INVESTMENTS
CORPORATION

Pursuing New Opportunities for Growth

2014
ANNUAL
REPORT

INVESTMENTS CORPORATION

Pursuing New Opportunities for Growth

2014 ANNUAL REPORT

VISION

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

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.

CONTENTS

BUSINESS UNITS

Retail

PHP197.1bn
Revenues

Property

PHP66.2bn
Revenues

Banking

*Banks not consolidated

PHP65.3bn
Total Net Interest Income

Other Investments

PHP19.4bn
Total Revenues

PHP76.5bn
Revenues - THE SM STORE

PHP118.4bn
Revenues - SM Food Retail Group

PHP41.5bn
Recurring Revenues

PHP24.7bn
Non-Recurring Revenues

PHP51.2bn
BDO Net Interest Income

PHP14.1bn
China Bank Net Interest Income

PHP3.2bn
Belle Operating Revenues

PHP16.2bn
Atlas Mining Revenues

AT A GLANCE

EFFECTIVE INTEREST OF SM INVESTMENTS

CORE BUSINESSES

50%
PROPERTY

BDO 45% | CHINA BANK 20%
BANKING

100%
RETAIL

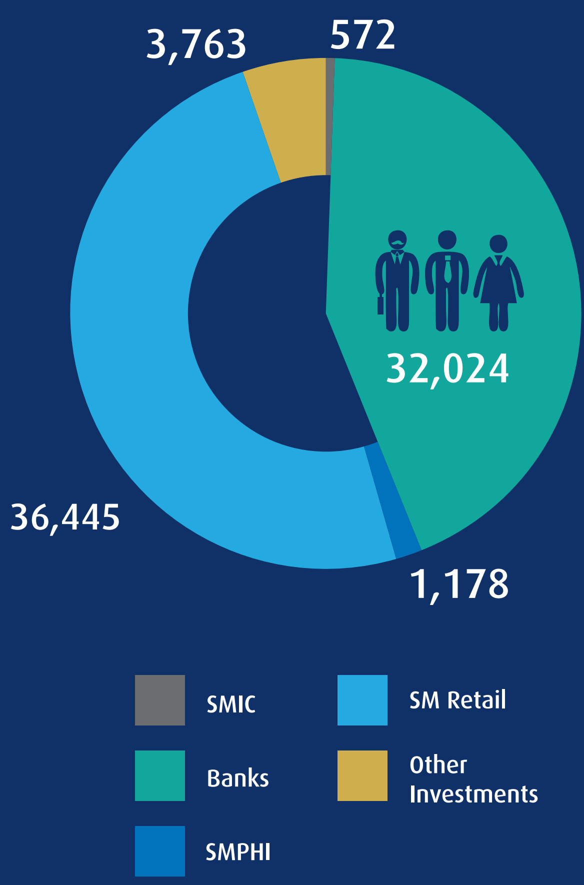
OTHER INVESTMENTS

28%
BELLE CORP.

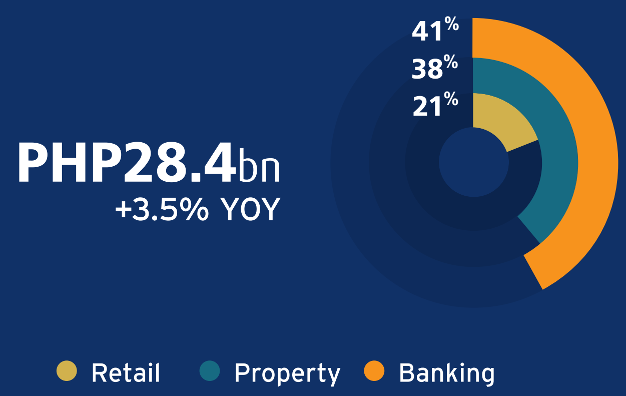
29%
ATLAS MINING

34%
CITYMALL

GROUP-WIDE EMPLOYEE PROFILE



NET INCOME PROFILE



AWARDS RECEIVED IN 2014

	23 - SM - INVESTMENTS AWARDS	**31** - SM - PRIME AWARDS
25 - BDO - - CHINA BANK - AWARDS	**11** - SM - RETAIL AWARDS	**4** - SM - FOUNDATION AWARDS

2014 PERFORMANCE OF SM FOUNDATION

220 Graduates

69 Honor Students

326 Scholars

56 Classrooms Built

19 Farmer Trainings

2,798 Training Graduates

118 Medical Missions

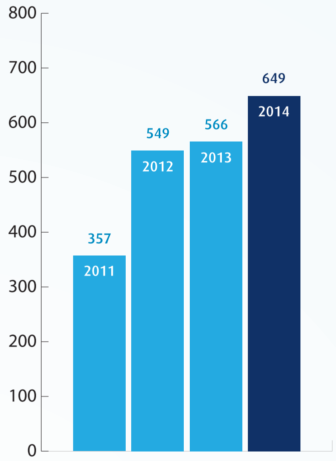
105,936 Beneficiaries

14 Modernized Health Centers

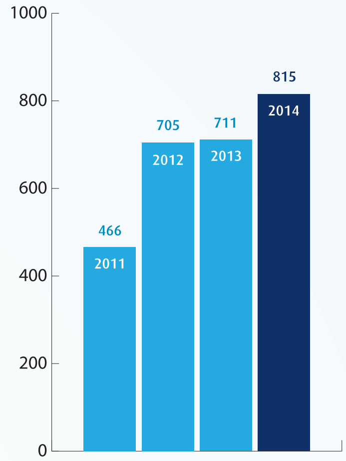
30,547 Kalinga (Relief) Packs Distributed

