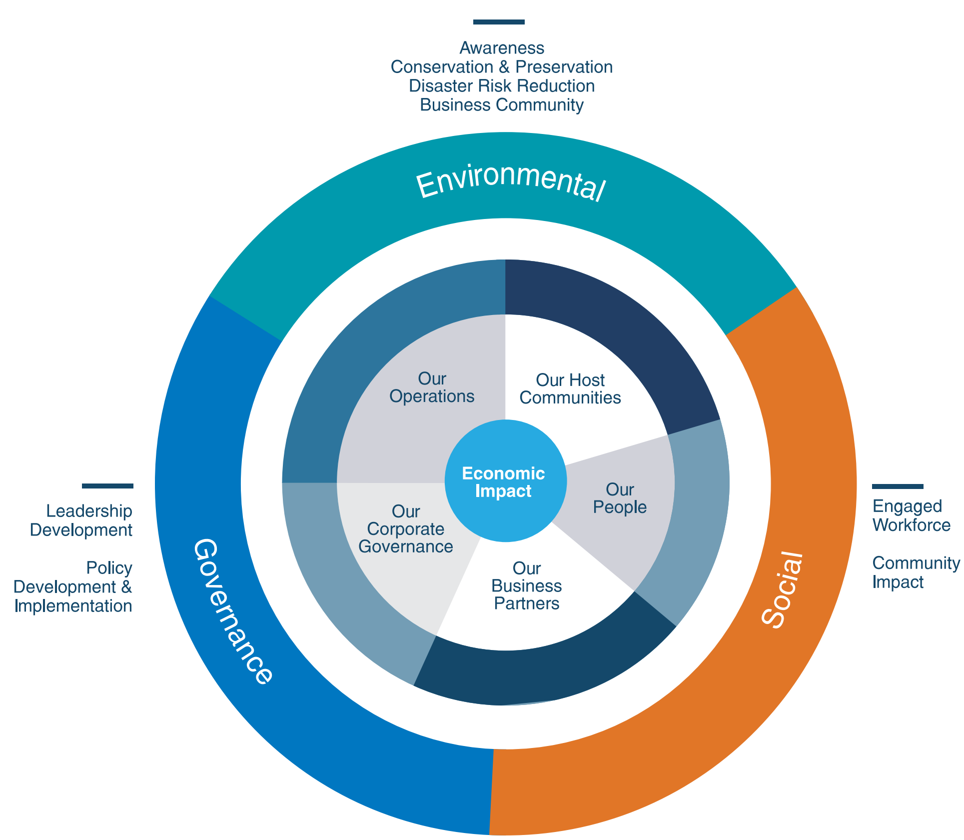
Underpinning its sustainability and value creation is an integrated framework that aims to achieve inclusive growth and development in its host communities and the rest of the country. It takes the lead in the integration of environmental, social and governance practices in the operations of its various businesses, resulting in enhanced economic value for all its stakeholders.

The SM Board of Directors approved guiding principles that embrace global standards. The company supports:

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

The company's Sustainability Framework highlights its economic impact while adhering to environmental, social and governance (ESG) global standards.

A group-wide steering committee has been formed and is tasked with overseeing the group's sustainability road map and progress, while a technical working group is tasked to implement, monitor and report the impact of the company's initiatives. As the company's footprint grows, SM will revisit its current framework to meet the evolving needs of its stakeholders and to effect positive impact in greater scale.



Embracing Sustainability

SM's sustainability strategy is anchored on the company's vision to build world-class businesses that are catalysts for development in the communities it serves. The company endeavors to integrate environmental, social and governance best practices to effect positive change wherever it is present and to promote inclusive economic growth and activity.

OUR ENVIRONMENT

SM takes a proactive stance in creating awareness about environmental issues, in conservation, in disaster risk reduction and resilience.

SUSTAINABLE OPERATIONS

SM takes measures in reducing the group's carbon footprint.

CONSERVATION AND PRESERVATION

SM protects life on land and water and preserves biodiversity.

DISASTER RISK REDUCATION AND RESILIENCE

The company integrates disaster resilience in its design and processes. It also takes the lead in raising awareness in making disaster resilience top priority for both the private and public sectors.

GREEN FINANCING

Through its banks, BDO and China Bank, the company promotes financing for renewable energy and energy efficiency projects.

AWARENESS

The company continues to raise awareness on the impact of climate change through various activities.

OUR COMMUNITIES

SM makes targeted social investments through its foundations.

EDUCATION

Through its foundations, SM prioritizes access to quality education through donation of public school buildings and granting college and technical-vocational scholarships.

HEALTH AND WELLNESS

The company helps fill the gap in universal health care through medical missions in underserved communities and by renovating public health centers to meet standards and government accreditations.

FARMER'S TRAINING

Through its foundations, SM promotes food sufficiency by promoting backyard farming and sustainable agricultural practices.

SHELTER

SM promotes dignity of living by providing adequate shelter in sustainable communities.

SOCIAL INCLUSION

The company champions equal opportunities for persons with special needs, vulnerable groups and senior citizens.

OUR PEOPLE

SM highly regards the value generated by its employees and gives due importance to the overall development and well-being of its people.

DIVERSITY AND INCLUSION

The company harnesses the full potential of the diverse talents of its people coming from different backgrounds and nurtures the culture of inclusion - providing equal opportunities regardless of gender, age, religion or ethnicity.

CULTURE OF EXCELLENCE AND SERVICE

SM promotes excellence through inclusiveness, open communication, teamwork, progressive thinking and innovation.

WELLNESS AT WORK

The company aspires to create a consistently inspiring environment that promotes fulfillment at work and well-being in daily living by providing various avenues to promote work-life balance for its employees.

OUR ECONOMIC IMPACT

SM energizes local economies through its business operations, products and services and prudent fiscal management.

JOB CREATION

SM creates jobs through direct employment and through its business partners, affiliates and suppliers.

INCLUSIVE SUPPLY CHAIN

The company upholds the highest standards in its supply chain while promoting the participation of micro, small and medium enterprises in formal retailing.

PRODUCTS AND SERVICES

SM offers the widest range of products and services through continuous innovation in property, banking and retail, to help broaden access for its stakeholders and improve overall standard of living.

ENHANCED AND SHARED VALUE

Wherever SM is, it facilitates development through enhanced financial and property/asset values, better opportunities for business and society, and inclusive growth for the communities it serves.

Working for a Better Tomorrow

As a group, SM continually seeks alignment of its sustainability programs with the 17 United Nations Sustainable Development Goals.

Impact to Date

1 NO POVERTY
2 ZERO HUNGER

15,389
farmers trained from 2,315 barangays in 616 municipalities

3 GOOD HEALTH AND WELL-BEING

128 health centers and medical facilities renovated by SM Foundation

27 rural health centers renovated by BDO Foundation

1,238
medical missions conducted nationwide

4 QUALITY EDUCATION

80 school buildings donated by SM Foundation

30 school buildings donated by BDO Foundation

3,637
college scholars nationwide

5 GENDER EQUALITY

70%
of women in its workforce

6 CLEAN WATER AND SANITATION

33.2%
of water used is recycled

7 AFFORDABLE AND CLEAN ENERGY

Php9.7bn
funding for clean energy through BDO Sustainable Energy Finance Program

8 DECENT WORK AND ECONOMIC GROWTH

Creates more than
300,000
direct and indirect job opportunities

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Develops disaster resilient integrated lifestyle cities

10 REDUCED INEQUALITIES

27,000
participants raised awareness for autism, Down syndrome and people with disabilities

11 SUSTAINABLE CITIES AND COMMUNITIES

1,000
disaster resilient new homes for victims of typhoon Yolanda

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

more than
Php47M
paid out value in exchange for recyclable trash

13 CLIMATE ACTION

reduced average of
179,049 tons
of GHG emissions per year through BDO SEF funded projects

Lead role in UN ARISE for disaster resilience

14 LIFE BELOW WATER

3 marine protected areas

10 hectares of mangroves protected

15 LIFE ON LAND

536,479
trees planted

16 PEACE AND JUSTICE

Corporate Governance Awards

17 PARTNERSHIPS FOR THE GOALS

Takes lead in UNISDR Private Sector Alliance for Disaster Resilient Societies

Corporate Governance

SM Investments Corporation (SMIC) through its Board of Directors and Management recognizes that delivering financial success, sustainability and creating value for all its stakeholders must be firmly anchored on sound corporate governance practices.

THE BOARD OF DIRECTORS

SMIC's culture of corporate governance begins with its Board of Directors. The Board sets the "tone at the top" and upholds the highest standard of excellence and integrity for the Company. The Board is responsible for the long-term success of the Company, and ensures that it balances its corporate objectives with the long-term best interest of its shareholders and other stakeholders.

Specifically, the Board takes on the following tasks:

- Install a process of selection to ensure a mix of competent directors and officers;
- Determine the Company's purpose, vision, mission and strategies to carry out its objectives and review it annually, or sooner should the need arise;
- Oversee the development of and approve the Company's business objectives and strategy, and monitor Management's implementation of such;
- Ensure that the Company complies with all relevant laws, regulations and codes of best business practices;
- Identify the Company's major and other stakeholders and formulate a clear policy on communicating or relation with them through an effective investors relations program;
- Adopt a system of internal checks and balances;
- Identify and monitor key risk areas and key performance indicators, and ensure that a sound Enterprise Risk Management framework is in place;
- Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation;
- Ensure that an effective succession planning program for directors, key officers and management is in place, and setting the retirement age for directors and key officers at eighty (80) years of age;
- Ensure that each elected director, shall before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or governance institution;
- Ensure that each director shall annually attend relevant continuing education programs conducted by a regulatory body accredited training provider;
- Ensure that directors with material interest in any transaction affecting the Company should abstain from taking part in the deliberations for the same;
- Formulate and implement group-wide policies to ensure the integrity of related party transactions, particularly those which pass certain thresholds of materiality, between and among the Company and its related companies, business associates, major shareholders, officers, directors and their spouses, children, dependent siblings and parents, and of interlocking director relationships; and
- Establish and maintain an alternative dispute resolution system to settle conflicts between the Company and its shareholders or other third parties, including regulatory authorities.

Board Independence

The Board is comprised of eight (8) directors, three (3) of whom are non-executive independent directors. Per SMIC's Manual on Corporate Governance, the Company shall have at least three (3) independent directors, who must be free from management responsibilities, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. Independent directors are tasked to encourage impartial discussions at board meetings, monitor and provide feedback on Management's performance, and safeguard the interests of the Company's various stakeholders.

In line with the Company's board diversity policy, Ms. Tomasa H. Lipana was elected to the Board of Directors during SMIC's last Annual Stockholders' Meeting. She joins Mr. Ah Doo Lim, a former investment banker and seasoned corporate executive from Singapore, and Mr. Joseph R. Higdon, an American with a lifetime of experience in investments and fund management, to form a diverse and well-rounded collection of independent directors on the Board of SMIC. Ms. Lipana, a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers, brings with her a wealth of knowledge and experience in accounting, auditing, risk management and corporate governance.

SM Investment Corporation's Board of Directors					
Director	Designation	Directorship	Age	Year First Elected	No. of years served as director
Henry Sy, Sr.	Chairman of the Board	Non-Executive Director	92	Jan. 1960	57
Teresita T. Sy-Coson	Vice Chairperson	Non-Executive Director	66	May 1979	38
Henry T. Sy, Jr.	Vice Chairman	Non-Executive Director	63	May 1979	38
Harley T. Sy	President	Executive Director	57	May 1993	24
Jose T. Sio	Director	Executive Director	77	May 2005	12
Ah Doo Lim	Independent Director	Non-Executive Director	67	April 2008	9
Joseph R. Higdon	Independent Director	Non-Executive Director	75	April 2010	7
Tomasa H. Lipana	Independent Director	Non-Executive Director	68	April 2016	1

Board Performance and Attendance

Regular meetings of the Board are held quarterly and scheduled a year in advance to encourage higher participation. Special board meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year may be a ground for temporary disqualification in the succeeding election. Furthermore, non-executive directors meet at least once a year, without any executive directors or representatives of Management present. Board papers and other materials used during Board meetings are distributed to the relevant parties at least one (1) week before the actual meeting.

Director	Special	Regular	Regular	Organizational	Special	Regular	Special	Regular	Special	%
	2/29/16	3/2/16	4/27/16	4/27/16	5/3/16	8/3/16	9/21/16	11/9/16	1/21/17	
Henry Sy, Sr.	√	√	√	√	√	√	√	√	√	100
Teresita T. Sy-Coson	√	√	√	√	√	√	√	√	√	100
Henry T. Sy, Jr.	√	√	√	√	√	√	√	√	√	100
Harley T. Sy	√	√	√	√	√	-	√	√	√	88.8
Jose T. Sio	√	√	√	√	√	√	√	√	√	100
Vicente S. Perez, Jr.*	√	√	√	N/A	N/A	N/A	N/A	N/A	N/A	100
Ah Doo Lim	√	√	√	√	√	√	√	√	√	100
Joseph R. Higdon	√	√	√	√	√	√	√	√	√	100
Tomasa H. Lipana*	N/A	N/A	N/A	√	√	√	√	√	√	100

Board Committees

To address specific tasks and responsibilities, the Board adopted six (6) board committees, namely the Executive Committee, the Audit Committee, the Risk Management Committee, the Related Party Transactions Committee, the Corporate Governance Committee, and the Compensation Committee. Each committee has a Charter which defines its composition, roles and responsibilities based on the provisions found in the Manual on Corporate Governance. The Charters include administrative provisions on the conduct of meetings and proceedings, reportorial responsibilities and provide the standards for evaluation of the respective committee performance. The Charters are disclosed via the Company's website and may be viewed and downloaded.

The Executive Committee

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

The Audit Committee

The Audit Committee exercises the Board's oversight of the Company's financial reporting, internal control system, internal and external audit processes and compliance with applicable laws, rules and regulation. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairperson, are independent directors. The Committee members each possess relevant background, knowledge, skills and/or experience in areas of accounting, auditing and finance. The Chairperson of the Audit Committee, Ms. Tomasa H. Lipana, is a certified public accountant and does not serve as the chairperson of any of the other board committees. (Please see the Audit Committee Report for more information on the Committee's roles and activities.)

The Risk Management Committee

The Risk Management Committee is responsible for the oversight of the Company's Enterprise Risk Management (ERM) system. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairman, are independent directors. Per the Committee's charter, at least one (1) of its members must have relevant knowledge and experience on risk and risk management. The Committee Chairman, Mr. Joseph R. Higdon does not serve as the chairman of any of the other board committees.

Risk Management Committee			
Office	Director	11/9/16	3/1/17
Chairman (ID)	Joseph R. Higdon	√	√
Member (ID)	Ah Doo Lim	√	√
Member (NED)	Teresita T. Sy-Coson	√	√

The Related Party Transactions Committee

The Related Party Transactions Committee reviews all material related party transactions of the Company and ensures that said transactions are conducted at arms' length. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairman, are independent directors.

Related Party Transactions Committee	
Office	**Director**
Chairman (ID)	Ah Doo Lim
Member (ID)	Joseph R. Higdon
Member (NED)	Teresita T. Sy-Coson

The Corporate Governance Committee

The Corporate Governance Committee is tasked to assist the Board in its corporate governance related responsibilities, while also performing the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. The Committee is composed entirely of independent directors.

Corporate Governance Committee*				
Current Committee Office	**Director**	**3/2/16**	**3/15/16**	**3/1/17**
Chairman (ID)	Ah Doo Lim	√	√	√
Member (ID)	Joseph R. Higdon	√	√	√
Member (ID)	Vicente S. Perez, Jr.**	√	√	N/A
Member (ID)	Tomasa H. Lipana**	N/A	N/A	√

**Formerly the Nomination Committee, which was changed to the Corporate Governance Committee in first quarter 2017.*

***Committee composition was changed per Board decision on April 27, 2016.*

The Manual on Corporate Governance prescribes the following qualifications to be a director of the Company:

- Holder of at least one (1) share of stock of the Corporation;
- Shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- Shall be at least twenty one (21) years old;
- Shall be proven to possess integrity and probity;
- Shall be diligent, hardworking and reputable;
- Shall be proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Company; and
- In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the Company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.

In addition to the aforementioned qualifications, the Corporate Governance Committee also identifies qualities of directors that are aligned with the Company's strategic direction. Likewise, the Committee ensures that those nominated to the Board possess none of the disqualifications enumerated in the Manual on Corporate Governance. Further to this, the Committee ensures that nominees have attended an orientation or training related to corporate governance before taking office. The Committee also facilitates training for Board members and key officers provided by training providers duly accredited by the Securities and Exchange Commission (SEC).

Details of Continuing Education/Training of the Board of Directors			
Director	**Date of Training**	**Program**	**Name of Training Institution**
Teresita T. Sy-Coson	9/14/16	Seminar on Corporate Governance (BDO)	Sycip, Gorres & Velayo (SGV)
Henry T. Sy, Jr.	8/3/2016	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
Harley T. Sy	11/2/16	Corporate Governance Training Program (CBC)	Institute of Corporate Directors (ICD)
Jose T. Sio	9/14/16	Seminar on Corporate Governance (BDO)	Sycip, Gorres & Velayo (SGV)
Ah Doo Lim	8/3/2016	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)
Joseph R. Higdon	4/26/16	Annual Corporate Governance Seminar (SBC)	Institute of Corporate Directors (ICD)
Tomasa H. Lipana	8/3/2016	Annual Corporate Governance Training Program (SMIC)	Institute of Corporate Directors (ICD)

The Corporate Governance Committee also determines the number of directorships which a member of the Board may hold simultaneous to their SMIC board seat.