FINANCIAL HIGHLIGHTS

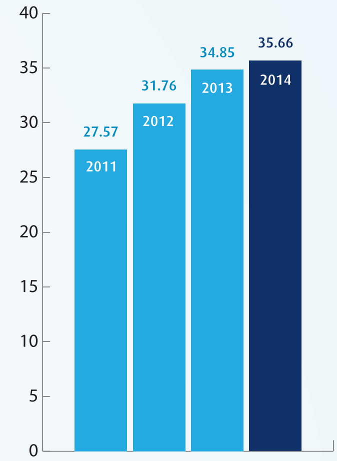
	2014	2013	2012
Balance Sheet Highlights (PHP billion)			
Total Assets	711.88	632.99	561.80
Current Assets	186.02	162.94	145.89
Non-current Assets	525.87	470.06	415.92
Current Liabilities	96.28	132.07	105.09
Non-current Liabilities	265.66	200.69	195.07
Total Liabilities	361.94	332.75	300.16
Stockholders' Equity	349.95	300.24	261.64
Book Value per Share (Php)	322.73	275.58	240.93
Income Statement Highlights (PHP billion)			
Revenues	275.72	253.29	223.88
Gross Profit	52.19	51.29	46.88
Other Income / (Expenses)	-5.73	-7.63	-5.93
Net Profit Before Tax	46.46	43.66	40.95
Net Income	28.40	27.45	24.67
Minority Interest	10.49	10.79	9.73
Basic EPS (Php)	35.66	34.85	31.76
Financial Ratios (in percent)			
Current Ratio (x)	1.93:1	1.23:1	1.39:1
Return on Equity (%)	12.0%	13.5%	14.3%
Debt/Equity Ratio (%)	50:50	52:48	54:46
Net Debt	131.65	126.53	93.61
Net Debt/Equity Ratio (%)	34.66	37:63	33:67
Revenue Growth (%)	8.9%	13.1%	12.0%
Net Income Growth (%)	3.50%	11.2%	16.3%
Interest Cover Ratio	5.43	5.24	5.54
EBITDA	63.10	60.80	54.93
EBITDA Margin (%)	22.88%	24.0%	24.5%
Net Margin (%)	10.30%	10.8%	11.0%
Revenue Profile (in percent)			
Retail Merchandising	73.1%	73.3%	73.2%
Property	22.5%	22.0%	23.2%
Banks	4.4%	4.7%	3.6%
Income Profile (in percent)			
Retail Merchandising	20.90%	21.4%	28.1%
Property	37.8%	35.5%	37.5%
Banks	41.4%	43.1%	34.4%



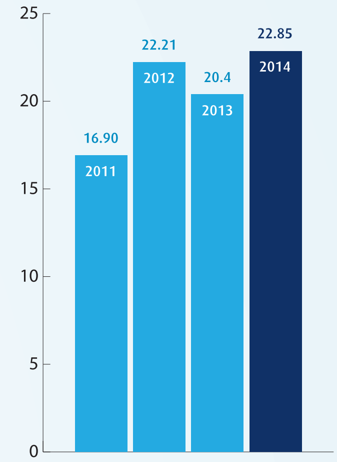
MARKET CAPITALIZATION
(in billion pesos)



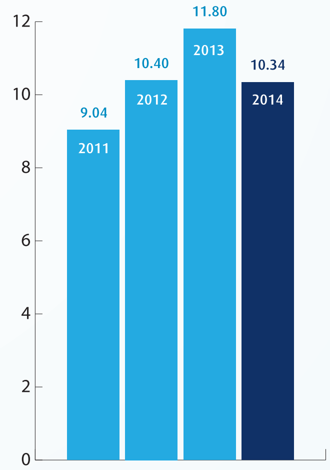
SHARE PRICE
(in pesos)



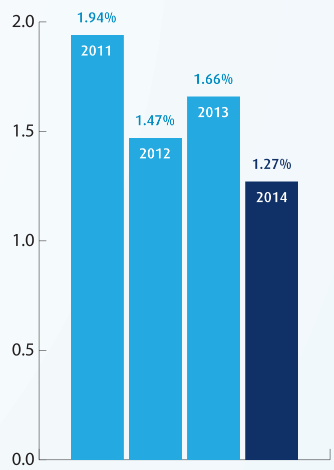
EARNINGS PER SHARE
(in pesos)



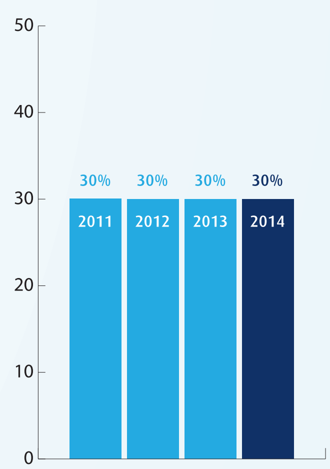
P/E RATIO



DIVIDENDS PER SHARE
(in pesos)



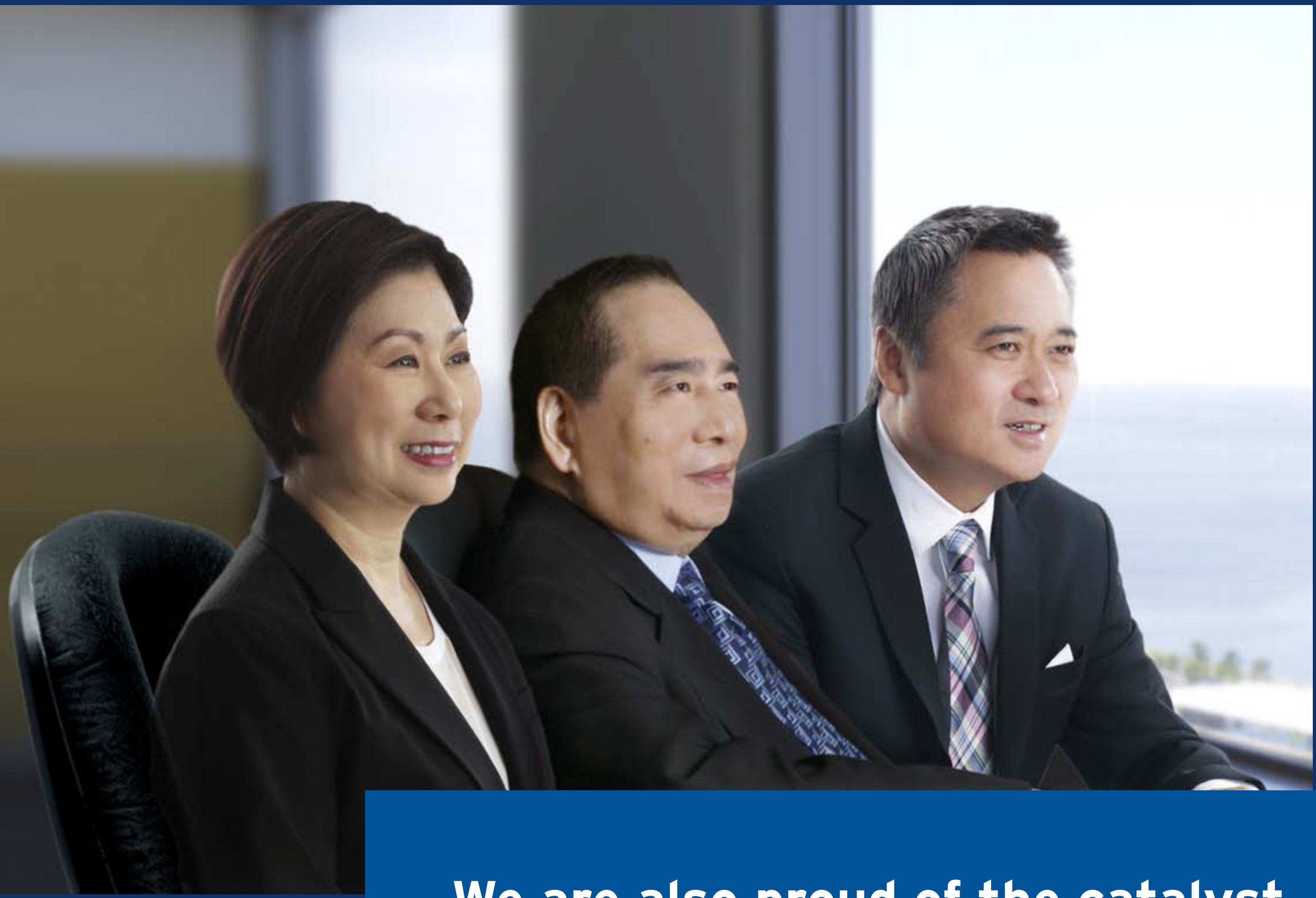
DIVIDEND YIELD
(in percent)



DIVIDEND PAYOUT RATIO*
(in percent)

* Excluding:
- 25% stock dividend in 2013
- 4.27% stock dividend in 2007

MESSAGE TO OUR SHAREHOLDERS



We are also proud of the catalyst role that SM Investments provides in developing the communities that we serve and this remains an important part of all our future plans.

Henry Sy, Sr., Chairman

2014 was another strong year for SM Investments Corporation and we are pleased to report that our core businesses all delivered good financial results with strong underlying growth. The economic environment in the Philippines was strong with positive corporate and consumer sentiment helping drive performance in all our business areas. With growing market opportunities, we also experienced a robust competitive environment and in the course of the year, each of our businesses took steps to expand and ensure they continue to build their leading positions.