Directorships in Other Reporting Companies		
Director	**Name of Reporting Company**	**Nature of Directorship**
Henry Sy, Sr.	SM Prime Holdings, Inc.	Chairman Emeritus
	BDO Unibank, Inc.	Chairman Emeritus
	China Banking Corp.	Honorary Chairman
Teresita T. Sy-Coson	BDO Unibank, Inc.	Chairperson (ED)
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman (NED)
Harley T. Sy	China Banking Corp.	Non-Executive Director
Jose T. Sio	China Banking Corp.	Non-Executive Director
	Belle Corp.	Non-Executive Director
	Atlas Consolidated Mining and Development Corp.	Non-Executive Director
Ah Doo Lim	ST Engineering Ltd.	Independent Director
	Sembcorp Marine Ltd.	Independent Director
	GP industries Ltd.	Independent Director
	Bracell Limited	Independent Director
	ARA-CWT Trust Management (Cache) Ltd.	Independent Director
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director
	Security Bank Corp.	Independent Director
	Philippine Equity Partners, Inc.	Independent Director

Evaluation of the Board and President

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

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

The Compensation Committee

The Compensation Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement. The Committee is composed of three (3) directors, one (1) of whom is an independent director.

Compensation Committee				
Office	**Director**	**3/2/16**	**4/27/16**	**11/9/16**
Chairperson	Teresita T. Sy-Coson	√	√	√
Member	Jose T. Sio	√	√	√
Member (ID)	Vicente S. Perez, Jr.*	√	√	N/A
Member (ID)	Joseph R. Higdon*	N/A	N/A	√

**Committee composition was changed per Board decision on April 27, 2016.*

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. The amount of the per diem is proposed at the Annual Stockholders' Meeting and approved by SMIC shareholders. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

CORPORATE GOVERNANCE RELATED POLICIES

SMIC regularly reviews and enhances its Manual on Corporate Governance, Code of Ethics, and other corporate governance related policies and programs to ensure continued development of its governance related practices. All corporate governance related policies may be viewed and downloaded via the Company's website at www.sminvestments.com.

The Manual on Corporate Governance

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

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

The Code of Ethics

SMIC's Code of Ethics provides the Company with the backbone for its culture of corporate governance. All directors, officers and employees are required to adhere to the Code in the performance of their duties and responsibilities. The Code highlights the importance of integrity in all the dealings with investors, creditors, customers, contractors, suppliers, regulators, co-employees, and the Company's other various stakeholders. It also highlights the Company's duties to its employees, shareholders and the importance of corporate social responsibility.

Other CG Related Policies	Brief Descriptions
Insider Trading Policy	Directors, officers and employees are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of any material, stock price-sensitive information. SMIC issues reminders of the "trading ban" before the release of financial reports or the disclosure of other material information to ensure compliance with the policy. Directors and officers are required to report their dealings in company shares within three (3) business days.
Related Party Transactions Policy	SMIC discloses the nature, extent and material information on transactions with related parties in the Company's financial statements and quarterly and annual reports. A newly formed Related Party Transactions Committee is tasked to review all of SMIC's related party transactions to ensure that these are conducted at arm's length.
Conflict of Interest Policy	SMIC's Conflict of Interest Policy defines a conflict of interest as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him/her from acting in the best interests of the Company. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company.
Guidelines on Acceptance of Gifts &Travel Sponsored by Business Partners (Anti-Corruption)	Based on the provisions of the Code of Ethics, SMIC's directors, officers and employees are prohibited from soliciting or accepting gifts in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate giveaways, tokens or promotional items of nominal value. In the same manner, travel sponsored by any current or prospective business partner is prohibited under the Guidelines on Travel Sponsored by Business Partners.
Guidelines on Placement of Advertisements	SMIC issued a policy to prohibit the placement of advertisements in publications that solicit ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or director, officer or employee is one of the nominees vying for the award. SMIC may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or director, officer or employee.
Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)	SMIC's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any SMIC director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Furthermore, the policy invokes a "no retaliation" section for those that have reported in good faith.
Policy for Vendor Selection and Purchase of Goods and Services	Existing and potential vendors and suppliers are required to conform to the Company's Code of Ethics as a pre-requisite for the accreditation process.

DISCLOSURE AND TRANSPARENCY

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

The Investor Relations (IR) Department of SMIC is the main avenue of communication between the Company and its various stakeholders. The IR Department arranges regular teleconferences and site visits for investors, and conducts annual roadshows with stop in various locations throughout the world. They also coordinate with the investor relations departments of the Company's subsidiaries and affiliates, as well as participate in various investor fora locally and conduct regular briefings with analysts and members of the press. Should SMIC's shareholders or other various stakeholders require further information or details on the Company, its operations, directors and/or officers, or would like to provide feedback and/or make other relevant suggestions/recommendations to the Company, they may contact the following:

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

Annual Corporate Governance Report (ACGR)

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

The Annual Stockholders' Meeting

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

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

Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. Proxy forms may also be downloaded from the Company's website. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required. Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and the corresponding responses are recorded in the minutes of the ASM, which are posted on the Company's website within five (5) days from the ASM. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairpersons and Members, Management, the Corporate Secretary, Compliance Officer, Internal Auditor and the External Auditors are always present during the ASM.

RIGHTS, ROLES AND PROTECTION OF STAKEHOLDERS

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

Rights of Shareholders

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

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

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

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

Dividend Policy

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

Employee Welfare

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

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

Emergency Preparedness Program

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

Training and Employee Development

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

For governance related issues or concerns, stakeholders may refer to:

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

(L-R) Henry T. Sy, Jr., Teresita T. Sy-Coson, Henry Sy, Sr., Harley T. Sy, Jose T. Sio, Ah Doo Lim, Tomasa H. Lipana, Joseph R. Higdon

Board of Directors

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

Mr. Henry Sy, Sr. is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman Emeritus of SM Prime, SM Development, Highlands Prime Inc., BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. Mr. Sy opened the first ShoeMart store in 1958 and the business has since evolved into a dynamic group of companies with interests in retail, banking, property and portfolio investments.

Ms. Teresita T. Sy-Coson is the Co-Vice Chairperson of SMIC. She likewise hold board positions in various subsidiaries and affiliates of SMIC. This includes BDO Unibank, Inc., where she is currently Chairperson, and SM Prime Holdings, Inc., where she acts as Adviser to the Board. She is likewise the Chairperson of SM Retail, Inc., which holds the SM Group's interests in its retail businesses. She is a graduate of Assumption College. She brings to the board her vast experience in retail merchandising, mall development and banking businesses.

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

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

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

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

Advisers to the Board

Mr. Hans T. Sy

Ms. Elizabeth T. Sy

Mr. Herbert T. Sy

Atty. Corazon I. Morando

Mr. Stephen CuUnjieng

Mr. Roberto G. Manabat

Atty. Serafin U. Salvador, Jr.

Ltd., GDS Holdings Limited. He is also an Independent Director of Sembcorp Marine Ltd., a world leading offshore rig builder. He obtained a degree in Engineering from Queen Mary College, University of London in 1971 and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

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

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

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

Awards & Citations

SM Investments Corporation

Corporate Governance Asia
6th Asian Excellence Awards
Asia's Best CSR
Asia's Best CFO (Investor Relations)
Jose T. Sio, Executive Vice President and CFO
Best Investor Relations Professional
Corazon P. Guidote, Senior Vice President for Investor Relations

12th Best of Asia Awards
Icon on Corporate Governance - SM Investments Corp.
Asian Corporate Director Recognition Award, Harley T. Sy

The Asset Corporate Awards 2016
Platinum Award (2009 - 2016)
Excellence in Governance, CSR and Investor Relations

Alpha Southeast Asia
6th Annual Corporate Awards
Most Organized Investor Relations
Best Senior Management IR support
Strongest Adherence to Corporate Governance
Best CFO in the Philippines,
Jose T. Sio

Public Relations Society of the Philippines
52nd Anvil Awards
Gold Anvil
2015 SMIC Environmental, Social and Governance Report
Silver Anvil
2015 SMIC Annual Report
SMIC Website Design

Asia Pacific Entrepreneurship Awards 2016
Lifetime Achievement Award for Mr. Henry Sy, Sr.

Fortune Times
Asia Top Entrepreneur Award - Philippines 2016
Teresita Sy-Coson

Management Association of the Philippines
Management Man of the Year
Teresita Sy-Coson

Global CSR and Good Governance Awards
Best Corporate Communications and Investor Relations (Silver)
Best Governed and Most Transparent Company (Bronze)

SM Prime Holdings, Inc.

Corporate Governance Asia
6th Asian Excellence Awards
Best Investor Relations Company
Asia's Best CEO (Investor Relations)
Hans T. Sy, Chairman
Asia's Best CFO (Investor Relations)
Jeffrey C. Lim, President

12th Best of Asia Awards
Icon on Corporate Governance (6th Year)

The Asset Corporate Awards 2016
Platinum Award
Excellence in Governance, CSR and Investor Relations

IR Magazine Awards 2016 South East Asia
Best in Real Estate Sector

Investors Forum 2016
One of the Institutional Investor Governance Awardees

SM Retail, Inc.

Philippine Retailers Association
PRA Outstanding Filipino Retailers Gold Award, SM Retail, Inc.

Bangko Sentral ng Pilipinas
BSP Stakeholders Awards Outstanding Enterprise Partner - Demonetization Program, SM Retail, Inc.

Retail Asia
Retail Asia-Pacific Top 500 Award Philippines Gold, SM Retail, Inc.

Sun Star Cebu
Best Department Store
THE SM STORE Cebu - June 2016

Sun Star Best of Cebu 2016
SM Turon with Langka

Top Taxpayer Awards by the LGUs
Savemore Tacloban
Savemore San Jose
Savemore Bayombong
Savemore Santiago 1
Savemore Santiago 2
Savemore Laoag
Savemore Sta. Maria Ilocos
Savemore Morong
SM Hypermarket Bicutan

DTI Gold Bagwis Awards
SM Supermarket Aura
SM Supermarket Davao
SM Supermarket BF
SM Hypermarket Bicutan
SM Hypermarket Sun
SM Hypermarket Adriatico
Savemore Jackman
Savemore Cyberwest
Savemore Project 8
Savemore Light
Savemore Acacia
Savemore Zabarte
Savemore Camarin
Savemore Marulas
Savemore Francis Market
Savemore Star J Malabon
Savemore Pasong Tamo
Savemore A. Venue
Savemore M. Alvarez
Savemore Festival Mall
Savemore Muntinlupa

DepEd Hall of Fame for Contributions to Brigada Eskwela
Savemore Market Lucena

City Environment and Natural Resources Offices and Metro Batangas Business Club's
Most Eco-Friendly Commercial Establishment
SM Hypermarket Batangas

Philippine Retailers Association
SM Hypermarket-Hall of Fame
Best Supermarkets 2015
SM Supermarket and SM Markets

SM Foundation, Inc.

Philippine Blood Center
Mobile Blood Donation Activities
Melchora Aquino Award

Public Relations Society of the Philippines
52nd Anvil Awards
Silver Anvil School Building Programs

BDO Unibank, Inc.

Alpha Southeast Asia
10th Annual Best FI Awards 2016
Best Bank: BDO (2010-2016)
Best Cash Management Bank
Best FX Bank for Corporate & FIs: BDO (2011-2016)

Asian Banking & Finance
Asian Banking & Finance - Wholesale Banking
Philippine Domestic Cash Management Bank of the Year

Asian Banking & Finance - Retail Banking
Automotive Lending Initiative of the Year
Mortgage & Home Loan Product of the Year
Online Banking Initiative of the Year- Philippines
Corporate Social Responsibility Program of the Year - Silver

Asian Investor
Asian Investor Asset Management Awards
Fund House of the Year in the Philippines

Asiamoney / Global Capital
2016 Asiamoney Cash Management Poll Results
Best Local Cash Management Bank as voted by Corporates

2016 Global Capital / New Year Awards
2015 BDO Corporate Governance Poll - Best for Disclosure & Transparency in the Philippines

Asiamoney / Global Capital Best Domestic Bank Awards 2016
Best Domestic Bank in the Philippines (2014-2016)

Charlton EastColes Corporate Performance Report
Corporate Performance Award
BDO Unibank Inc - Top 15,
Philippine Bank of the Year 2016

Corporate Governance Asia
6th Asian Excellence Award 2016
One of the recipients of the 6th Asian Excellence Award 2015 - BDO Unibank
Best CSR
Best Environmental Responsibility
Best IR Company (Philippines)
One of the recipients of Asia's Best CEO (Investor Relations)
Teresita T. Sy-Coson, Chairperson
One of the recipients of Asia's Best CEO (Investor Relations)
Nestor V. Tan, Pres. & CEO
One of the recipients of Best Investor Relations Professional (Philippines)
Luis S. Reyes, Jr., SVP and Head of IR and Corp. Planning

Global Finance
Global Finance The World's Best Trade Finance Provider
Best Trade Finance Provider in the Philippines (2008, 2011 - 2016)

Global Finance The World's Best Foreign Exchange Provider
Best Foreign Exchange Provider in the Philippines (2011, 2016)

Global Finance Best Bank Awards
Best Bank in the Philippines (2014-2016)

Project Finance
PFI Awards
Asia Pacific Power Deal of the Year (San Buenaventura's Php42.15bn Financing)
Transport Deal of the Year (Mactan Cebu International)

The Asian Banker
The International Excellence in Retail FS Awards 2016
Best Retail Bank in the Philippines

The Asian Banker Transaction Banking Awards
Best Transaction Bank in the Philippines
Best Cash Management Bank in the Philippines

The Asian Banker Country Awards
Best Deposit Initiative in the Philippines
Best Social Media Initiative -
BDO Project Kiss Campaign
Best Mobile Payment Initiative

The Asset
The Asset Triple A Treasury, Trade and Risk Management Awards 2016
Best in Treasury and Working Capital - SMEs, Philippines

The Asset Triple A Servicing Fund Management & Investors Awards
Asset Management Company of the Year for the Philippines Market Impact Investor of the Year Award

The Asset Corporate Awards 2016
BDO - one of the Platinum award winners (2010-2016)

The Asset Triple A Country Awards 2016
Best Domestic Bank, Philippines (2013-2016)
Best Corporate Institutional Bank in the Philippines
Best Corporate Liability Management, Philippines

World Finance
Investment Management Awards
Best Investment Management Company, Philippines

China Banking Corporation

Philippine Stock Exchange
2016 PSE Bell Award for Corporate Governance
One of the Top 5 Listed Companies

The Asset Magazine
2016 Triple A Asia Infrastructure Awards
Php31.97 B Therma Visayas Project Financing Deal, Most Innovative Deal - Philippines

Php42.15 B San Buenaventura Power Project Financing Deal - Best Power Deal - Philippines

Triple A Regional Investment Awards
"Local Currency Bonds" for the P33.3 Bn San Miguel Brewery bond issue
Triple A Best Bond House - Domestic, Philippines

Corporate Governance Asia
The 6th Asian Excellence Awards
Best Investor Relations Company (Philippines) - China Bank

Asia's Best CEO (Investor Relations)
Ricardo R. Chua, President and CEO
Best Investor Relations Professional (Philippines)
Alexander C. Escucha, SVP for Investor and Corporate Relations

12th Best of Asia Awards
Outstanding on Corporate Governance
China Bank
Asian Corporate Director Recognition Award Mr. Hans T. Sy

Finance Monthly
The 7th Finance Monthly Global Awards
Banking & Finance Firm of the Year — Philippines

Social Security System
Best Collection Partner
Best Collecting Commercial Bank

Capital Finance International
Capital Finance International Awards
Best Bank Governance 2016

Asia Pacific Entrepreneurship Awards (APEA)
Asia Pacific Entrepreneurship Awards 2016 Philippines

BNY Mellon
"BNY Mellon STP Award" for the Bank's outstanding straight-through processing rate

Philippine Dealing System (PDS)
11th Philippine Dealing System Awards
"Top Corporate Issue Manager / Arranger Bank Category" besting foreign banks, ING, Standard Chartered & HSBC

Global Banking and Finance
Best Bank for Domestic Debt Capital Markets Philippines
Best Investor Relations Bank

CFA Society Philippines
Best Managed Fund for Bond Long-Term Dollar Category

Public Relations Society of the Philippines
52nd Anvil Awards
Best PR Tools
China Bank 2015 Annual Report

Financial Statements 2016

Management's Discussion and Analysis or Plan of Operation

Calendar Year Ended December 31, 2016 and 2015

Results of Operation
(amounts in billion pesos)

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

SM Investments Corporation and Subsidiaries (the Group) reported ₱31.2 billion Net Income Attributable to Owners of the Parent, 8.1% higher than 2015, and ₱362.8 billion Revenues, 9.0% higher than 2015.

Income from Operations increased by 8.8% to ₱66.9 billion from ₱61.5 billion in 2015. *Operating Margin and Net Margin* is at 18.4% and 13.2%, respectively.