SM Investments delivered a record net income of PHP28.4 billion for the year on revenues of PHP275.7 billion. This represented strong recurring earnings growth of 14.4% excluding extraordinary items and was driven by healthy performance across the group. Our two banks, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), accounted for 41% of consolidated net earnings, with SM Prime Holdings, Inc. (SM Prime), our property arm, delivering 38% and our retail business, SM Retail, Inc., contributing the remaining 21%.

Our banks delivered strong underlying earnings growth in 2014, reflecting the positive domestic economic environment. BDO grew gross operating income by 7.6% to PHP80.7 billion and reported net income of PHP22.8 billion. BDO's recurring net income grew 18.0% excluding exceptional items such as one-off trading gains experienced in 2013. China Bank's acquisition of Planters Development Bank during the year helped deliver recurring income growth of 35.4% and net income of PHP5.1 billion. Both banks experienced strong growth in gross customer loans of 19.5% for BDO and 30.7% for China Bank.

SM Prime completed its first full year of operations as a property conglomerate and successfully concluded the post-merger integration of its mall, residential, commercial, hotel, convention center and leisure assets. As a result, SM Prime has a strong balance sheet, high recurring income and a unique portfolio of integrated assets that enable it to be a leader in developing large-scale, mixed-use, master-planned lifestyle cities across the country.

In 2014, SM Prime registered a net income growth of 13.0% to PHP18.4 billion on revenue growth of 10.8% to PHP66.2 billion. In the course of the year we opened our milestone 50th mall in the Philippines in addition to our five successful malls in China. We also expanded SM Megamall in Metro Manila to become the largest mall in the country.

Our retail businesses delivered revenue growth of 9.0% to PHP197.1 billion with earnings growth of 3.3% to PHP5.9 billion. SM Retail continued to expand its footprint across the country by adding 26 stores in 2014, in line with its strategy of helping to develop the Philippines' organized retail sector. We ended the year having achieved over one million square meters of net selling area. SM Retail also formed two strong new partnerships with CityMall Commercial Centers, Inc. and Alfamart of Indonesia to increase the pace of our retail expansion in the mid-sized supermarket and mini-mart formats respectively.

SM Investments received a number of governance awards last year from leading financial institutions and publications. We are pleased to be recognized in this manner, reflecting the primary importance we place on ensuring the highest standards of corporate practice across the group. Mr. Henry Sy, Sr. was also the recipient of the Asia CEO Awards' Lifetime Contributors Award as well as a Lifetime Achievement Award from international television network CNBC.

Through SM Foundation, Inc., our charitable arm, we pursued our goal of enabling Filipinos to improve their lives by providing free education, healthcare facilities and medical missions, livelihood training and disaster relief. In 2014, we further committed to build and donate 1,000 homes in the Visayas region for survivors of Typhoon Haiyan/Yolanda in 2013.

In line with our environmental advocacy, SM Prime also launched the largest mall-based solar farm in the world at our SM North EDSA mall.

Looking to 2015, the Philippines continues to provide a strong economy and an optimistic business outlook. It is our view that the country is still in the early stages of sustained economic growth and this will provide us with great long-term opportunities. We will continue to expand our businesses to deliver financial growth and shareholder returns in line with our strong business franchises and long-term ambitions. We are also proud of the catalyst role that SM Investments provides in developing the communities that we serve and this remains an important part of all our future plans.

We would like to thank our board members for their generous support during the year and to recognize the considerable efforts of our management, employees and business partners. The millions of Filipinos who are our customers continue to inspire us to be innovative in order to meet their changing needs and aspirations. It remains our privilege to serve them. Finally, we would like to express our sincere appreciation to you, our shareholders, for the trust and confidence that you continue to place in our company.

Henry Sy, Sr.
Chairman

Henry T. Sy, Jr.
Vice Chairperson

Teresita Sy-Coson
Vice Chairperson

PRESIDENT'S REPORT

I am confident that SM's unwavering commitment to innovation, customer service excellence, and sustainable growth will create long-term value for our shareholders, customers, employees, and the communities where we live, work and serve.

Harley T. Sy, President

The Philippines managed to retain its spot as the second fastest-growing economy in Asia in 2014 next only to China. Feeding such growth were double-digit expansion in the construction sector, export growth, and sustained increase in consumer spending. All these were backed by a healthy monetary and financial system and a very young and productive demographic with income earners all across the globe. Anchored on these growth drivers, SM Investments Corporation's (SM) three core businesses: retail, banking, and property development delivered strong growth even as they faced increased and more aggressive competition.

Regardless of the absence of huge trading gains seen in 2013, SM posted a record net income of PHP28.4 billion in 2014 coming from PHP27.5 billion in the previous year.

Excluding exceptional items, SM's recurring income grew 14.4% to PHP25.4 billion. The strong underlying earnings growth was a result of solid performance and ongoing expansion in all our three core businesses. The banks contributed 41% to consolidated net income with BDO Unibank, Inc. posting an 18.0% growth in its core income. Property contributed 38% and retail 21%.

Banking

The year 2014 continued to be a growth year for banks. BDO posted a net income of PHP22.8 billion from PHP22.6 billion in the same period last year. Excluding significant trading gains posted in 2013, BDO's core income grew 18.0% driven by growth in the Bank's sustainable income sources.

Net interest income grew by 18.7% to PHP51.2 billion. The Bank's customer loan business expanded 19.5% to PHP1.1 trillion, while total deposits increased by 10.9% to PHP1.5 trillion.

BDO continues to be well capitalized. Its capital adequacy ratio (CAR) of 14.6% and common equity tier 1(CET 1) ratio of 12.4% are well above the regulatory minimum under the current Basel III environment of 10.0% and 8.5% respectively. BDO set aside PHP1.5 billion in provisions for the year, even as asset quality continued to improve, with gross non-performing loan (NPL) ratio falling further to 1.3% from 1.6% in 2013. Reflective of its prudent provisioning policies, BDO hiked its NPL cover to 188.4% in 2014 from 170.7% in 2013.

Meanwhile, China Banking Corporation (China Bank) reported that its full year consolidated net income of PHP5.1 billion in 2014 was on the back of sustained growth in core business operations. China Bank's net interest income grew 41.8% to PHP14.1 billion, largely due to earnings from loans and receivables. Total operating income reached PHP18.8 billion, up 25.2%. China Bank's balance sheet remained strong and well-capitalized in 2014. Common Equity Tier 1 (CET 1) and total capital adequacy ratio (CAR) stood at 14.0% and 14.9%, respectively, also well above regulatory requirements.

Total assets expanded 13.8% to PHP470.9 billion, driven by strong loans and deposit growth. Lending was vigorous across all market segments (corporate, commercial, and consumer), resulting in a PHP70.0 billion or 30.7% increase in total gross loan portfolio to PHP297.7 billion. The loan portfolio of newly acquired Planters Development Bank worth PHP30.4 billion accounted for 43% of the bank wide loan growth. Consolidated deposits on the other hand rose 12.7% to PHP399.3 billion, supported by a 24.0% growth in CASA (checking and savings accounts) to PHP193.2 billion.

Property

Our property arm, SM Prime Holdings, Inc. (SM Prime), reported a 13.0% growth in combined net income of PHP18.4 billion in 2014 with all business units performing on target.

Consolidated revenues rose 10.8% to PHP66.2 billion from year-ago boosted by recurring revenues, which accounts for 63% of the total.

SM Prime's rental revenues rose 13.4% to PHP36.5 billion from PHP32.2 billion in 2013, mainly from new mall openings and expansions in 2013 and 2014 namely, SM Aura Premier in Taguig, SM City BF Parañaque, Mega Fashion Hall in SM Megamall in Mandaluyong, SM City Cauayan in Isabela province and SM Center Angono in Rizal province, which have a combined gross floor area of 583,162 square meters (sqm). Growth also came from TwoE-comCenter at the Mall of Asia Complex which opened in 2012 and is now enjoying full occupancy.

SM Prime's housing group likewise showed improvements, recording a 6.6% increase in real estate sales to PHP22.2 billion in 2014. SMDC increased its pace of construction of sold units in Grace Residences in Taguig, Shell Residences in Pasay, Breeze Residences in Pasay, Green

PRESIDENT'S REPORT

Share Price
ending Dec 2014

PHP815
PER SHARE
↑14.6%

Market Capitalization
as of Dec 2014

PHP649bn
↑14.6%

Residences in Manila, Grass Residences Phase 2 in Quezon City and Trees Residences in Quezon City which allowed the company to book the corresponding sales revenues. Reservation sales hit PHP35.9 billion in 2014, up by 60.2% from only PHP22.4 billion in 2013. Most reservations came from Shore Residences and Air Residences projects in Pasay and Makati respectively.

The malls' cinemas generated ticket sales of PHP4.3 billion, an increase of 14.1% due to the opening of additional digital cinemas in the new and expanded malls coupled with the screening of international and local blockbuster movies. Excluding the new malls and expansions, same-store cinema ticket sales grew by 10.0%. Other revenues increased by 8.0% to PHP3.3 billion in 2014. The increase was mainly due to the strong patronage of amusement rides and additional recreational facilities provided by management in various malls.

A major milestone in 2014 is the opening of SM Prime's 50th mall in Angono, Rizal province, bringing SM Prime's total gross floor area to 6.5 million sqm. SM Megamall also became the country's largest mall with a gross floor area of 488,767 sqm after opening its 101,005 sqm Mega Fashion Hall.

SM Prime continued its successful development of malls in China and plans to open one mall per year in second-and third-tier cities moving forward. SM Prime's sixth mall in China, launched in the first quarter of 2015 is in Zibo, Shandong province.The largest SM mall in China, spanning 540,000 sqm, will open in the Tianjin Binhai New Area. As of end 2014, SM Prime operates five malls in China with a total gross floor area of almost 800,000 sqm. This will grow close to 1.5 million sqm after the malls in Zibo and Tianjin are launched into operation.