Merchandise Sales, which grew by 8.5% to ₱269.3 billion from ₱248.1 billion in 2015, accounts for 74.2% of total revenues in 2016. The increase is attributable to the opening of 153 Specialty stores and the following new stores in 2016:

	SM Department Stores	SM Supermarkets	Savemore Stores	SM Hypermarkets
1	SM San Jose Del Monte	SM San Jose Del Monte	Savemore Tumauini 2	Handumanan
2	SM Trece Martires	Trece Martires	Savemore GMA Portal Cavite	-
3	SM Molino	East Ortigas	Savemore Cedar Peak Baguio	-
4	SM East Ortigas	-	Savemore Bambang	-
5	-		Savemore Green Residences	-
6	-	-	Savemore City Mall Kalibo	-
7	-	-	Savemore DDC Paliparan	-
8	-	-	Savemore City Mall Tiaong	-
9	-	-	Savemore Paseo Reale	-
10	-	-	Savemore Cauayan Isabela	-
11	-	-	Savemore City Mall Ilagan 3	-
12	-	-	Savemore Concepcion Tarlac	-
13	-	-	Savemore City Mall Parola	-
14	-	-	Savemore Bagbauin	-
15	-	-	Savemore Sta. Barbara	-
16	-	-	Savemore Cotabato City	-
17	-	-	Savemore Laoag 2	-
18	-	-	Savemore Jaen Nueva Ecija	-
19	-	-	Savemore Mandalagan	-
20	-	-	Savemore One Mall	-
21	-	-	Savemore EPZA Gen Trias	-
22	-	-	Savemore Alapan	-

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

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

Real Estate Sales increased by 11.5% to ₱25.1 billion from ₱22.5 billion in 2015 due primarily to higher construction accomplishments of projects launched from 2013 to 2015 namely, *Shore 2 Residences* in Pasay City, *Grass Residences* in Quezon City, *Air Residences* in Makati and *South Residences* in Las Piñas and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely *Princeton Residences, M Place Residences and Mezza II Residences* in Quezon City and *Jazz Residences* in Makati City due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

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

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.2% to ₱37.5 billion from ₱33.5 billion in 2015. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2015 and 2016, namely, *SM Seaside City Cebu, SM City Cabanatuan, SM City San Mateo, SM San Jose Del Monte, SM Trece Martires* and S Maison in SM Mall of Asia as well as the expansion of shopping spaces in *SM Center Sangandaan, SM City Iloilo and SM Center Molino*. In addition, retail podiums of *Light, Shine, Shell and Green Residences* opened in 2015 and 2016. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from commercial operations also increased due to the opening of *Five E-com Center* as well as the expansion of *SM Clark* office tower in 2015. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room and occupancy rates and the opening of *Park Inn Clark* in December 2015 and Conrad Manila in June 2016.

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

Cinema Ticket Sales, Amusement and Others increased by 1.6% to ₱6.5 billion from ₱6.4 billion in 2015.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 4.7% to ₱15.0 billion from ₱14.3 billion in 2015.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT) - net increased by 220.3% to gain of ₱6.5 million in 2016 from loss of ₱5.4 million in 2015 due primarily to the gain on sale of AFS investments and favorable changes in the fair value of HFT investments in 2016.

Dividend Income decreased by 38.9% to ₱0.2 billion in 2016 from ₱0.3 billion in 2015.

Other Revenues, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 24.6% to ₱6.3 billion in 2016 from ₱5.0 billion in 2015.

Selling, General and Administrative Expenses increased by 11.2% to ₱81.8 billion from ₱73.6 billion in 2015 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 6.2% to ₱7.6 billion from ₱7.2 billion in 2015. *Interest Expense* increased by 12.2% to ₱11.8 billion from ₱10.5 billion in 2015 due mainly to new availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 15.9% to ₱3.7 billion from ₱3.2 billion in 2015 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* increased to a gain of ₱0.6 billion from a loss of ₱0.1 billion in 2015. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 114.6% to a gain of ₱15.2 million from a loss of ₱104.0 million in 2015 which pertains to the US$250.0 million convertible bonds of SMIC that was settled in April 2015. *Foreign Exchange Gain - net* decreased by 170.7% to a loss of ₱170.1 million from a gain of ₱240.8 million in 2015. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP47.06 : USD1.00 in 2015 to PHP49.72 : USD1.00 in 2016.

Provision for Income Tax increased by 7.9% to ₱11.6 billion from ₱10.6 billion in 2015 due mainly to increase in taxable income. The effective income tax rate is 19.5% in 2016 and 19.7% in 2015.

Non-controlling interests increased by 11.9% to ₱16.5 billion in 2016 from ₱14.8 billion in 2015 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

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

Total Assets increased by 9.7% to ₱861.5 billion from ₱785.5 billion in 2015. Likewise, total Liabilities increased by 11.3% to ₱446.7 billion from ₱401.5 billion in 2015.

<u>*Current Assets*</u>

Current Assets increased by 25.8% to ₱219.1 billion from ₱174.2 billion in 2015.

Management's Discussion and Analysis or Plan of Operation

Cash and Cash Equivalents increased by 28.6% to ₱74.9 billion from ₱58.3 billion in 2015 due mainly to proceeds from issuance of retail bonds by SM Prime and SMIC.

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

Investments Held for Trading and Sale increased by 214.0% to ₱3.5 billion from ₱1.1 billion in 2015 due mainly to reclassification of maturing available-for-sale (AFS) investments from noncurrent to current, partially offset by maturity of certain investment in bonds.

Merchandise Inventories increased by 19.6% to ₱25.8 billion from ₱21.6 billion in 2015. Bulk of the increase came from the Food Group.

Other Current Assets increased by 13.5% to ₱59.0 billion from P52.0 billion in 2015 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs partially offset by cost of real estate sold.

Noncurrent Assets

Noncurrent Assets increased by 5.1% to ₱642.4 billion from ₱611.3 billion in 2015.

AFS Investments decreased by 11.8% to ₱18.7 billion from ₱21.2 billion in 2015 due mainly to the reclassification of maturing bonds to current and the decrease in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 6.2% to ₱181.2 billion from ₱170.6 billion in 2015. The increase mainly represents equity in net earnings of associates in 2016 partially offset by dividends received from these associate companies.

Time Deposits decreased by 20.9% to ₱42.0 billion from ₱53.1 billion in 2015 due mainly to the reclassification of maturing time deposits to current.

Investment Properties increased by 8.2% to ₱270.1 billion from ₱249.6 billion in 2015 due mainly to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines; expansions and renovations of *SM Mall of Asia, SM City Sucat* and *SM Xiamen*; and ongoing projects of the commercial and hotel groups namely *Three E-Com Center, Four E-Com Center* and *Conrad Manila.*

Land and Development decreased by 13.0% to ₱23.8 billion from ₱27.4 billion in 2015 due mainly to reclassification of launched projects to current.

Intangibles decreased by 0.5% to ₱25.7 billion from ₱25.8 billion in 2015 resulting from the amortization of Trademarks acquired in 2015.

Other Noncurrent Assets increased by 41.9% to ₱57.3 billion from ₱40.4 billion in 2015. The increase mainly represents additional loans to an associate company, new derivative assets to hedge the Group's foreign exchange and interest rate risk, additional bonds and deposits for real estate acquisitions, and construction accomplishments of sold units as well as new sales for the period.

Current Liabilities

Current Liabilities increased by 6.3% to ₱134.8 billion from ₱126.8 billion in 2015.

Bank Loans increased by 33.3% to ₱14.0 billion from ₱10.5 billion in 2015 resulting from new availments net of payments during the period.

Current Portion of Long-term Debt decreased by 1.5% to ₱25.6 billion from ₱26.0 billion in 2015 due mainly to payments of maturing loans.

Accounts Payable and Other Current Liabilities increased by 4.7% to ₱89.3 billion from ₱85.3 billion in 2015 mainly from higher business volume.

Dividends Payable increased by 28.4% to ₱3.3 billion from ₱2.6 billion in 2015. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable increased by 8.9% to ₱2.7 billion in 2016 from ₱2.5 billion in 2015 due mainly to higher taxable income in 2016.

Noncurrent Liabilities

Noncurrent Liabilities increased by 13.5% to ₱311.9 billion from ₱274.7 billion in 2015.

Long-term Debt - Net of Current Portion increased by 14.3% to ₱280.3 billion from ₱245.2 billion in 2015 due mainly to new availments.

Tenants' Deposits and Others increased by 13.1% to ₱23.7 billion from ₱21.0 billion in 2015. The increase is attributable to new malls and expansions as well as increase in customers' deposits from residential buyers.

Deferred Tax Liabilities, which arose mainly from appraisal increment on investment property, trademarks and brand names, capitalized interest and unrealized gross profit on sale of real estate, decreased by 7.8% to ₱7.9 billion from ₱8.6 billion in 2015.

Equity

Total Equity increased by 8.0% to ₱414.8 billion from ₱384.0 billion in 2015.

Equity Attributable to Owners of the Parent increased by 7.3% to ₱300.5 billion from ₱280.0 billion in 2015. This increase resulted mainly from (a) *Capital Stock* which increased by 50% to ₱12.0 billion from ₱8.0 billion as a result of the declaration of 50% stock dividends in 2016, (b) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 15.0% to ₱1.2 billion from ₱1.1 billion in 2015. These were partially offset by (c) *Net Unrealized Gain on AFS Investments* which decreased by 15.3% to P10.8 billion from ₱12.7 billion in 2015 due mainly to the depreciation in market value of AFS investments of subsidiaries and associates, (d) *Equity adjustment from common control transactions* which increased by 1.6% to ₱5.4 billion from ₱5.3 billion in relation to the Retail merger, and (e) *Re-measurement gain on defined benefit asset/ obligation* which decreased by ₱0.2 billion as a result of valuation of the Group's retirement plan.

Non-controlling Interests increased by 9.9% to ₱114.3 billion from ₱104.0 billion in 2015 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

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

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

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

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

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

Net debt-equity ratio slid to 37:63 from 36:64 in 2015 due to higher increase in net debts of 11.5% from ₱156.7 billion to ₱174.8 billion in 2016.

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

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

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

EBITDA increased by 8.7% to ₱79.8 billion from ₱73.4 billion in 2015 due mainly to the 8.8% increase in income from operations.

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

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

1. Current Ratio — Current Assets / Current Liabilities

2. Asset to Equity Ratio — Total Assets / Total Equity

3. Debt — Equity Ratio

   a. Gross Basis — Total Interest Bearing Debt / Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt

   b. Net Basis — Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale / Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale

4. Revenue Growth — Total Revenues (Current Period) / Total Revenues (Prior Period) - 1

5. Net Margin — Net Income After Tax / Total Revenues

6. Net Income Growth — Net Income Attributable to Owners of the Parent (Current Period) / Net Income Attributable to Owners of the Parent (Prior Period) - 1

7. Return on Equity — Net Income Attributable to Owners of the Parent / Average Equity Attributable to Owners of the Parent

8. EBITDA — Income from Operations + Depreciation & Amortization

9. Interest Cover — EBITDA / Interest Expense

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

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

Statement of Management's Responsibility for Financial Statements

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

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

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

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

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

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

Signed this 1st day of March 2017

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Report of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's financial reporting, internal control system, internal and external audit processes and compliance with relevant laws and regulation. Likewise, the Committee oversees special investigations as may be necessary. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are independent directors including the Chairperson. The Committee members have relevant background, knowledge, skills and/or experiences in areas of accounting, auditing and finance. The profiles and qualifications of the Committee members are as follows:

- **Tomasa H. Lipana,** (Chairperson) is an independent director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is an independent director and Audit Committee Chairperson of various private corporations and a government owned and controlled corporation. She is also a trustee of several non-profit organizations. She is a fellow of the Institute of Corporate Directors. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She was also a CPA Board placer.

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

- **Teresita T. Sy-Coson,** (Member) is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

  Presented below are the dates of Committee meetings and the attendance of each member.

Audit and Risk Management Committee*				Audit Committee*		
Current Committee Designation	Name	2/29/16	3/2/16	5/3/16	8/3/16	11/9/16
Chairperson (ID)	Tomasa H. Lipana**	N/A	N/A	√	√	√
Member (ID)	Ah Doo Lim	√	√	√	√	√
Member (NED)	Teresita T. Sy-Coson	√	√	√	√	√
Chairman** (ID)	Vicente S. Perez, Jr.**	√	√	N/A	N/A	N/A

**The Audit and Risk Management Committee was split into two (2) separate committees; the Audit Committee and the Risk Management Committee, per Board decision on March 2, 2016.*
***Ms. Tomasa H. Lipana replaced Mr. Vicente S. Perez, Jr. as the Committee Chairperson on April 27, 2016.*

In compliance with the Audit Committee Charter, the Manual of Corporate Governance, and relevant laws and regulations, the Audit Committee performed the following activities relating to the three (3) major areas of concern:

Internal Audit

1. <u>The Committee provided oversight of the Internal Audit.</u>

   Under SMIC's Internal Audit Charter, the primary purpose of Internal Audit is to provide an independent, objective, reasonable, systematic and disciplined evaluation of the Company's organizational and procedural controls. The Charter also requires the Internal Audit to do the following:

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

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

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

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

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

To maintain the independence of the Internal Audit, the Chief Audit Executive functionally reports to the Board of Directors, through the Audit Committee. He is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit Committee and Management.

2. The Committee reviewed and approved the Internal Audit plan, including the scope, methodology, organization structure and staffing.

3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the Chief Audit Executive summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern as well as the corresponding management response and action plan.

External Audit

The Audit Committee has the primary responsibility to make a well-informed recommendation regarding the appointment, re-appointment or removal of the External Auditor.

The External Auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements. As required by SMIC's Manual on Corporate Governance, the External Auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the External Auditor.

4. The Committee reviewed/discussed with the External Auditor, SGV & Co., the following:

- The annual audit plan for 2016, including scope, approach, risk-based methods, focus areas and time table;
- The results of its examination and action plan to address pending audit issues; and
- The assessment of internal controls and quality of financial reporting.

5. The Committee reviewed/discussed the report of SGV & Co. on significant accounting issues, changes in accounting policies/ standards and major pending tax legislations which would impact the Company and its subsidiaries.

6. The Committee discussed with SGV & Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.

7. The Committee reviewed and approved all audit and non-audit services provided by SGV & Co, and related audit fees.

Financial Statements

8. The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.

9. The Committee reviewed and endorsed to the Board for approval the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2016, six-month period ended June 30, 2016, and nine-month ended September 30, 2016.

10. 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, 2016.

11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of its audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of its performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as External Auditor for 2017.

1 March 2017

Tomasa H. Lipana
Chairperson

Ah Doo Lim
Member

Teresita T. Sy-Coson
Member

Atty. Elmer B. Serrano
Corporate Secretary

Independent Auditor's Report

The Stockholders and the Board of Directors
SM Investments Corporation

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

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

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

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

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

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

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

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

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

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

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

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

Audit response

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

Revenue and cost recognition on sale of real estate

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

Audit response

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

Existence and completeness of merchandise inventories

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

Audit response

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908742, January 3, 2017, Makati City

March 1, 2017

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31, 2016	December 31, 2015 (As restated - Note 5)	January 1, 2015 (As restated - Note 5)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 7 and 29)	**₱74,947,731**	₱58,282,731	₱73,369,637
Time deposits (Notes 8 and 29)	**24,473,541**	9,611,405	9,000,324
Investments held for trading and sale (Notes 9, 12 and 29)	**3,456,752**	1,100,915	4,190,449
Receivables (Notes 10, 29 and 30)	**31,346,702**	31,559,542	30,939,207
Merchandise inventories - at cost (Note 23)	**25,825,290**	21,589,701	19,444,961
Other current assets (Notes 11 and 29)	**59,044,139**	52,004,810	56,865,571
Total Current Assets	**219,094,155**	174,149,104	193,810,149
Noncurrent Assets			
Available-for-sale investments (Notes 12 and 29)	**18,675,233**	21,168,893	19,150,245
Investments in associate companies and joint ventures (Note 13)	**181,228,512**	170,617,154	145,992,224
Time deposits (Notes 8 and 29)	**42,041,227**	53,127,769	47,579,390
Property and equipment (Note 14)	**20,950,217**	20,637,481	21,060,358
Investment properties (Note 15)	**270,146,508**	249,583,502	211,888,427
Land and development (Note 16)	**23,825,558**	27,386,708	26,629,864
Intangibles (Note 17)	**25,711,767**	25,835,651	23,431,633
Deferred tax assets (Note 27)	**2,527,745**	2,619,924	2,323,335
Other noncurrent assets (Notes 17 and 29)	**57,261,459**	40,366,229	33,883,982
Total Noncurrent Assets	**642,368,226**	611,343,311	531,939,458
	₱861,462,381	₱785,492,415	₱725,749,607
LIABILITIES AND EQUITY			
Current Liabilities			
Bank loans (Notes 18, 22 and 29)	**₱13,987,765**	₱10,495,215	₱14,397,641
Accounts payable and other current liabilities (Notes 19 and 29)	**89,259,033**	85,271,945	79,587,269
Income tax payable	**2,683,715**	2,464,343	1,928,762
Current portion of long-term debt (Notes 20, 22, 29 and 30)	**25,601,582**	25,994,800	10,669,108
Dividends payable (Note 29)	**3,302,828**	2,573,029	3,674,744
Total Current Liabilities	**134,834,923**	126,799,332	110,257,524
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**280,254,227**	245,167,269	237,113,555
Deferred tax liabilities (Note 27)	**7,888,395**	8,557,962	7,910,303
Tenants' deposits and others (Notes 26, 28, 29 and 30)	**23,737,574**	20,979,992	19,207,989
Total Noncurrent Liabilities	**311,880,196**	274,705,223	264,231,847
Total Liabilities	**446,715,119**	401,504,555	374,489,371
Equity Attributable to Owners of the Parent			
Capital stock (Note 21)	**12,045,829**	8,030,554	7,963,406
Additional paid-in capital (Note 21)	**76,347,229**	76,399,625	71,952,082
Equity adjustments from common control transactions (Note 21)	**(5,424,455)**	(5,338,948)	(5,367,433)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)	(25,386)
Cumulative translation adjustment	**1,216,718**	1,057,751	866,360
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**10,780,430**	12,724,360	10,207,259
Re-measurement gain (loss) on defined benefit asset/obligation (Note 26)	**34,895**	242,740	(30,183)
Retained earnings (Note 21):			
Appropriated	**36,000,000**	36,000,000	27,000,000
Unappropriated	**169,508,122**	150,940,847	139,596,096
Total Equity Attributable to Owners of the Parent	**300,483,382**	280,031,543	252,162,201
Non-controlling Interests	**114,263,880**	103,956,317	99,098,035
Total Equity	**414,747,262**	383,987,860	351,260,236
	₱861,462,381	₱785,492,415	₱725,749,607