Retail

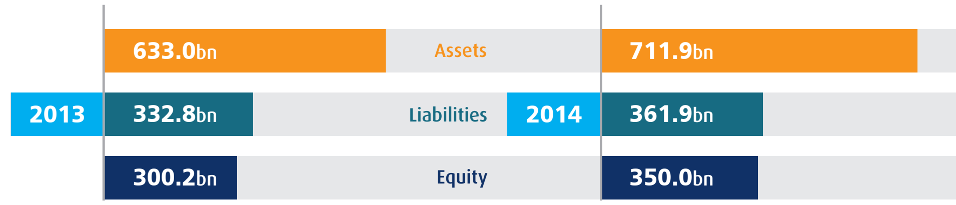
Even as retail is the most mature of our core businesses, it remains to be one of the brightest spots in the Philippine economy. New and vast opportunities have presented themselves in this sector. We therefore feel that we need to step up our game plan and accelerate our growth plans for the group.

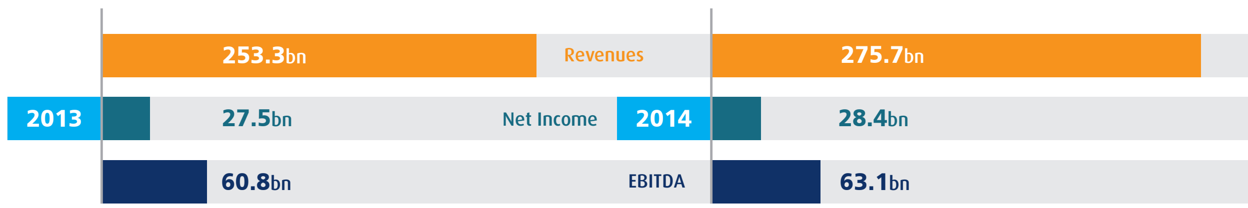
In 2014, SM Retail reported a net income of PHP5.9 billion from PHP5.7 billion in 2013, with sales of PHP197.1 billion for a growth of 9.0% from PHP180.9 in the previous year. SM Food Retail led the growth as it went on an aggressive expansion mode by opening more Savemore stores to penetrate the informal sector in both urban and rural communities. In 2014, we blazed the trail in the mini-mart business through a partnership with Alfamart, one of the leading operators in Indonesia with over 9,000 mini-marts nationwide. We have much room to cover in modern retail. By introducing new formats, we will be able to gain more ground in a shorter period of time.

In the department store business, THE SM STORE added new locations in Cauayan, Isabela and the Megacenter in Cabanatuan, Nueva Ecija. Overall, THE SM STORE continued to innovate and enhance its store layout and design and to introduce new brands to its merchandise mix.

At the end of the year, we began to pilot test an e-commerce platform for THE SM STORE that aims to take shopping to a whole new level of convenience as we find new ways to grow the business over the medium-term.

SM Retail ended the year with a total of 267 stores, comprising of 50 SM STORES, 40 SM Supermarkets, 42 SM Hypermarkets, 113 Savemore stores and 22 WalterMart stores.





Looking ahead

2015 promises to be a pivotal year, in which the investments we have made will play a more critical role in sustaining our performance in the long-term.

Greater competition and a fast-evolving environment in the Philippines and in the region requires us to think on our feet and firm up new alliances.

In retail, our foray into new formats through Alfamart of Indonesia will provide us access to underserved markets in the country, fast accelerating our pace of growth. SM is the first mover in the mini-mart concept, a format that we can grow in numbers across the country. Our partnership with CityMall will also give impetus to the expansion of our Savemore stores in the Visayas and Mindanao.

THE SM STORE will continue to grow with our mall, essentially focusing on being the store of choice everywhere it goes.

We have also outlined our strategy in property, aiming to double SM Prime's revenues and net income over a five-year horizon. Our mall expansion of four to five malls per year in the Philippines will focus mainly on expanding in the provinces where incomes and aspirations are being enhanced. We are also expanding in cities within Metro Manila where we don't have any presence yet. We are also set to complete SM Seaside City Cebu in 2015 in our bid to establish the Visayas region as a formidable tourist, shopping and entertainment destination.

In China, we maintain our strategy to expand in highly progressive second- to third-tier cities. The opening of the 540,000 sqm SM Tianjin in the Binhai New Area, an industrial and trading hub will also catapult SM Prime to new levels of growth in China.

Our residential business under SM Development Corporation will sustain growth as more projects reach completion while new ones come on-stream still mostly in Metro Manila. We will also continue to roll out new commercial buildings particularly in MOA Complex to take advantage of the growing BPO segment. In the hotels and convention center business, we will continue to expand in areas where these world-class facilities are needed and to better position the Philippines as a Meetings, Incentives, Conferences and Exhibitions (MICE) destination in an increasingly globalized environment. In fact, we are highly anticipating the opening of Conrad Hotel Manila in the MOA Complex to further reflect our commitment to develop world-class venues in the Philippines. We have also embraced technological innovations in banking to reach out to a bigger and younger market. We will also remain on the lookout for opportunities such as the imminent integration of the ASEAN economies that can gain us entry in other markets in the region. However, we will remain focused on our core businesses of retail, banking, and property while cognizant of opportunities and potential synergies.