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

(Amounts in Thousands Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 and 2014
(Amounts in Thousands Except Per Share Data)

				Equity Attributable
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries
As at January 1, 2016, as previously reported	**₱8,030,554**	**₱76,399,625**	**(₱1,902,024)**	**(₱25,386)**
Effect of merger (Note 5)	—	—	**(3,436,924)**	—
As restated	**8,030,554**	**76,399,625**	**(5,338,948)**	**(25,386)**
Effect of common control business combination (Note 5)	—	—	**120,078**	—
As adjusted	**8,030,554**	**76,399,625**	**(5,218,870)**	**(25,386)**
Net income	—	—	—	—
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	—	—
Common control transactions	—	—	**(205,585)**	—
Stock dividends - 50% (Note 21)	**4,015,275**	**(52,396)**	—	—
Cash dividends - ₱10.63 per share (Note 21)	—	—	—	—
Cash dividends received by non-controlling interests	—	—	—	—
Decrease in previous year's non-controlling interests	—	—	—	—
As at December 31, 2016	**₱12,045,829**	**₱76,347,229**	**(₱5,424,455)**	**(₱25,386)**
As at January 1, 2015, as previously reported	₱7,963,406	₱71,952,082	(₱1,902,933)	(₱25,386)
Effect of merger (Note 5)	—	—	(3,464,500)	—
As restated	7,963,406	71,952,082	(5,367,433)	(25,386)
Net income	—	—	—	—
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	—	—
Common control transactions	—	—	28,485	—
Acquisition of non-controlling interests	—	(385,538)	—	—
Reversal of appropriation (Note 21)	—	—	—	—
Appropriation during the year	—	—	—	—
Conversion of convertible bonds (Note 21)	67,148	4,833,081	—	—
Cash dividends - ₱10.61 per share (Note 21)	—	—	—	—
Cash dividends received by non-controlling interests	—	—	—	—
Decrease in previous year's non-controlling interests	—	—	—	—
As at December 31, 2015 (Restated)	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)
As at January 1, 2014, as previously reported	₱7,962,723	₱57,799,360	(₱2,584,210)	(₱25,386)
Effect of merger (Note 5)	—	—	(2,796,350)	—
As restated	7,962,723	57,799,360	(5,380,560)	(25,386)
Net income	—	—	—	—
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	—	—
Common control transactions	—	—	13,127	—
Conversion of convertible bonds (Note 21)	683	47,194	—	—
Cash dividends - ₱10.34 per share (Note 21)	—	—	—	—
Cash dividends received by non-controlling interests	—	—	—	—
Re-issuance by a subsidiary of treasury shares to non-controlling shareholders	—	14,105,528	—	—
Decrease in previous year's non-controlling interests	—	—	—	—
As at December 31, 2014 (Restated)	₱7,963,406	₱71,952,082	(₱5,367,433)	(₱25,386)

See accompanying Notes to Consolidated Financial Statements.

to Owners of the Parent							
Cumulative Translation Adjustment	**Net Unrealized Gain (Loss) on Available-for-Sale Investments**	**Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation**	**Appropriated Retained Earnings**	**Unappropriated Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
₱1,057,751	**₱12,724,360**	**₱117,738**	**₱36,000,000**	**₱152,004,710**	**₱284,407,328**	**₱97,291,958**	**₱381,699,286**
—	**—**	**125,002**	**—**	**(1,063,863)**	**(4,375,785)**	**6,664,359**	**2,288,574**
1,057,751	**12,724,360**	**242,740**	**36,000,000**	**150,940,847**	**280,031,543**	**103,956,317**	**383,987,860**
—	**—**	**5,792**	**—**	**(85,287)**	**40,583**	**79,451**	**120,034**
1,057,751	**12,724,360**	**248,532**	**36,000,000**	**150,855,560**	**280,072,126**	**104,035,768**	**384,107,894**
—	**—**	**—**	**—**	**31,204,304**	**31,204,304**	**16,554,024**	**47,758,328**
158,967	**(1,943,930)**	**(213,637)**	**—**	**—**	**(1,998,600)**	**211,502**	**(1,787,098)**
158,967	**(1,943,930)**	**(213,637)**	**—**	**31,204,304**	**29,205,704**	**16,765,526**	**45,971,230**
—	**—**	**—**	**—**	**—**	**(205,585)**	**—**	**(205,585)**
—	**—**	**—**	**—**	**(4,015,275)**	**(52,396)**	**—**	**(52,396)**
—	**—**	**—**	**—**	**(8,536,467)**	**(8,536,467)**	**—**	**(8,536,467)**
—	**—**	**—**	**—**	**—**	**—**	**(6,358,868)**	**(6,358,868)**
—	**—**	**—**	**—**	**—**	**—**	**(178,546)**	**(178,546)**
₱1,216,718	**₱10,780,430**	**₱34,895**	**₱36,000,000**	**₱169,508,122**	**₱300,483,382**	**₱114,263,880**	**₱414,747,262**
₱866,360	₱10,207,259	(₱126,530)	₱27,000,000	₱141,069,856	₱257,004,114	₱92,944,295	₱349,948,409
—	—	96,347	—	(1,473,760)	(4,841,913)	6,153,740	1,311,827
866,360	10,207,259	(30,183)	27,000,000	139,596,096	252,162,201	99,098,035	351,260,236
—	—	—	—	28,865,157	28,865,157	14,791,761	43,656,918
191,391	2,517,101	272,923	—	—	2,981,415	(3,452,849)	(471,434)
191,391	2,517,101	272,923	—	28,865,157	31,846,572	11,338,912	43,185,484
—	—	—	—	—	28,485	—	28,485
—	—	—	—	—	(385,538)	—	(385,538)
—	—	—	(18,000,000)	18,000,000	—	—	—
—	—	—	27,000,000	(27,000,000)	—	—	—
—	—	—	—	—	4,900,229	—	4,900,229
—	—	—	—	(8,520,406)	(8,520,406)	—	(8,520,406)
—	—	—	—	—	—	(3,377,213)	(3,377,213)
—	—	—	—	—	—	(3,103,417)	(3,103,417)
₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860
₱1,233,177	₱7,338,500	(₱195,074)	₱27,000,000	₱120,904,727	₱219,433,817	₱80,807,031	₱300,240,848
—	—	17,503	—	(1,460,366)	(4,239,213)	5,563,147	1,323,934
1,233,177	7,338,500	(177,571)	27,000,000	119,444,361	215,194,604	86,370,178	301,564,782
—	—	—	—	28,385,190	28,385,190	13,158,751	41,543,941
(366,817)	2,868,759	147,388	—	—	2,649,330	1,590,514	4,239,844
(366,817)	2,868,759	147,388	—	28,385,190	31,034,520	14,749,265	45,783,785
—	—	—	—	—	13,127	—	13,127
—	—	—	—	—	47,877	—	47,877
—	—	—	—	(8,233,455)	(8,233,455)	—	(8,233,455)
—	—	—	—	—	—	(2,245,926)	(2,245,926)
—	—	—	—	—	14,105,528	3,540,159	17,645,687
—	—	—	—	—	—	(3,315,641)	(3,315,641)
₱866,360	₱10,207,259	(₱30,183)	₱27,000,000	₱139,596,096	₱252,162,201	₱99,098,035	₱351,260,236

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱59,316,592**	₱54,373,002	₱50,278,499
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 13)	**(14,979,645)**	(14,305,879)	(13,411,795)
Interest expense (Note 25)	**11,751,939**	10,474,954	11,910,293
Depreciation and amortization (Notes 14, 15, 17 and 24)	**12,861,154**	11,846,356	11,347,477
Interest income (Note 25)	**(3,725,517)**	(3,215,016)	(3,096,691)
Provision for (reversal of) impairment loss (Notes 10, 13, 15 and 24)	**1,335,461**	478,869	(288,547)
Unrealized foreign exchange loss - net	**586,360**	196,389	424,836
Loss (gain) on disposal of investments and properties - net (Notes 13, 14 and 15)	**(559,041)**	51,147	(2,879,746)
Dividend income (Note 22)	**(167,884)**	(274,977)	(84,571)
Loss (gain) on fair value changes on derivatives - net	**(15,232)**	103,991	189,554
Loss (gain) on available-for-sale investments and fair value changes on investments held for trading (Notes 12 and 30)	**(6,517)**	5,417	(48,493)
Income before working capital changes	**66,397,670**	59,734,253	54,340,816
Decrease (increase) in:			
Receivables	**445,821**	1,761,576	671,330
Merchandise inventories	**(4,235,589)**	(2,144,740)	(2,431,495)
Other current assets	**3,955,218**	11,337,738	(481,356)
Land and development	**(13,946,006)**	(13,361,520)	(21,724,031)
Increase (decrease) in:			
Accounts payable and other current liabilities	**2,178,577**	8,428,920	(5,766,743)
Tenants' deposits and others	**2,704,729**	2,254,274	4,847,992
Net cash generated from operations	**57,500,420**	68,010,501	29,456,513
Income tax paid	**(11,415,920)**	(10,109,982)	(8,810,042)
Net cash provided by operating activities	**46,084,500**	57,900,519	20,646,471
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale and held for trading investments	**1,875,091**	86,350	2,250,004
Property and equipment	**310,534**	23,324	236,518
Investment properties	**243,644**	4,964	134,890
Shares of stock of associate companies	**—**	—	7,448,221
Additions to:			
Investment properties (Note 15)	**(26,769,270)**	(44,402,988)	(31,129,924)
Property and equipment (Note 14)	**(5,249,198)**	(5,051,999)	(5,028,694)
Available-for-sale and held for trading investments	**(2,159,111)**	(1,242,195)	(3,098,913)
Investments in associate companies and joint ventures (Note 13)	**(468,050)**	(15,546,154)	(1,925,455)
Trademarks (Note 17)	**—**	(2,404,018)	—
Decrease (increase) in:			
Time deposits	**(480,639)**	(3,264,204)	203,989
Other noncurrent assets	**(8,285,737)**	307,618	3,022,982
Dividends received	**3,973,577**	6,150,529	4,195,251
Interest received	**3,660,063**	3,152,413	3,573,136
Acquisition of non-controlling interests in a subsidiary	**—**	(442,500)	—
Net cash used in investing activities	**(33,349,096)**	(62,628,860)	(20,117,995)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**62,564,105**	32,888,435	84,040,740
Bank loans	**20,841,800**	19,450,894	11,032,833
Payments of:			
Long-term debt	**(34,560,516)**	(14,241,354)	(47,795,955)
Bank loans	**(17,385,450)**	(23,385,210)	(24,568,200)
Dividends	**(14,417,931)**	(12,999,334)	(11,870,151)
Interest	**(13,561,377)**	(11,998,012)	(12,152,805)
Re-issuance by a subsidiary of treasury shares to non-controlling shareholders	**—**	—	17,645,687
Net cash provided by (used in) financing activities	**3,480,631**	(10,284,581)	16,332,149
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**16,216,035**	(15,012,922)	16,860,625
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**448,965**	(73,984)	108,303
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**58,282,731**	73,369,637	56,400,709
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱74,947,731**	₱58,282,731	₱73,369,637

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 1, 2017.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

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

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

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

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

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

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

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

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

		Percentage of Ownership			
		2016		2015	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	**—**	50	—
SM Development Corporation (SMDC) and Subsidiaries	Real estate development	**—**	**100**	—	100
Magenta Legacy, Inc.	Real estate development	**—**	**100**	—	100
Associated Development Corporation	Real estate development	**—**	**100**	—	100
Highlands Prime, Inc. (HPI)	Real estate development	**—**	**100**	—	100
CHAS Realty and Development Corporation (CHAS) and Subsidiaries	Real estate development	**—**	**100**	—	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	**—**	**100**	—	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**—**	**100**	—	100
Rappel Holdings, Inc. and Subsidiaries	Real estate development	**—**	**100**	—	100
SM Arena Complex Corporation (SM Arena)	Conventions	**—**	**100**	—	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	**—**	**100**	—	100
Tagaytay Resort Development Corporation	Real estate development	**—**	**100**	—	100
MOA Esplanade Port, Inc.	Port terminal operations	**—**	**100**	—	100
Mountain Bliss Resort and Development Corporation and Subsidiary	Real estate development	**100**	**—**	100	—
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central, Inc. and Subsidiaries	Real estate development	**100**	**—**	100	—
Bellevue Properties, Inc.	Real estate development	**62**	**—**	62	—
Net Group[(a)]	Real estate development	**90**	**—**	90	—
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	**—**	100	—
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**—**	77	—
Others					
Primebridge Holdings, Inc. (Primebridge)	Investment	**80**	**20**	80	20
Asia Pacific Computer Technology Center, Inc.	Education	**52**	**—**	52	—
Multi-Realty Development Corporation (MRDC)	Investment	**91**	**—**	91	—
Henfels Investments Corp.	Investment	**99**	**—**	99	—
Belleshares Holdings, Inc. and Subsidiaries (formerly SM Commercial Properties, Inc.)	Investment	**59**	**40**	59	40
Sto. Roberto Marketing Corp.	Investment	**100**	**—**	100	—

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

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

Material Partly-owned Subsidiary

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

The summarized financial information of SM Prime follows:

Financial Position

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

Statements of Income

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

Cash Flows

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CHANGES AND IMPROVEMENTS

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

De-recognition of Financial Assets and Liabilities

Financial Assets. A financial asset is derecognized when:

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.
When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Buildings and improvements	5 - 25 years
Store equipment and improvements	5 - 10 years
Data processing equipment	5 - 8 years
Furniture, fixtures and office equipment	3 - 10 years
Machinery and equipment	5 - 10 years
Leasehold improvements	5 - 10 years or term of the lease, whichever is shorter
Transportation equipment	5 - 10 years

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sale of Merchandise Inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales are net of returns and discounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2016. The adoption did not have any significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012—2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Future Changes in Accounting Policies
The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2016. Unless otherwise indicated, the Group does not expect the future adoption of the said new standards, amendments and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014—2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs* 2014—2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. The Group is assessing the impact of these amendments to PAS 28.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. The Group is assessing the impact of these amendments to PAS 40.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group is assessing the impact of adopting IFRIC 22.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Group is assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group is assessing the impact of these amendments to PFRS 10 and PAS 28.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

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

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

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

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

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

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

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

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

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

Assessing of Control or Significant Influence of Investees

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

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

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

Premium Leisure Corp. (PLC). The Group has 4% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle.

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

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

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

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

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

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

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. In 2016 and 2015, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development are higher than cost, hence, the Group did not recognize any impairment loss.

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

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

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

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

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

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names with indefinite lives. See Note 17 for related balances.

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

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

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

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

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

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

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

5. BUSINESS COMBINATION

SM Retail Merger

On February 29, 2016, the BOD and stockholders of the Parent Company approved the merger of its subsidiary SM Retail with certain related entities namely, Forsyth Equity Holdings, Inc., HFS Corporation, Morrison Corporation, San Mateo Bros., Inc. and Tangiers Resources Corporation (collectively referred to as Absorbed Companies), with SM Retail as the surviving entity. As consideration for the Absorbed Companies, SM Retail issued its shares of stock to the stockholders of the Absorbed Companies. The Absorbed Companies have ownership on the following retail businesses (collectively referred to as the Retail Affiliates, and together with the Absorbed Companies, the Acquired Entities):

- ACE Hardware Philippines, Inc.
- Homeworld Shopping Corporation
- International Toyworld, Inc.
- Nursery Care Corporation
- Kultura Store, Inc.
- Star Appliance Center, Inc.
- CK Fashion Collection Corp.
- Signature Lines, Inc.
- Supplies Station, Inc.
- Sports Central (Manila), Inc.
- H & B, Inc.
- Fitness Health & Beauty Holdings Corp.

On July 7, 2016, the SEC approved the articles and plan of merger of SM Retail and the Absorbed Companies. Before the approval by the SEC of the articles and plan of merger, SM Retail was 100% directly owned by the Parent Company. With the merger, the Parent Company's equity interest changed from 100% to 77% because of the issuance of SM Retail of its shares of stock to the stockholders of the Absorbed Companies.

The Parent Company, SM Retail and the Acquired Entities are under the common control of the Sy Family before and after the merger. Thus, the merger was considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.

The assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. Financial information for periods prior to the date of business combination was restated.

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity;
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- Comparatives are presented as if the entities had always been combined only for the period that the entities were under common control.