Overall, we are committed to continue our expansion in the Philippines towards the provincial areas, which remains our strategic direction. As the middle income market continuously expands in the outskirts of Manila, they will keep presenting viable options for our businesses. I am confident that SM's unwavering commitment to innovation, customer service excellence, and sustainable growth will create long-term value for our shareholders, customers, employees, and the communities where we live, work and serve.

Through 2015 and beyond, we will continue to embrace new opportunities to enhance our businesses, as well as the lives of the millions of Filipinos we serve.

Harley T. Sy
President

Retail OPERATIONS

NET INCOME

PHP5.9bn | ↑3.3%

TOTAL SALES

PHP197.1bn | ↑9.0%

In 2014, the performance of SM Retail, Inc. was a testament to robust private consumption buoyed by overseas remittances that underpin the steady growth in disposable income. This was amidst increased competition and evolving aspirations as well as heightened demand for greater convenience.

TOTAL NO. OF RETAIL STORES

267

THE SM STORE continues to set the stage for higher growth by widening its merchandise offerings with the introduction of new global brands to a fast growing lifestyle-conscious market.

THE SM STORE

Redefining the Shopping Experience

Total Sales
PHP76.5bn
↑6.9%

Net Income
PHP1.8bn
↑29.8%

No. of Stores Opened in 2014
2

Gross Selling Area
665,521sqm
↑3.9%

THE SM STORE FAST FACTS

*Figures are for 2014

PHP114,929
Average Sales per Square Meter

50
Total Number of Stores

15M
Members of the SM Loyalty Program

In 2014, the performance of SM Retail, Inc. was a testament to robust private consumption buoyed by overseas remittances that underpin the steady growth in disposable income. This was amidst increased competition and evolving aspirations as well as heightened demand for greater convenience.

The rise in the ranks of the middle class, and their increasing exposure to Western consumer culture and trends, have boosted the appetite for global fashion and other retail brands. As a result, overall sales of THE SM STORE for the full year 2014 reached PHP76.5 billion, growing 6.9%, driven by expansion and same store sales that rose 5.2%. Leading the growth were sales of shoes followed by men's fashion. THE SM STORE continues to set the stage for higher growth through the expansion of its merchandise offerings with the introduction of new global brands to a lifestyle-conscious market.

Aligned with the direction of the malls to expand into the provinces, particularly in underserved regions, THE SM STORE added new stores in SM City Cauayan in Isabela and SM Megacenter in Cabanatuan, Nueva Ecija in 2014, its 50th store.

Cauayan City is considered the Central Business District of the Cagayan Valley region, home to over 2,000 registered business establishments. Cabanatuan on the other hand is the business capital of Nueva Ecija. The store will serve customers in four cities and 27 municipalities in the province, offering upscale yet affordable merchandise.

THE SM STORE is on course to open two to three stores a year as it helps create jobs in the urban and rural areas it penetrates. Stores to be opened in 2015 include one in SM City San Mateo in Rizal province, another in Cabanatuan, Nueva Ecija and the widely anticipated SM Seaside City Cebu.

THE SM STORE Makati also underwent a major facelift in 2014, boasting of a fully integrated shop-in-shop setup.

In addition, THE SM STORE's Fashion Forum, a multi-brand boutique, offers contemporary US labels, bringing shoppers closer to names such as Tahari, Donna Morgan, Jessica Howard, Maggie London, Walter Baker, Badgley Mischka and Aidan Mattox. These collections are available at THE SM STORE in SM Makati, SM Aura Premier and other stores of SM in the country.

Beyond being bolder in its new offerings and throwing more international brands into the mix, THE SM STORE enhanced its classic and signature features in 2014. It invigorated its SM Prestige Program for big spenders, with Prestige lounges in 15 out of 29 SM STORES.

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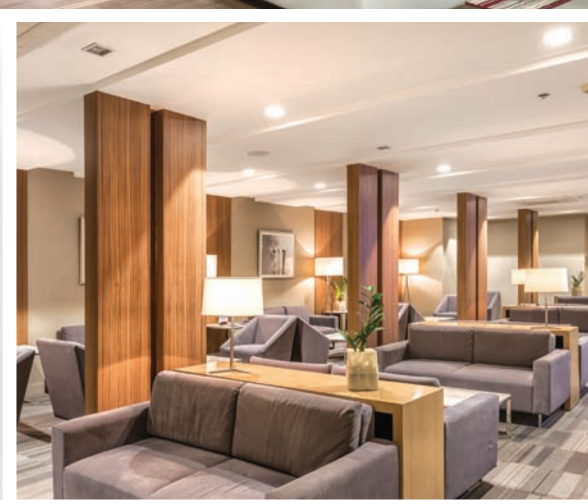
Since it was launched in 2012, its gift registry has seen demand for products related to important milestones.

For the shopaholics, shopping assistants and related value-added services are available to make THE SM STORE experience more inclusive, innovative, and constantly in style.