SM Prime Common Control Business Acquisitions

In December 2016, SM Prime through a subsidiary, acquired 90% each of the outstanding common stock of Shopping Center Management Corporation (SCMC) and SM Lifestyle Entertainment Inc. (SMLEI). The companies involved are under the common control of the Sy Family. Thus, the acquisitions were considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements. Prior period financial statements were not restated due to immateriality.

6. SEGMENT INFORMATION

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

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

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

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

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

Operating Segment Financial Data

	2016				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	**₱73,203,364**	**₱276,126,554**	**₱13,501,315**	**₱—**	**₱362,831,233**
Inter-segment	**11,253,256**	**3,123**	**5,520,056**	**(16,776,435)**	**—**
	₱84,456,620	**₱276,129,677**	**₱19,021,371**	**(₱16,776,435)**	**₱362,831,233**
Segment results:					
Income before income tax	**₱33,080,956**	**₱16,627,376**	**₱12,139,109**	**(₱2,530,849)**	**₱59,316,592**
Provision for income tax	**(6,777,132)**	**(4,906,396)**	**(88,242)**	**213,506**	**(11,558,264)**
Net income	**₱26,303,824**	**₱11,720,980**	**₱12,050,867**	**(₱2,317,343)**	**₱47,758,328**
Net income attributable to:					
Owners of the Parent	**₱25,742,249**	**₱10,615,139**	**₱12,050,867**	**(₱17,203,951)**	**₱31,204,304**
Non-controlling interests	**561,575**	**1,105,841**	**—**	**14,886,608**	**16,554,024**

	2015 (As restated - Note 5)				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱65,083,773	₱254,800,665	₱12,924,369	₱—	₱332,808,807
Inter-segment	17,764,479	1,507	13,582,317	(31,348,303)	—
	₱82,848,252	₱254,802,172	₱26,506,686	(₱31,348,303)	₱332,808,807
Segment results:					
Income before income tax	₱36,806,850	₱15,330,012	₱20,296,620	(₱18,060,480)	₱54,373,002
Provision for income tax	(6,228,772)	(4,403,917)	(83,395)	—	(10,716,084)
Net income	₱30,578,078	₱10,926,095	₱20,213,225	(₱18,060,480)	₱43,656,918
Net income attributable to:					
Owners of the Parent	₱29,989,697	₱9,885,285	₱20,213,225	(₱31,223,050)	₱28,865,157
Non-controlling interests	588,381	1,040,810	—	13,162,570	14,791,761

	2014 (As restated - Note 5)				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱61,122,646	₱236,533,487	₱12,415,319	₱—	₱310,071,452
Inter-segment	8,710,802	3,033	3,006,584	(11,720,419)	—
	₱69,833,448	₱236,536,520	₱15,421,903	(₱11,720,419)	₱310,071,452
Segment results:					
Income before income tax	₱25,838,181	₱13,046,497	₱13,195,544	(₱1,801,723)	₱50,278,499
Provision for income tax	(4,886,808)	(3,750,620)	(101,865)	4,735	(8,734,558)
Net income	₱20,951,373	₱9,295,877	₱13,093,679	(₱1,796,988)	₱41,543,941
Net income attributable to:					
Owners of the Parent	₱20,435,756	₱8,226,157	₱13,093,679	(₱13,370,402)	₱28,385,190
Non-controlling interests	515,617	1,069,720	—	11,573,414	13,158,751

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Cash on hand and in banks (Note 22)	**₱8,260,508**	₱10,238,049
Temporary investments (Note 22)	**66,687,223**	48,044,682
	₱74,947,731	₱58,282,731

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

Temporary investments amounting to ₱50.0 million and ₱583.9 million as at December 31, 2016 and 2015, respectively, are used as collateral for certain loans (see Note 18).

8. TIME DEPOSITS

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Current	**₱24,473,541**	₱9,611,405
Noncurrent	**42,041,227**	53,127,769
	₱66,514,768	₱62,739,174

The time deposits as at December 31, 2016 and 2015 bear annual interest ranging from 0.5% to 4.9%. Interest earned from time deposits is disclosed in Note 25.

Time deposits with maturities of up to 12 months are used as collateral for interest-bearing debt.

9. INVESTMENTS HELD FOR TRADING AND SALE

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Investments held for trading -		
Bonds	**₱296,596**	₱279,359
AFS investments (Note 12):		
Bonds and corporate notes	**2,495,550**	179,282
Shares of stock -		
Listed	**664,606**	642,274
	3,160,156	821,556
	₱3,456,752	₱1,100,915

The Group recognized a gain of ₱3.2 million, loss of ₱5.3 million and gain of ₱2.1 million from fair value adjustments of investments held for trading in 2016, 2015 and 2014, respectively. The amounts are included under “Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net” account in the consolidated statements of income.

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

10. RECEIVABLES

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Trade:		
Real estate buyers	**₱34,846,280**	₱31,549,267
Third-party tenants	**6,390,291**	6,145,924
Related-party tenants (Note 22)	**582,146**	599,607
Due from related parties (Note 22)	**631,342**	1,353,710
Management and service fees (Note 22)	**303,340**	384,973
Dividends (Note 22)	**87,273**	466,767
Total	**42,840,672**	40,500,248
Less allowance for impairment loss	**967,343**	978,091
	41,873,329	39,522,157
Less noncurrent portion of receivables from real estate buyers (Note 17)	**10,526,627**	7,962,615
Current portion	**₱31,346,702**	₱31,559,542

The terms and conditions of these receivables follow:

- Trade receivables from tenants and management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units at various terms of payment. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱3,297.2 million and ₱2,842.5 million for the years ended December 31, 2016 and 2015, respectively (see Note 22), and, on with recourse basis, nil and ₱406.0 million for the years ended December 31, 2016 and 2015, respectively. The corresponding liability from assignment of receivables on with recourse basis bears interest ranging from 3.5% to 4.0% in 2015. The fair value of these assigned receivables and liability approximates cost.

- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

- The terms and conditions relating to due from related parties are discussed in Note 22.

The movements in allowance for impairment loss follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱978,091**	₱366,864
Reversal and write off	**(11,316)**	(8,926)
Provisions (Note 24)	**568**	620,153
Balance at end of year	**₱967,343**	₱978,091

The aging analyses of receivables follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Neither past due nor impaired	**₱38,313,504**	₱35,711,288
Past due but not impaired:		
31-90 days	**959,262**	1,281,333
91-120 days	**384,720**	439,463
Over 120 days	**2,215,843**	2,090,073
Impaired	**967,343**	978,091
	₱42,840,672	₱40,500,248

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

11. OTHER CURRENT ASSETS

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Land and development (Note 16)	**₱27,228,525**	₱19,814,615
Prepaid taxes and other prepayments	**7,881,610**	7,698,306
Advances and deposits	**6,797,245**	5,825,964
Condominium and residential units for sale (Note 16)	**5,241,346**	8,294,523
Receivable from banks	**4,488,746**	2,383,342
Non-trade receivables	**2,482,881**	2,350,547
Input tax	**2,281,727**	2,951,654
Notes receivable (Note 22)	**981,435**	981,435
Accrued interest receivable (Note 22)	**611,375**	545,921
Escrow fund (Notes 17 and 22)	**209,974**	437,639
Others	**839,275**	720,864
	₱59,044,139	₱52,004,810

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 25).

- Notes receivable pertains to the loan extended by the Parent Company to Atlas Consolidated Mining and Development Corporation (Atlas) on September 17, 2015 amounting to ₱981.4 million. The loan bears interest at 5.0%, payable quarterly, and is renewable for 90-day periods for a maximum of five years at the option of the Parent Company (see Note 25).

- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.

- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account (see Note 25).

12. AVAILABLE-FOR-SALE INVESTMENTS

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Shares of stock:		
Listed	**₱16,864,874**	₱17,048,942
Unlisted	**61,405**	92,665
Bonds and corporate notes	**4,893,300**	4,866,562
Club shares	**15,810**	13,530
	21,835,389	22,021,699
Less allowance for impairment loss	**—**	31,250
	21,835,389	21,990,449
Less current portion (Note 9)	**3,160,156**	821,556
Noncurrent portion	**₱18,675,233**	₱21,168,893

- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is no market for these investments and the Group intends to hold them for the long-term.

- Investments in bonds and corporate notes as at December 31, 2016 and 2015 bear fixed interest rates ranging from 3.9% to 7.5%. These investments will mature on various dates beginning April 2016 to October 2023. The fair values of these investments as at December 31, 2016 and 2015 amounted to US$98.4 million (₱4,893.3 million) and US$103.4 million (₱4,866.6 million), respectively.

The movements in net unrealized gain on AFS investments and share in unrealized loss on AFS investments of associates attributable to the owners of the Parent follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱12,724,360**	₱10,207,259
Share in net unrealized loss on AFS investments of associates (Note 13)	**(1,399,590)**	(1,675,726)
Gain (loss) due to changes in fair value of AFS investments	**(541,395)**	4,192,860
Transferred to profit or loss	**(2,945)**	(33)
Balance at end of year	**₱10,780,430**	₱12,724,360

Gain (loss) on disposal of AFS investments recognized under "Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statements of income amounted to ₱3.3 million gain,₱0.6 million loss and ₱52.1 million gain for the years ended December 31, 2016, 2015 and 2014, respectively. The amounts are exclusive of non-controlling interests.

Interest earned from AFS investments is disclosed in Note 25.

13. INVESTMENTS IN ASSOCIATE COMPANIES AND JOINT VENTURES

The movements in this account follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱112,712,483**	₱95,447,294
Additions	**468,050**	15,546,154
Reclassification	**—**	1,719,035
Balance at end of year	**113,180,533**	112,712,483
Accumulated equity in net earnings:		
Balance at beginning of year	**59,683,548**	50,554,774
Equity in net earnings	**14,979,645**	14,305,879
Dividends received	**(3,426,199)**	(5,177,105)
Balance at end of year	**71,236,994**	59,683,548
Share in net unrealized loss on AFS investments of associate companies	**(3,170,085)**	(1,773,250)
Translation adjustment	**(18,930)**	(5,627)
	₱181,228,512	₱170,617,154

There is no impairment loss for any of these investments in 2016 and 2015.

The associate companies and joint ventures of the Group follow:

Company	2016 Gross	2016 Effective	2015 Gross	2015 Effective	Principal Activities
Associates					
BDO Unibank, Inc. and Subsidiaries (BDO)	**46**	**44**	46	44	Financial services
China Banking Corporation and Subsidiaries (China Bank)	**23**	**20**	23	20	Financial services
Belle Corporation and Subsidiaries (Belle)	**32**	**28**	32	28	Real estate development and tourism
Atlas and Subsidiaries	**29**	**29**	29	29	Mining
Sodexo Benefits and Rewards Services Philippines, Inc. (formerly Sodexo Motivation Solutions Philippines, Inc.)	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**4**	**4**	3	3	Gaming
OCLP Holdings, Inc. (OHI)	**40**	**20**	40	20	Real estate development
Fei Hua Real Estate Company	**50**	**25**	50	25	Real estate development
Fitness Health and Beauty Holdings Corp.	**40**	**31**	40	31	Retail
Joint Ventures					
Waltermart Mall	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Services, Inc.	**51**	**25**	—	—	Transportation
ST 6747 Resources Corporation	**50**	**25**	—	—	Real estate development

Percentage of Ownership

China Bank
In May 2016, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock which increased the number of common shares held by the Group by 33.5 million. The said shares were issued on June 3, 2016.

In May 2015, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock which increased the number of common shares held by the Group by 31.0 million. The said shares were issued on September 9, 2015.

BDO
The Parent Company's equity interest in BDO was reduced by 1% as a result of BDO's issuance of 64.5 million shares relative to its acquisition of One Network Bank on July 20, 2015.

Atlas
At various dates in 2015, Primebridge acquired 7.4 million shares of Atlas for a total consideration of ₱64.2 million.

OHI
On May 7, 2015, SM Prime acquired 40% collective ownership interest in OHI through the acquisition of 100% interest in six (6) holding entities for a total consideration of ₱15,433.0 million which approximates the proportionate share of SM Prime in the fair value of the identifiable net assets of OHI. OHI owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

PLC
At various dates in 2016, the Parent Company acquired a total of 243.6 million shares of PLC equivalent to 1% of the outstanding common shares, at an average price of ₱0.56 per share for a total cost of ₱137.0 million.

The condensed financial information of the Group's material associate, BDO, and the reconciliation of its net assets to the carrying amounts in the consolidated financial statements follow:

	2016	2015
	(In Millions)	
Total assets	**₱2,324,958**	₱2,031,254
Total liabilities	**2,107,423**	1,831,641
Total equity	**217,535**	199,613
Proportion of the Group's ownership	**46%**	46%
	100,066	91,822
Goodwill and others	**19,953**	20,023
Carrying amount of the investment	**₱120,019**	₱111,845

	2016	2015	2014
		(In Millions)	
Interest income	**₱82,037**	₱72,127	₱63,583
Interest expense	**(16,413)**	(15,166)	(12,358)
Other expenses - net	**(39,522)**	(31,906)	(28,397)
Net income	**26,102**	25,055	22,828
Other comprehensive income (loss)	**(3,847)**	(3,830)	390
Total comprehensive income	**₱22,255**	₱21,225	₱23,218
Share in net income	**₱11,945**	₱11,553	₱11,002
Share in total comprehensive income	**₱10,394**	₱9,867	₱11,122

The aggregate information of associates and joint ventures that are not individually material follows:

	2016	2015	2014
		(In Millions)	
Share in net income	**₱3,034**	₱2,517	₱2,223
Share in other comprehensive income (loss)	**154**	(87)	315
Share in total comprehensive income	**₱3,188**	₱2,430	₱2,538

The fair value of investments in associate companies which are listed in the PSE follows:

	2016	2015
	(In Thousands)	
BDO	**₱201,065,053**	₱188,408,619
China Bank	**17,163,361**	15,557,433
Belle	**10,688,941**	9,720,256
Atlas	**3,055,705**	2,492,329
PLC	**1,503,927**	666,777

14. PROPERTY AND EQUIPMENT

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)				
Cost									
As at December 31, 2014	₱11,053,403	₱4,114,251	₱5,715,168	₱7,687,630	₱4,409,505	₱12,120,029	₱841,452	₱1,274,421	₱47,215,859
Additions	800,872	359,097	704,314	818,814	742,340	777,224	109,573	739,765	5,051,999
Reclassifications	(289,467)	(793,696)	(49,606)	(487,234)	1,019,804	27,041	8,723	(883,063)	(1,447,498)
Disposals/retirements	(41,571)	(202,652)	(634,275)	(53,003)	(51,405)	(203,761)	(6,365)	(6,506)	(1,199,538)
As at December 31, 2015	11,523,237	3,477,000	5,735,601	7,966,207	6,120,244	12,720,533	953,383	1,124,617	49,620,822
Additions	574,036	242,290	571,425	897,467	672,358	1,271,631	142,893	877,098	5,249,198
Reclassifications	(54,298)	(643,406)	80,542	(450,675)	199,312	1,717,990	4,596	(599,319)	254,742
Disposals/retirements	(65,578)	(30,104)	(78,386)	(49,937)	(49,534)	(176,053)	(5,301)	(193,598)	(648,491)
As at December 31, 2016	**₱11,977,397**	**₱3,045,780**	**₱6,309,182**	**₱8,363,062**	**₱6,942,380**	**₱15,534,101**	**₱1,095,571**	**₱1,208,798**	**₱54,476,271**
Accumulated Depreciation and Amortization									
As at December 31, 2014	₱2,893,261	₱2,744,973	₱4,161,883	₱4,608,365	₱2,829,521	₱8,405,579	₱511,919	₱—	₱26,155,501
Depreciation and amortization (Note 24)	847,044	326,145	649,803	796,451	645,339	1,216,932	77,381	—	4,559,095
Reclassifications	(256,316)	(458,733)	(83,116)	(381,528)	459,503	(167,898)	15,590	—	(872,498)
Disposals/retirements	(19,623)	(202,283)	(366,977)	(27,726)	(35,054)	(202,485)	(4,609)	—	(858,757)
As at December 31, 2015	3,464,366	2,410,102	4,361,593	4,995,562	3,899,309	9,252,128	600,281	—	28,983,341
Depreciation and amortization (Note 24)	840,169	288,269	617,703	770,536	699,670	1,380,577	95,238	—	4,692,162
Reclassifications	5,529	(628,201)	2,484	(429,953)	47,459	1,197,925	996	—	196,239
Disposals/retirements	(50,823)	(26,474)	(35,370)	(24,320)	(28,914)	(174,486)	(5,301)	—	(345,688)
As at December 31, 2016	**₱4,259,241**	**₱2,043,696**	**₱4,946,410**	**₱5,311,825**	**₱4,617,524**	**₱11,656,144**	**₱691,214**	**₱—**	**₱33,526,054**
Net Book Value									
As at December 31, 2016	**₱7,718,156**	**₱1,002,084**	**₱1,362,772**	**₱3,051,237**	**₱2,324,856**	**₱3,877,957**	**₱404,357**	**₱1,208,798**	**₱20,950,217**
As at December 31, 2015	8,058,871	1,066,898	1,374,008	2,970,645	2,220,935	3,468,405	353,102	1,124,617	20,637,481

As at December 31, 2016 and 2015, the Group has no idle property and equipment and the cost of fully depreciated property and equipment still in use amounted to ₱18,273.5 million and ₱13,609.9 million, respectively.

15. INVESTMENT PROPERTIES

The movements in this account follow:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2014	₱46,567,657	₱146,933,481	₱25,125,352	₱38,807,826	₱257,434,316
Additions	18,590,095	14,517,955	1,814,237	9,480,701	44,402,988
Reclassifications	335,349	14,738,719	2,229,377	(16,059,390)	1,244,055
Translation adjustment	64,091	99,036	12,795	72,742	248,664
Disposals	(311,144)	(362,481)	(87,659)	(6,071)	(767,355)
As at December 31, 2015	65,246,048	175,926,710	29,094,102	32,295,808	302,562,668
Effect of common control business combination (Note 5)	34,819	—	102,634	—	137,453
Additions	5,860,299	7,008,421	3,584,292	10,316,258	26,769,270
Reclassifications	(1,521,882)	21,479,585	354,248	(17,633,329)	2,678,622
Translation adjustment	(18,575)	(271,994)	(30,711)	(162,890)	(484,170)
Disposals	(199,387)	(10,535)	(29,063)	(354,798)	(593,783)
As at December 31, 2016	**₱69,401,322**	**₱204,132,187**	**₱33,075,502**	**₱24,461,049**	**₱331,070,060**
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2014	₱1,492,584	₱29,872,293	₱14,057,448	₱123,564	₱45,545,889
Depreciation and amortization (Note 24)	229,824	4,681,811	2,279,957	—	7,191,592
Reclassifications	(18,722)	398,055	446,328	—	825,661
Translation adjustment	4,041	16,752	18,563	—	39,356
Write-off of impairment loss	—	—	—	(123,564)	(123,564)
Disposals	(41,085)	(360,637)	(98,046)	—	(499,768)
As at December 31, 2015	1,666,642	34,608,274	16,704,250	—	52,979,166
Effect of common control business combination (Note 5)	20,972	89,402	—	—	110,374
Depreciation and amortization (Note 24)	205,701	5,367,781	2,471,626	—	8,045,108
Reclassifications	(53,910)	84,058	(67,645)	—	(37,497)
Translation adjustment	(5,838)	(42,624)	(13,615)	—	(62,077)
Disposals	(78,986)	(10,535)	(22,001)	—	(111,522)
As at December 31, 2016	**₱1,754,581**	**₱40,096,356**	**₱19,072,615**	**₱—**	**₱60,923,552**
Net Book Value					
As at December 31, 2016	**₱67,646,741**	**₱164,035,831**	**₱14,002,887**	**₱24,461,049**	**₱270,146,508**
As at December 31, 2015	63,579,406	141,318,436	12,389,852	32,295,808	249,583,502

As at December 31, 2016 and 2015, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million. Allowance for impairment loss amounting to ₱123.6 million was written off in 2015. Portions of investment properties located in China were mortgaged as collateral to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱37,537.9 million, ₱33,457.0 million and ₱30,404.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱25,184.6 million, ₱24,016.1 million and ₱20,249.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In 2016, SM Prime acquired several parcels of land through acquisition of certain single asset entities amounting to ₱1,239.0 million.

Construction in progress amounting to ₱24,439.0 million and ₱31,965.0 million as at December 31, 2016 and 2015, respectively, pertains to landbanking as well as construction cost of shopping malls and commercial buildings.

In 2016, construction in progress includes the cost of land amounting to ₱2,765.0 million as well as construction contracts amounting to ₱109,324.0 million, with outstanding contracts valued at ₱20,059.0 million. Projects include SM Cagayan de Oro Premier, SM Puerto Princesa, SM Olongapo 2, SM Center Luna Tuguegarao and the ongoing redevelopment of SM Mall of Asia and SM Sucat and expansion of SM Xiamen.

In 2015, construction in progress includes the cost of land amounting to ₱3,291.0 million as well as construction contracts amounting to ₱106,136.0 million, with outstanding contracts valued at ₱24,304.0 million. Projects include SM Trece Martires, SM San Jose Del Monte, SM Cagayan de Oro Premier, SM Tianjin and the ongoing expansions and renovations of SM Mall of Asia and SM Xiamen.

Interest capitalized to the construction of investment properties amounted to ₱2,921.0 million, and ₱2,039.0 million in 2016 and 2015, respectively. Capitalization rates used range from 2.4% to 4.8% and 2.1% to 6.1% for the years ended December 31, 2016 and 2015, respectively. In 2016 and 2015, foreign exchange loss amounting to P528.0 million and P642.0 million, respectively, were also capitalized to the construction of investment property.

The fair value of substantially all investment properties amounting to ₱833,282.7 million and ₱572,921.2 million as at December 31, 2016 and 2015, respectively, was determined by accredited independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While appraisal was not done for all investment properties as at December 31, 2016 and 2015, the Group believes that there were no conditions present in 2016 and 2015 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

Discount rate	8.0% - 12.0%
Capitalization rate	5.8% - 8.5%
Average growth rate	2.3% - 12.1%

In conducting the appraisal, the independent appraisers used either the Sales Comparison/ Market Data Approach or the Income Approach. The Sales Comparison/ Market Data Approach is a method of comparing prices paid for comparable properties sold or offered for sale in the market against the subject property. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The fair value of investment properties is categorized under Level 3 since valuation is based on unobservable inputs.

16. LAND AND DEVELOPMENT AND CONDOMINIUM AND RESIDENTIAL UNITS FOR SALE

Condominium and Residential Units for Sale

Condominium units for sale pertain to the completed projects of SMDC, HPI, Costa and ICDC.

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱8,294,523**	₱7,600,260
Transfer from land and development	**3,516,449**	6,149,228
Recognized as cost of real estate sold	**(6,537,177)**	(5,638,864)
Adjustment to cost	**(32,449)**	183,899
Balance at end of year (Note 11)	**₱5,241,346**	₱8,294,523

Land and Development

Land and development include the cost of land as well as construction cost of ongoing residential projects.

The movements in this account follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱47,201,323**	₱46,201,390
Development cost incurred	**12,800,026**	11,827,278
Cost of real estate sold	**(6,659,341)**	(6,600,008)
Transfer to condominium and residential units for sale	**(3,516,449)**	(6,149,228)
Land acquisition	**1,145,980**	1,534,242
Borrowing cost capitalized	**37,060**	407,549
Transfer from (to) property and equipment and others	**45,484**	(19,900)
Balance at end of year	**51,054,083**	47,201,323
Less current portion (Note 11)	**27,228,525**	19,814,615
Noncurrent portion	**₱23,825,558**	₱27,386,708

Included in land and development is land held for future development with details as follows:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱1,866,660**	₱1,601,748
Acquisition and transferred-in costs and others	**(20,905)**	264,912
Balance at end of year	**₱1,845,755**	₱1,866,660

The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.5% to 4.2% in 2016 and 2.0% to 5.2% in 2015.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2016 and 2015.

17. INTANGIBLES AND OTHER NONCURRENT ASSETS

Intangible Assets
This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Goodwill	**₱17,398,491**	₱17,398,491
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,306,871**	17,306,871
Trademarks and brand names	**8,404,896**	8,528,780
	₱25,711,767	₱25,835,651

Goodwill is allocated to SM Prime, Supervalue, Inc., Super Shopping Market, Inc., Net Group, Waltermart Supermarket, Inc. and others as separate CGUs.

Trademarks and brand names pertain to that of:

a. the supermarket and hypermarket business of the Group which was acquired in a business combination in 2006 and assessed to have an indefinite life and was valued using the Relief-from-Royalty Method. The royalty rate was 3.5%, which was the prevailing royalty rate in 2006 in the retail assorted category where the two entities fall.

b. the rights, title and interest in the trademark of Cherry Foodarama, Inc. which was accounted for as an acquisition of an asset in 2015 and assessed to have a definite useful life of 20 years.

The recoverable amount of goodwill, trademarks and brand names have been determined based on value-in-use calculations using the cash flow projections from the financial budgets approved by senior management covering a three-year period and fair value less costs of disposal calculations of the underlying net assets of the CGUs.

Value-in-use. The calculation of value-in-use is most sensitive to the following assumptions:

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each cash generating unit and are estimated based on the average percentage of weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 11.6% to 12.3% and 12.9% to 13.2% as at December 31, 2016 and 2015, respectively.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2016 and 2015 to materially exceed its recoverable amount.

Fair value less cost of disposal. The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2016 and 2015 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Deposits and advance rentals	**₱17,767,510**	₱11,934,416
Receivables from real estate buyers (Note 10)	**10,526,627**	7,962,615
Land use rights	**9,727,575**	9,563,565
Long-term notes (Notes 22 and 30)	**6,876,128**	927,000
Derivative assets (Notes 29 and 30)	**6,757,361**	3,964,807
Deferred input VAT	**2,544,100**	3,332,213
Defined benefit asset (Note 26)	**629,658**	623,533
Escrow fund (Note 22)	**132,460**	132,460
Others	**2,300,040**	1,925,620
	₱57,261,459	₱40,366,229

- Deposits and advance rentals substantially pertain to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that security deposits will be applied to future rentals. Consequently, said deposits and advance rentals are not re-measured at amortized cost.

- Long-term notes pertain to loans extended by the Parent Company to Atlas at various dates in 2016 and 2015. The loans bear interest ranging from 4.0% to 5.0% per annum, payable quarterly and semi-annually within five years, subject to repricing at prevailing market rates and with prepayment option in full or in part, prior to maturity. A portion of the notes that is due on June 9, 2018 and bearing a fixed interest rate of 4.0% contains multiple derivatives such as conversion, call and put option (see Note 29).

- Included under “Land use rights” account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties were not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Tenants’ deposits and others” account in the consolidated balance sheets. Portions of land use rights were mortgaged as collateral to secure the domestic borrowings in China (see Note 20).

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. The escrow fund also include deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

18. BANK LOANS

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱2,983,200**	₱—
Peso-denominated loans	**4,800,000**	—
Subsidiaries -		
Peso-denominated loans	**6,204,565**	10,495,215
	₱13,987,765	₱10,495,215

The unsecured U.S. dollar-denominated loans amounting to US$60.0 million with peso equivalent of ₱2,983.2 million as at December 31, 2016 bear interest ranging from 1.2% to 2.0%.

The peso-denominated loans amounting to ₱11,004.6 million and ₱10,495.2 million as at December 31, 2016 and 2015, respectively, bear interest ranging from 2.5% to 3.0% and 2.0% to 4.2% in 2016 and 2015, respectively. A portion of the bank loans is secured by temporary investments as disclosed in Note 7.

These loans have maturities of less than one year.

Interest on bank loans is disclosed in Note 25.

19. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

This account consists of:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Trade	**₱54,189,536**	₱52,364,949
Accrued expenses	**12,083,636**	12,505,660
Nontrade payables	**5,825,072**	3,241,988
Tenants and customers' deposits	**5,938,921**	4,423,313
Payable arising from acquisition of land	**3,067,669**	3,188,749
Payable to government agencies	**2,949,740**	3,844,630
Accrued interest payable (Note 22)	**2,335,604**	1,870,615
Due to related parties (Note 22)	**708,767**	1,122,392
Gift checks redeemable and others	**2,160,088**	2,709,649
	₱89,259,033	₱85,271,945

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to due to related parties is discussed in Note 22.
- Gift checks are redeemable at face value.

20. LONG-TERM DEBT

This account consists of:

	Availment	Maturity	Interest rate/Term	Security	2016	2015 (As restated - Note 5)
					(In Thousands)	
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds						
US$350.0 million senior bonds	June 10, 2014	June 10, 2024	Fixed 4.9%; semi-annual	Unsecured	**₱17,402,000**	₱16,471,000
US$500.0 million senior bonds	October 17, 2012	October 17, 2019	Fixed 4.2%; semi-annual	Unsecured	**24,860,000**	23,530,000
US$400.0 million exchanged bonds	October 13, 2010	October 13, 2017	Fixed 5.5%; semi-annual	Unsecured	**18,482,072**	18,277,891
US$300.0 million five-year term loans	June 19, 2013 - July 2, 2013	May 15, 2018	Floating six-month LIBOR + margin; semi-annual	Unsecured	**14,916,000**	14,118,000
Peso-denominated:						
Seven-year and ten-year retail bonds						
Series C Bonds	July 16, 2012	July 16, 2019	Fixed 6.0%; semi-annual	Unsecured	**4,648,460**	4,648,460
Series D Bonds	July 16, 2012	July 16, 2022	Fixed 6.9%; semi-annual	Unsecured	**7,683,810**	7,683,810
Series E Bonds	May 19, 2014	May 19, 2021	Fixed 5.3%; semi-annual	Unsecured	**11,669,620**	11,669,620
Series F Bonds	May 19, 2014	May 19, 2024	Fixed 5.6%; semi-annual	Unsecured	**3,330,380**	3,330,380
Series G Bonds	December 9, 2016	December 9, 2023	Fixed 5.2% semi-annual	Unsecured	**20,000,000**	—
Five-year and seven-year retail bond						
Series B Bonds	June 25, 2009	June 25, 2016	Fixed 9.1%; semi-annual	Unsecured	**—**	1,000,000
Other peso bank loans	April 23, 2013 - June 30, 2014	January 14, 2019 - June 20, 2024	Fixed 4.4%-5.4% and PDST-R2 + margin; semi-annual and quarterly	Unsecured	**18,994,950**	19,000,300
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	May 6, 2011 - March 21, 2016	March 21, 2016 - January 29, 2021	LIBOR + spread; semi-annual	Unsecured	**52,755,172**	50,354,200
Five-year bilateral loans	December 7, 2012	August 30, 2017	LIBOR + spread; semi-annual	Unsecured	**2,486,000**	2,353,000
Other U.S. dollar loans	November 20, 2013	November 21, 2016	LIBOR + spread; semi-annual	Unsecured	**—**	1,176,500
China Yuan Renminbi-denominated:						
Five-year loan	July 28, 2015 - December 29, 2016	December 31, 2019 - June 1, 2020	CBC rate less 10.0%; quarterly	Secured	**524,743**	32,249
Peso-denominated:						
Five-year, seven-year and ten-year retail bonds	September 1, 2014 - July 26, 2016	March 1, 2020 - July 26, 2026	Fixed 4.2%-5.7%; quarterly	Unsecured	**48,323,240**	38,324,206
Fixed rate term loans	June 3, 2013 - August 30, 2016	October 4, 2016 - June 27, 2023	Fixed 3.1%-5.9%; semi-annual and quarterly	Unsecured	**20,438,167**	21,443,500
	July 12, 2014 - July 31, 2014	July 12, 2021 - July 31, 2021	Fixed 5.2%-5.3%; quarterly	Secured	**2,783,478**	2,893,044
Five-year and ten-year notes	June 19, 2012	June 20, 2017 - June 19, 2022	Fixed 5.9%-6.7%; PDST-R2 + margin; quarterly	Unsecured	**6,528,000**	7,226,500
Five-year, seven-year and ten-year notes	January 12, 2012	January 13, 2017 - January 12, 2022	Fixed 5.9%-6.1%; PDST-R2 + margin; quarterly	Unsecured	**3,888,000**	4,229,200
Seven-year and ten-year corporate notes	June 13, 2011 - December 21, 2015	December 20, 2020 - December 21, 2022	Fixed 6.6%; PDST-R2 + margin; quarterly	Unsecured	**5,660,000**	6,520,000
Four-year, five-year and seven-year floating rate notes	October 31, 2013 - June 20, 2016	October 31, 2017 - June 20, 2023	PDST-R2 + margin; quarterly	Unsecured	**13,300,000**	3,200,000
Five-year floating rate notes	March 18, 2011 - June 17, 2011	March 19, 2016 - June 18, 2016	PDST-R2 + margin; quarterly	Unsecured	**—**	4,800,000
Fixed rate corporate notes	June 3, 2013 - June 28, 2014	June 3, 2020 - June 3, 2023	Fixed 5.2%-5.9%; semi-annual	Unsecured	**8,674,400**	8,683,100
Five-year bilateral loans	October 24, 2011	October 24, 2016	PDST-R2 + margin; quarterly	Unsecured	**—**	500,000
Other bank loans	August 15, 2006 - June 8, 2015	August 15, 2016 - June 7, 2020	Fixed 5.0%-9.8%; quarterly	Unsecured	**325,000**	1,525,000
					307,673,492	272,989,960
Less debt issue cost					**1,817,683**	1,827,891
					305,855,809	271,162,069
Less current portion					**25,601,582**	25,994,800
					₱280,254,227	₱245,167,269

LIBOR — London Interbank Offered Rate
PDST-R2 — Philippine Dealing System Treasury Reference Rate — PM
CBC — Central Bank of China

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This consists of ¥90.0 million and ¥5.0 million loans as at December 31, 2016 and 2015, respectively, which were taken out of a ¥400.0 million loan facility obtained on July 28, 2015, to finance the construction of shopping malls. The loans are payable in quarterly installments until June 2020. These loans bear floating rates with quarterly re-pricing at prevailing rates dictated by the People's Bank of China. The loans carry interest rates of 4.8% to 5.2% and are secured by a portion of investment properties and land use rights in China (see Notes 15 and 17).

Debt Issue Cost
The movements in unamortized debt issue cost follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱1,827,891**	₱2,106,176
Amortization	**(614,626)**	(546,246)
Additions	**609,349**	316,885
Conversions	**—**	(38,464)
Prepayments	**(4,931)**	(10,460)
Balance at end of year	**₱1,817,683**	₱1,827,891

Repayment Schedule

The repayment schedule of long-term debt as at December 31, 2016 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
2017	₱25,641,573	₱39,991	₱25,601,582
2018	44,946,301	302,099	44,644,202
2019	57,870,501	353,793	57,516,708
2020	29,281,386	118,770	29,162,616
2021	58,396,481	418,645	57,977,836
2022	19,063,170	72,981	18,990,189
2023	35,508,960	263,957	35,245,003
2024	24,934,080	215,667	24,718,413
2025	2,031,040	25,876	2,005,164
2026	10,000,000	5,904	9,994,096
	₱307,673,492	₱1,817,683	₱305,855,809

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2016 and 2015, the Group is in compliance with the terms of its debt covenants.

21. EQUITY

Capital Stock

a. Common stock

	Number of Shares	
	2016	2015 (As restated - Note 5)
Authorized - ₱10 par value per share	**2,790,000,000**	1,190,000,000
Issued and subscribed:		
Balance at beginning of year	**803,055,405**	796,340,646
Issuances:		
Conversion of convertible bonds	**—**	6,714,759
50% stock dividends	**401,527,462**	—
Balance at end of year	**1,204,582,867**	803,055,405

On March 2, 2016, the BOD approved the Parent Company's:

- Increase in authorized capital stock from P12,000.0 million, consisting of 1,190.0 million common shares and 10.0 million redeemable preferred shares both with a par value of P10 per share, to P28,000.0 million, consisting of 2,790.0 million common shares and 10.0 million redeemable preferred shares both with a par value of P10 per share.

- Declaration of 50% stock dividends in favor of stockholders on record to be fixed by the Philippine SEC.

On April 27, 2016, the stockholders, which represent at least two-thirds of the outstanding capital stock of the Parent Company, approved the amendment of its articles of incorporation for the increase in its authorized capital stock as well as the declaration of 50% stock dividends.

On July 15, 2016, the Philippine SEC approved the increase in the authorized capital stock from ₱12,000 million to ₱28,000 million.

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

On various dates in 2015, additional 6,714,759 common shares were issued as a result of conversion of the Parent Company's convertible bonds. The excess of the conversion price over par value totaling ₱4,833.1 million in 2015 is presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31, 2016 and 2015, the Parent Company is compliant with the minimum public float as required by the PSE.

Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012 Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013 Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013 (25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013 Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014 Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015 Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10

The total number of shareholders of the Parent Company is 1,244 and 1,243 as at December 31, 2016 and 2015, respectively.

b. Redeemable preferred shares

	Number of shares	
	2016	2015 (As restated - Note 5)
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2016 and 2015.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates (see Note 5).
- SM Prime common control business acquisition in 2016 (see Note 5).

These acquisitions were considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

a. Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		(In Thousands)
Initial	November 5, 2003	₱5,000,000
Addition	December 14, 2012	30,000,000
Reversal	April 25, 2013	(8,000,000)
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000

Retained earnings appropriated as at December 31, 2016 and 2015 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt servicing		
US$400.0 million	2017	₱18,800,000
US$180.0 million	2018	8,200,000
New investments	2016—2020	9,000,000
		₱36,000,000

b. Unappropriated

The Parent Company's cash dividend declarations in 2016 and 2015 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 27, 2016	**May 12, 2016**	**May 26, 2016**	**₱10.63**	**₱8,536,467**
April 29, 2015	May 14, 2015	June 9, 2015	10.61	8,520,406

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱154,730.7 million and ₱135,601.8 million as at December 31, 2016 and 2015, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

a. Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

b. Management and Service Fees

The Parent Company and SM Retail also receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

c. Dividend Income

The Group earns dividend income from certain related parties under common stockholders.

d. Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

e. Notes Receivable

The group has certain notes receivable from Atlas (see Notes 11, 17 and 29).

f. Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)	**2016**	2015 (As restated - Note 5)	Terms	Conditions
					(In Thousands)		
Banking Group							
Cash placement and investment in marketable securities				**₱130,427,891**	₱110,747,016	Interest-bearing 0.5% to 4.9%	Unsecured; no impairment
Interest receivable				**431,533**	397,665	Interest-bearing	Unsecured;
Interest income	**₱2,401,642**	₱2,407,497	₱2,567,072			0.5% to 4.9%	no impairment
Interest-bearing debt				**9,831,165**	8,633,170	Interest-bearing 1.6% to 9.8%	Unsecured
Interest payable				**36,915**	30,498	Interest-bearing	Unsecured
Interest expense	**535,828**	462,322	1,250,017			1.6% to 9.8%	
Rent receivable				**110,669**	181,225	Noninterest-	Unsecured;
Rent income	**769,720**	679,691	617,155			bearing	no impairment
Receivable financed	**3,297,217**	2,842,481	3,750,848			Without recourse	Unsecured
Dividend receivable				**2,162**	—	Noninterest-bearing	Unsecured; no impairment
Management and service fee receivable				**31,905**	158,822	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**4,368**	6,793	8,097				
Escrow fund				**339,974**	567,639	Interest-bearing 1.4% to 1.6%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**471,477**	418,382	Noninterest-	Unsecured;
Rent income	**1,516,273**	1,253,185	1,058,283			bearing	no impairment
Management and service fee receivable				**218,757**	212,526	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**393,564**	279,110	332,744				
Dividend receivable				**24,000**	362,312	Noninterest-	Unsecured;
Dividend income	**—**	86,790	—			bearing	no impairment
Due from related parties				**631,342**	1,353,710	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**708,767**	1,122,392	Noninterest-bearing	Unsecured
Interest receivable				**35,760**	9,467	Interest-bearing	Unsecured;
Interest income	**316,633**	53,882	15,699			4.0% to 5.0%	no impairment
Notes receivable				**7,857,563**	1,908,435	Interest-bearing 4.0% to 5.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties
The Group did not make any provision for impairment loss relating to amounts owed by related parties. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits relating to key management personnel of the Group for the years ended December 31, 2016, 2015 and 2014 consist of short-term employee benefits amounting to ₱1,740.2 million, ₱1,482.7 million and ₱1,259.3 million, respectively, and post-employment benefits amounting to ₱196.7 million, ₱156.3 million and ₱123.4 million, respectively.

23. COST OF MERCHANDISE SALES

This account consists of:

	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
		(In Thousands)	
Merchandise inventories at beginning of year	**₱21,589,701**	₱19,444,961	₱17,013,466
Purchases	**205,088,168**	187,581,693	174,059,609
Total goods available for sale	**226,677,869**	207,026,654	191,073,075
Less merchandise inventories at end of year	**25,825,290**	21,589,701	19,444,961
	₱200,852,579	₱185,436,953	₱171,628,114

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
		(In Thousands)	
Personnel cost (Note 22)	**₱18,293,812**	₱16,048,078	₱15,430,502
Utilities	**13,495,097**	12,282,410	12,112,220
Depreciation and amortization (Notes 14, 15 and 17)	**12,861,154**	11,846,356	11,347,477
Taxes and licenses	**7,219,786**	6,158,660	5,419,821
Rent (Note 28)	**6,233,281**	6,045,825	5,814,308
Outside services	**6,220,300**	5,196,137	4,736,963
Marketing and selling	**4,473,268**	3,664,128	3,683,755
Repairs and maintenance	**2,358,071**	2,010,546	1,905,799
Supplies	**2,097,055**	1,609,985	1,417,837
Provision for (reversal of) impairment loss and others (Notes 10, 13 and 15)	**1,335,461**	478,869	(288,547)
Transportation and travel	**912,614**	822,936	759,849
Insurance	**753,134**	695,169	695,505
Donations	**648,669**	265,060	149,216
Pension (Note 26)	**543,924**	509,898	449,575
Data processing	**414,238**	259,804	330,751
Entertainment, representation and amusement	**380,675**	389,926	354,944
Professional fees	**353,108**	291,189	328,055
Communications	**266,414**	246,292	207,689
Management fees (Note 22)	**130,203**	1,324,253	1,195,192
Others	**2,853,001**	3,440,160	3,640,522
	₱81,843,265	₱73,585,681	₱69,691,433

25. INTEREST INCOME AND INTEREST EXPENSE

The sources of interest income and interest expense follow:

	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
		(In Thousands)	
Interest income on:			
Time deposits (Note 8)	**₱2,063,883**	₱2,058,413	₱2,059,817
Cash in banks and temporary investments (Note 7)	**958,162**	676,670	548,224
AFS investments (Notes 9 and 12)	**331,327**	326,658	380,399
Investments held for trading (Note 9)	**17,655**	17,998	25,791
Others (Notes 11 and 17)	**354,490**	135,277	82,460
	₱3,725,517	₱3,215,016	₱3,096,691
Interest expense on:			
Long-term debt (Note 20)	**₱10,907,650**	₱9,569,626	₱10,801,336
Bank loans (Note 18)	**425,526**	655,228	655,450
Others	**418,763**	250,100	453,507
	₱11,751,939	₱10,474,954	₱11,910,293

26. PENSION BENEFITS

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Selling, general and administrative expenses")

	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
		(In Thousands)	
Net benefit expense:			
Current service cost	**₱577,642**	₱534,171	₱465,272
Net interest income	**(33,718)**	(24,273)	(31,660)
Others	**—**	—	15,963
	₱543,924	₱509,898	₱449,575

Changes in the net defined benefit liability and asset

a. Net Defined Benefit Liability

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2014	₱1,391,243	₱1,132,285	₱—	₱258,958
Net benefit expense (Note 24):				
Current service cost	119,237	—	—	119,237
Net interest cost	48,539	40,418	—	8,121
	167,776	40,418	—	127,358
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	(39,165)	—	39,165
Actuarial changes arising from:				
Changes in financial assumptions	(138,037)	—	—	(138,037)
Changes in demographic assumptions	(32,083)	—	—	(32,083)
Experience adjustment	17,773	—	—	17,773
Others	—	—	(23)	(23)
	(152,347)	(39,165)	(23)	(113,205)
Reclassifications from defined benefit assets	(322,307)	(248,023)	—	(74,284)
Actual contributions	—	45,364	—	(45,364)
Benefits paid	(19,445)	(19,445)	—	—
Transfer from related parties	(2,788)	(1,995)	—	(793)
Other adjustments	15,546	—	23	15,569
As at December 31, 2015	**1,077,678**	**909,439**	**—**	**168,239**
Net benefit expense (Note 24):				
Current service cost	**257,285**	**—**	**—**	**257,285**
Net interest cost (income)	**135,549**	**136,016**	**414**	**(53)**
	392,834	**136,016**	**414**	**257,232**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**—**	**(113,826)**	**—**	**113,826**
Actuarial changes arising from:				
Changes in financial assumptions	**(410,880)**	**—**	**—**	**(410,880)**
Changes in demographic assumptions	**7,708**	**—**	**—**	**7,708**
Experience adjustment	**783,793**	**—**	**—**	**783,793**
Others	**—**	**—**	**(8,615)**	**(8,615)**
	380,621	**(113,826)**	**(8,615)**	**485,832**
Reclassifications from defined benefit assets	**1,624,035**	**1,843,862**	**—**	**(219,827)**
Actual contributions	**—**	**104,221**	**—**	**(104,221)**
Benefits paid	**(247,337)**	**(247,111)**	**—**	**(226)**
Transfer to (from) related parties	**36,790**	**37,617**	**—**	**(827)**
Other adjustments	**—**	**—**	**8,201**	**8,201**
As at December 31, 2016	**₱3,264,621**	**₱2,670,218**	**₱—**	**₱594,403**

b. Net Defined Benefit Asset

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2014	₱4,057,285	₱4,780,577	₱52,647	(₱670,645)
Net benefit expense (Note 24):				
Current service cost	414,934	—	—	414,934
Net interest cost (income)	201,414	234,083	275	(32,394)
	616,348	234,083	275	382,540
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	(236,918)	—	236,918
Actuarial changes arising from:				
Changes in financial assumptions	(343,260)	—	—	(343,260)
Changes in demographic assumptions	(6,143)	—	—	(6,143)
Experience adjustment	(102,260)	—	—	(102,260)
Others	—	—	(37,636)	(37,636)
	(451,663)	(236,918)	(37,636)	(252,381)
Reclassifications to defined benefit assets	322,306	248,023	(153)	74,130
Actual contributions	—	154,306	—	(154,306)
Benefits paid	(160,471)	(160,471)	—	—
Transfer to the plan	2,598	2,598	—	—
Amount not recognized due to asset limit	—	—	7,760	7,760
Other adjustments	—	(4,656)	(15,287)	(10,631)
As at December 31, 2015	**4,386,403**	**5,017,542**	**7,606**	**(623,533)**
Net benefit expense (Note 24):				
Current service cost	**320,358**	**—**	**—**	**320,358**
Net interest cost (income)	**177,167**	**214,192**	**3,359**	**(33,666)**
	497,525	**214,192**	**3,359**	**286,692**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**—**	**(27,153)**	**—**	**27,153**
Actuarial changes arising from:				
Changes in financial assumptions	**(558,840)**	**—**	**—**	**(558,840)**
Changes in demographic assumptions	**37,256**	**—**	**—**	**37,256**
Experience adjustment	**405,632**	**—**	**—**	**405,632**
Others	**—**	**—**	**20,205**	**20,205**
	(115,952)	**(27,153)**	**20,205**	**(68,594)**
Reclassifications from defined benefit liabilities	**(1,629,161)**	**(1,843,294)**	**—**	**214,133**
Effect of common control business combination (Note 5)	**790,753**	**1,179,772**	**—**	**(389,019)**
Actual contributions	**—**	**106,809**	**—**	**(106,809)**
Benefits paid	**(262,039)**	**(262,039)**	**—**	**—**
Transfer from the plan	**(5,728)**	**(5,728)**	**—**	**—**
Amount not recognized due to asset limit	**—**	**—**	**88,643**	**88,643**
Other adjustments	**—**	**—**	**(31,171)**	**(31,171)**
As at December 31, 2016	**₱3,661,801**	**₱4,380,101**	**₱88,642**	**(₱629,658)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2016	2015
Discount rate	**5.0% - 6.0%**	4.0% - 6.0%
Future salary increases	**3.0% - 10.0%**	3.0% - 10.0%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Cash and cash equivalents	**₱891,526**	₱756,776
Investment in debt and other securities	**1,566,001**	1,144,828
Investment in common trust funds	**2,442,878**	1,934,450
Investment in equity securities	**274,988**	202,503
Investment in government securities	**1,830,329**	1,848,486
Others	**44,599**	39,939
	₱7,050,321	₱5,926,982

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 6.8% and 4.4% to 6.8% in 2016 and 2015, respectively. These have maturities from June 2019 to October 2025 and June 2019 to April 2025 in 2016 and 2015, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities consist of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2016 and 2015, respectively. These bonds have maturities ranging from January 2016 to December 2035 and January 2016 to November 2032 in 2016 and 2015, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱891,526**	₱756,776
Investment in common trust funds	**2,442,878**	1,934,450
Transactions:		
Interest income from cash and cash equivalents	**6,092**	2,741
Gains from investment in common trust funds	**(98,591)**	(323,321)

The Group expects to contribute about ₱967.8 million to its Pension Plan in 2017.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱487,520)
	(50)	420,572
Future salary increases	100	859,869
	(100)	(746,915)
No attrition rate	—	4,274,522

The average duration of the Group's defined benefit obligation is 3 to 29 years and 7 to 32 years as at December 31, 2016 and 2015, respectively.

The maturity analysis of the undiscounted benefit payments follows:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Year 1	**₱640,937**	₱450,485
Year 2	**170,006**	84,840
Year 3	**240,637**	162,644
Year 4	**324,347**	177,394
Year 5	**468,230**	307,674
Year 6 — 10	**2,553,717**	2,163,627

The Group has no specific matching strategies between the Plan assets and the defined benefit obligation.

27. INCOME TAX

The details of the Group's deferred tax assets and liabilities follow:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱1,201,539**	₱1,166,570
NOLCO	**614,549**	461,561
Accrued leases	**528,960**	477,025
Provision for doubtful accounts and others	**332,046**	150,502
Deferred rent expense	**208,304**	234,954
Unamortized past service cost and defined benefit liability	**157,994**	105,482
MCIT	**13,963**	23,830
	3,057,355	2,619,924
Deferred tax liabilities:		
Appraisal increment on investment property	**3,275,167**	3,522,218
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,711,078**	1,396,868
Unrealized gross profit on sale of real estate	**1,063,613**	1,217,472
Unamortized past service cost and defined benefit asset	**261,941**	147,506
Accrued/deferred rent income	**174,436**	180,726
Others	**52,770**	214,172
	8,418,005	8,557,962
Net deferred tax liabilities	**₱5,360,650**	₱5,938,038

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Deferred tax assets	**₱2,527,745**	₱2,619,924
Deferred tax liabilities	**7,888,395**	8,557,962
	₱5,360,650	₱5,938,038

The Parent Company did not recognize any deferred tax asset on the following temporary differences and unused MCIT and NOLCO:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
NOLCO	**₱9,598,632**	₱6,723,420
Net unrealized foreign exchange loss	**676,033**	708,939
Allowance for impairment losses	**120,805**	506,593
MCIT	**252,131**	151,029
Past service cost	**178,627**	131,883
Non-refundable advance rentals	**35,737**	32,864
Defined benefit liability	**29,612**	—
	₱10,891,577	₱8,254,728

The reconciliation between the statutory tax rate and the Group's effective tax rate on income before income tax follow:

	2016	2015	2014
Statutory income tax rate	**30%**	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(8)**	(8)	(8)
Interest income subjected to final tax	**(2)**	(2)	(2)
Change in unrecognized deferred tax assets	**(1)**	1	(2)
Others	**—**	(1)	(1)
Effective income tax rates	**19%**	20%	17%

28. LEASE AGREEMENTS

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

The future minimum lease receivables under the non-cancellable operating leases of the Group as at December 31 follow:

	2016	2015 (As restated - Note 5)
	(In Millions)	
Within one year	**₱4,533**	₱3,812
After one year but not more than five years	**13,525**	8,551
More than five years	**4,990**	5,008
	₱23,048	₱17,371

As Lessee. The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

The Group also has various non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options. Some lease contracts provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The future minimum lease payables under the non-cancellable operating leases of the Group as at December 31 follow:

	2016	2015 (As restated - Note 5)
	(In Millions)	
Within one year	**₱926**	₱1,200
After one year but not more than five years	**3,886**	4,720
More than five years	**27,863**	25,867
	₱32,675	₱31,787

Tenant's deposits amounted to ₱15,863.7 million and ₱14,010.2 million as at December 31, 2016 and 2015, respectively.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, consist of bank loans, long-term debt, AFS investments, investments held for trading, time deposits, cash and cash equivalents, non-trade receivables, advances and deposits, receivable from banks, accrued interest receivable, and advances for project development. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

<u>Interest Rate Risk</u>
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2016 and 2015, after taking into account the effect of the swaps, approximately 76.9% and 74.4%, respectively of the Group's borrowings are kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2016	**100**	**(₱678.3)**	**(₱109.8)**
	50	**(339.2)**	**(54.1)**
	(100)	**678.3**	**118.2**
	(50)	**339.2**	**59.9**
2015	100	(₱612.1)	(₱161.7)
	50	(306.1)	(81.2)
	(100)	612.1	169.3
	(50)	306.1	84.3

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment.

Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

	2016		2015	
	US$	Ph₱	US$	Ph₱
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$80,801**	**₱4,017,440**	$3,364	₱158,297
Time deposits	**511,103**	**25,412,046**	204,000	9,600,240
Receivables	**9,182**	**456,512**	9,099	428,215
AFS investments	**50,192**	**2,495,550**	3,810	179,282
Noncurrent assets:				
AFS investments	**53,574**	**2,663,696**	104,874	4,935,357
Time deposits	**766,000**	**38,085,520**	1,038,628	48,877,817
Derivative assets	**20,130**	**1,000,857**	19,582	921,544
Total foreign currency-denominated financial assets	**1,490,982**	**74,131,621**	1,383,357	65,100,752
Current liabilities:				
Bank loans	**60,000**	**2,983,200**	—	—
Current portion of long-term debt	**371,212**	**18,456,650**	270,000	12,706,200
Accounts payable and other current liabilities	**9,907**	**492,565**	9,951	468,280
Noncurrent liabilities -				
Long-term debt - net of current portion	**1,354,650**	**67,353,221**	1,880,502	88,496,402
Total foreign currency-denominated financial liabilities	**1,795,769**	**89,285,636**	2,160,453	101,670,882
Net foreign currency-denominated financial liabilities	**($304,787)**	**(₱15,154,015)**	($777,096)	(₱36,570,130)

As at December 31, 2016 and 2015, approximately 41.8% and 44.5%, respectively, of the Group's borrowings are denominated in foreign-currency.

The Group recognized net foreign exchange loss of ₱170.1 million, net foreign exchange gain of ₱240.8 million and ₱179.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. This resulted from movements of the closing rates of U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2016	**₱49.72**
December 31, 2015	47.06
December 31, 2014	44.72

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, follow:

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Millions)
2016	**1.50**	**₱457.2**
	1.00	**304.8**
	(1.50)	**(457.2)**
	(1.00)	**(304.8)**
2015	1.50	₱1,165.6
	1.00	771.1
	(1.50)	(1,165.6)
	(1.00)	(771.1)

Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or proceeds from sales of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

The Group's financial assets, which have maturities of less than 12 months, and used to meet its short-term liquidity needs, include the following:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Cash and cash equivalents	**₱74,947,731**	₱58,282,731
Current portion of time deposits	**24,473,541**	9,611,405
Investments held for trading - bonds	**296,596**	279,359
Current portion of AFS investments - Bonds and corporate notes	**2,495,550**	179,282

The maturity profile of the Group's financial liabilities follow:

	2016			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱13,987,765**	**₱—**	**₱—**	**₱13,987,765**
Accounts payable and other current liabilities *	**80,360,441**	**—**	**—**	**80,360,441**
Long-term debt (including current portion) **	**31,909,563**	**217,666,838**	**114,402,680**	**363,979,081**
Derivative liabilities**	**9,931**	**—**	**—**	**9,931**
Dividends payable	**3,302,828**	**—**	**—**	**3,302,828**
Tenants' deposits **	**319,928**	**15,059,576**	**608,712**	**15,988,216**
Other noncurrent liabilities ***	**211,547**	**4,236,885**	**—**	**4,448,432**
	₱130,102,003	**₱236,963,299**	**₱115,011,392**	**₱482,076,694**

**Excluding payable to government agencies of ₱2,949.7 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting ₱1,624.9 million.*

	2015 (As restated - Note 5)			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱10,495,215	₱—	₱—	₱10,495,215
Accounts payable and other current liabilities *	77,004,002	—	—	77,004,002
Long-term debt (including current portion) **	33,073,695	205,142,322	88,156,618	326,372,635
Dividends payable	2,573,029	—	—	2,573,029
Tenants' deposits **	49,722	13,710,751	268,170	14,028,643
Other noncurrent liabilities ***	—	3,420,984	—	3,420,984
	₱123,195,663	₱222,274,057	₱88,424,788	₱433,894,508

**Excluding payable to government agencies of ₱3,844.7 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting ₱1,412.0 million.*

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2016 and 2015, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to the high quality category are included in this category.

	2016			2015 (As restated - Note 5)		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱73,348,682**	**₱—**	**₱73,348,682**	₱57,076,478	₱—	₱57,076,478
Time deposits including noncurrent portion	**66,514,768**	**—**	**66,514,768**	62,739,174	—	62,739,174
Investments held for trading - Bonds	**296,596**	**—**	**296,596**	279,359	—	279,359
AFS investments	**21,783,484**	**51,905**	**21,835,389**	21,938,533	51,916	21,990,449
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**31,440,075**	**6,873,429**	**38,313,504**	28,991,894	6,719,394	35,711,288
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks, notes receivable and accrued interest receivable under “Other current assets” account in the consolidated balance sheets)	**15,361,682**	**—**	**15,361,682**	12,087,207	—	12,087,207
Escrow fund (including noncurrent portion)	**342,434**	**—**	**342,434**	570,099	—	570,099
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets)	**6,876,128**	**—**	**6,876,128**	927,000	—	927,000
Derivative assets (included under “Other noncurrent assets” account in the consolidated balance sheets)	**6,757,361**	**—**	**6,757,361**	3,964,807	—	3,964,807
	₱222,721,210	**₱6,925,334**	**₱229,646,544**	₱188,574,551	₱6,771,310	₱195,345,861

Equity Price Risk
Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax of a possible change in equity indices with all other variables held constant is as follows:

	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
2016	**+3.04%**	**₱941.3**
	-3.04%	**(941.3)**
2015	+9.0%	₱2,268.7
	-9.0%	(2,268.7)

Capital Management
The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

Net Gearing Ratio

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Bank loans	**₱13,987,765**	₱10,495,215
Long-term debt (current and noncurrent)	**305,855,809**	271,162,069
Less:		
Cash and cash equivalents (excluding cash on hand)	**(73,348,682)**	(57,076,478)
Time deposits (current and noncurrent)	**(66,514,768)**	(62,739,174)
AFS investments (bonds and corporate notes)	**(4,893,300)**	(4,866,562)
Investments held for trading - bonds	**(296,596)**	(279,359)
Net interest-bearing debt (a)	**174,790,228**	156,695,711
Equity attributable to owners of the Parent	**300,483,382**	280,031,543
Net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱475,273,610**	₱436,727,254
Gearing ratio - net (a/b)	**37%**	36%

Gross Gearing Ratio

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Bank loans	**₱13,987,765**	₱10,495,215
Long-term debt	**305,855,809**	271,162,069
Total interest-bearing debt (a)	**319,843,574**	281,657,284
Total equity attributable to owners of the Parent	**300,483,382**	280,031,543
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱620,326,956**	₱561,688,827
Gearing ratio - gross (a/b)	**52%**	50%

30. FINANCIAL INSTRUMENTS

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

	2016				
	Carrying Value	Fair value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL -					
Derivative assets	**₱6,757,361**	**₱6,757,361**	**₱—**	**₱6,757,361**	**₱—**
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits - noncurrent portion	**42,041,227**	**45,124,026**	**—**	**—**	**45,124,026**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**41,873,329**	**41,496,950**	**—**	**—**	**41,496,950**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**6,876,128**	**7,160,804**	**—**	**—**	**7,160,804**
	90,790,684	**93,781,780**	**—**	**—**	**93,781,780**
	₱97,548,045	**₱100,539,141**	**₱—**	**₱6,757,361**	**₱93,781,780**
Liabilities Measured at Fair Value					
Financial liabilities at FVPL -					
Derivative liabilities	**₱9,931**	**₱9,931**	**₱—**	**₱9,931**	**₱—**
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**280,254,227**	**290,118,678**	**—**	**—**	**290,118,678**
Tenants' deposits and others*	**21,518,256**	**20,841,472**	**—**	**—**	**20,841,472**
	301,772,483	**310,960,150**	**—**	**—**	**310,960,150**
	₱301,782,414	**₱310,970,081**	**₱—**	**₱9,931**	**₱310,960,150**

**Excluding nonfinancial liabilities amounting to ₱1,624.9 million.*

	2015 (As restated - Note 5)				
	Carrying Value	Fair value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL -					
Derivative assets	₱3,964,807	₱3,964,807	₱—	₱3,964,807	₱—
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits - noncurrent portion	53,127,769	57,332,807	—	—	57,332,807
Receivables - net (including noncurrent portion of receivables from real estate buyers)	39,522,157	39,393,033	—	—	39,393,033
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheet)	927,000	940,801	—	—	940,801
	93,576,926	97,666,641	—	—	97,666,641
	₱97,541,733	₱101,631,448	₱—	₱3,964,807	₱97,666,641
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	₱245,167,269	₱265,886,763	₱—	₱—	₱265,886,763
Tenants’ deposits and others*	19,434,327	19,341,519	—	—	19,341,519
	₱264,601,596	₱285,228,282	₱—	₱—	₱285,228,282

**Excluding nonfinancial liabilities amounting to ₱1,412.0 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2016 and 2015.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2016	2015
Noncurrent portion of time deposits	**1.3% - 2.2%**	0.9% - 2.1%
Noncurrent portion of receivables from real estate buyers	**4.4%**	4.1%
Long-term notes included under “Other noncurrent assets” account	**1.5% - 4.0%**	2.0% - 3.5%
Tenants’ deposits	**1.9% - 5.0%**	2.1% - 4.5%

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.0% to 5.9% and 0.6% to 5.6% as at December 31, 2016 and 2015, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 2.3% to 4.6% and 2.0% to 4.0% as at December 31, 2016 and 2015, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

	2016	2015 (As restated - Note 5)
	(In Thousands)	
Balance at beginning of year	**₱3,964,807**	₱1,404,621
Net changes in fair value during the year	**2,685,500**	1,090,570
Fair value on settled derivatives	**107,054**	226,214
Transferred to additional paid-in capital	**—**	1,243,402
Balance at end of year	**₱6,757,361**	₱3,964,807

Derivative Instruments Accounted for as Cash Flow Hedges

Cross-currency Swaps. In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. Dollar-denominated five-year term loans (the hedged loans).

Under the floating-to-fixed cross-currency swap, the hedged U.S. Dollar-denominated loans have been converted into Philippine peso:

- Swap the face amount of the loans in US$ for their agreed Philippine peso equivalents with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest in the Philippine peso notional amount and receive floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with interest payments on the hedged loans.

The outstanding hedged loans follow:

	Principal Balance	
	(In US$)	(In Ph₱)
	(In Thousands)	
Parent -		
Unsecured loans	US$180,000	₱8,949,600
SM Prime:		
Unsecured loan	530,000	26,341,282
Unsecured advances	200,000	9,932,536

Details of the cross-currency swaps follow:

	Notional Amount		Receive	Pay	US$:₱ Rate	Maturity	Fair Value
	(In US$)	(In Ph₱)					
		(In Thousands)					*(In Thousands)*
Parent:							
Floating-to-Fixed	US$50,000	₱2,059,250	6M US LIBOR + 170 bps	4.1%	₱41.19	May 15, 2018	₱462,084
Floating-to-Fixed	60,000	2,478,000	6M US LIBOR + 170 bps	4.0%	41.30	May 15, 2018	548,160
Floating-to-Fixed	70,000	2,888,200	6M US LIBOR + 170 bps	4.0%	41.26	May 15, 2018	644,382
SM Prime:							
Floating-to-Fixed	200,000	8,134,000	6M US LIBOR + 170 bps	3.7%	40.67	January 29, 2018	1,927,021
Floating-to-Fixed	150,000	6,165,000	6M US LIBOR + 170 bps	3.9%	41.10	March 25, 2018	1,351,132

Principal Only Swaps. In 2016, SM Prime entered into principal only swap transactions to hedge the foreign-currency exposure on its U.S. Dollar denominated five-year term syndicated loans and advances (the hedged loans and advances).

The outstanding hedged loans and advances follow:

	Notional Amount	US$:¥ Rate	Maturity	Fair Value
	(In Thousands)			
Principal only	US$150,000	6.528-6.569	March 23, 2018	₱478,010
Principal only	180,000	6.458-6.483	January 29, 2021	883,752
Principal only	50,000	6.514	August 30, 2017	156,236

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Options Arising from Long-term Notes. The Parent Company entered into a loan agreement with Atlas. The loan contains multiple embedded derivatives such as conversion, call and put options. The conversion option pertains to the right of the Parent Company to convert the loan into common shares of Atlas at the conversion price of ₱8.29 per share at any time beginning July 21, 2015 until June 2, 2018. The call option pertains to the right of Atlas to early redeem the loan, in whole but not in part, on or after December 9, 2016 subject to the conditions stated in the loan agreement. On the other hand, the put option pertains to the right of the Parent Company to require Atlas to redeem all or some of the loan at their prepayment amount on the date fixed for prepayment beginning June 9, 2016. As at December 31, 2016, all outstanding embedded derivatives have nil values.

Interest Rate Swaps. In 2013, SM Prime entered into two floating-to-fixed Philippine Peso interest rate swap agreements with a notional amount of ₱175.0 million each to offset the cash flows of the two fixed-to-floating Philippine peso interest rate swaps entered into in 2010. The loans bear interest based on LIBOR plus spread, with bullet maturity on March 25, 2018 and January 24, 2018, respectively (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱2.0 million gain in 2015.

In 2011, SM Prime entered into floating-to-fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱38.0 million gain in 2015.

In 2010, SM Prime entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with a nominal amount of US$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into a fixed rate loan with semi-annual payment terms up to November 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱19.0 million gain in 2015.

- Two Philippine peso interest rate swap agreements with a notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The consolidated net cash flow of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment terms up to June 2015 (see Note 20). Fair value change from the matured swap recognized in the consolidated statement of income amounted to ₱31.0 million loss in 2015.

Non-deliverable Forwards and Swaps. In 2016 and 2015, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts, as well as sell US$ and ₱ with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statement of income amounted to ₱40.2 million gain and ₱20.5 million gain in 2016 and 2015, respectively.

31. EPS COMPUTATION

	2016	2015 (As restated - Note 5)	2014 (As restated - Note 5)
		(In Thousands Except Per Share Data)	
Net income attributable to owners of the Parent (a)	**₱31,204,304**	₱28,865,157	₱28,385,190
Weighted average number of common shares outstanding (b)	**1,204,583**	1,199,004	1,197,844
EPS (a/b)	**₱25.90**	₱24.07	₱23.70

32. RECLASSIFICATION

The Group reclassified certain consolidated balance sheet accounts as at December 31, 2015 and 2014 and consolidated statement of income accounts in 2015 and 2014 to conform to the 2016 consolidated financial statements presentation and classification. The reclassification was made to present tenants' deposits and others from other noncurrent liabilities to current liabilities. The reclassification has no impact on the 2015 and 2014 profit or loss and equity of the Group.

CORPORATE INFORMATION

Company Headquarters
10th Floor, OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines

External Auditor
SyCip Gorres Velayo & Co.

Stockholder Inquiries
SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange (PSE) under the symbol "SM". For inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters, please contact the company's transfer agent:

BDO Unibank, Inc. - Trust and Investments Group
15th Floor, South Tower
BDO Corporate Center
7899 Makati Avenue
Makati City 0726, Philippines
Tel. No. +63 2 878-4052 to 54; 878-4963; 878-4740; 878-4829

Investor Relations Office
Tel. No. +63 2 857-0100
email: ir@sminvestments.com

Latest news, presentations and publications are available at **www.sminvestments.com**

Our complete Annual Reports can be viewed or downloaded at **http://www.sminvestments.com/annual-reports**

Follow us on Twitter
@sm_investments

Like us on Facebook
@sminvestments.ir

INVESTMENTS
CORPORATION

10th Floor, OneE-com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines

Email: ir@sminvestments.com
www.sminvestments.com