Amidst more competition, SM maintains its edge as a one-stop shopping haven, carrying a wide assortment of merchandise and value for money offerings, further enhanced



For the shopaholics, shopping assistants and related value-added services are available to make THE SM STORE experience more inclusive, innovative, and constantly in style.

by a well-established loyalty program through the SM Advantage and Prestige cards.

THE SM STORE ended 2014 with an e-commerce platform to boost sales beyond traditional channels. With the country's rising middle class, and the explosion of social media, THE SM STORE is positioned to serve changing tastes within easy reach of consumers.

FEATURE

SHOE-IN FOR SUCCESS:

50 SM STORES in 57 Years

One man's dream to see every Filipino wearing a pair of good shoes gave birth to a successful business enterprise that would lead to offering the essential retail needs of every Filipino across generations. Retail pioneer Henry Sy, Sr., the founder of ShoeMart, and now known as SM, the country's most established name in retail once said: "When I began selling shoes in Manila right after the Second World War, I thought then that if I sold a pair of shoes to every Filipino, even with very low margins, I would be a successful businessman."

Sy put up his first shoe store in Quiapo in 1948 and later opened two more outlets namely Plaza, Paris and Park Avenue stores. Ten years later in 1958, Sy consolidated his holdings in the three stores and built a bigger shoe store in Carriedo and aptly named it ShoeMart. ShoeMart steadily grew and evolved into a full-blown department store that sells a wide-range of consumer goods under its current brand name, THE SM STORE. Today, THE SM STORE is a leading player in the industry given its strong brand loyalty built and nurtured across generations.

The past year marked a milestone in SM Store's history when it opened its 50th store in Cabanatuan, Nueva Ecija. With the opening of THE SM STORE Megacenter, total gross selling area of all 50 stores have expanded to 665,521 square meters. Likewise, from approximately 200,000 pairs of shoes sold annually when ShoeMart opened in Carriedo in 1958, THE SM STORE now sells millions of shoes every year, having sold 24.4 million pairs of footwear in 2014 alone.

SM has changed the business landscape of retailing by further enhancing customer experience through added services such as bills payment, concert ticket sales, and government requirements. For frequent shoppers, they have Prestige Lounges where valet shopping, priority fitting rooms and Concierge services are offered. THE SM STORE is setting the benchmark in customer service, diversity, style, and store design and layout, expanding now into emerging regional centers in the country. It continues to lead the way in enhancing lifestyles and providing a refined luxury customer experience.

As competition increased, SM Food Retail continued to expand its geographic coverage through new stores. It also forged alliances with strong players in the local and international food retail sector to introduce multiple store formats in tune with a rising preference for convenience shopping and evolving tastes and lifestyles.

AN SM MARKET FOR EVERY COMMUNITY

In the past year, the SM Food Retail Group, posted growth of 10.3% in revenues to PHP118.4 billion (including WalterMart) in line with sustained growth in consumer spending. Net income was at PHP3.7 billion, up by 4.4% compared with the same period in the previous year.

As competition increased, SM Food Retail continued to expand its geographic coverage through new stores. It also forged alliances with strong players in the local and international food retail sector to introduce multiple store formats in tune with a rising preference for convenience shopping and evolving tastes and lifestyles.

SM Food Retail opened 26 new stores in 2014, to bring the total to 217 stores. Of these, 22 are Savemore stores (hitting its 100th branch in July), one is an SM Supermarket, and three are SM Hypermarket branches. Recently branded as SM Markets, SM Food Retail created new selling spaces of up to 92,530 square meters, with Luzon ex-Metro Manila accounting for 72% — a reflection of the robust retail market outside Metro Manila. Metro Manila alone accounted for 9% of the new spaces while Visayas and Mindanao cornered 12% and 7% respectively.

A key milestone in 2014 was the Food Retail Group's entry into small retailing through a partnership with Alfamart, Indonesia's leading mini-market chain operator.

SM Food Retail has also partnered with strong domestic players such as CityMall Commercial Centers, Inc. and WalterMart, both developers of community malls to further accelerate growth in the sector, particularly in underserved regions in the country. Every store location, target market, and accessibility are carefully studied to ensure that the stores are sustainable, can provide world-class shopping, and elevate the level of service compared with local competitors. Enhancing convenience and satisfaction, SM Food Retail also added more ready-to-eat items and meals to its roster of offerings, to include favorites like hot roast, sliced fruits, salads, baked goods, and Filipino delicacies. In addition, Total Sales

PHP118.4bn

↑10.3%

No. of Stores Opened in 2014

26

Net Income

PHP3.7bn

↑4.4%

Gross Selling Area

1,078,422sqm

↑7.9%

THE SM FOOD GROUP FAST FACTS

*Figures are for 2014

PHP109,496
Average Sales per Square Meter

30,000
Average SKUs per Store (all formats)

217
Total No. of Stores

40 **No. of Supermarkets**

113 **No. of Savemore Stores**

42 **No. of Hypermarkets**

22 **No. of WalterMart Stores**

it continues to implement a one-price nationwide policy for the grocery category for the benefit of its customers.

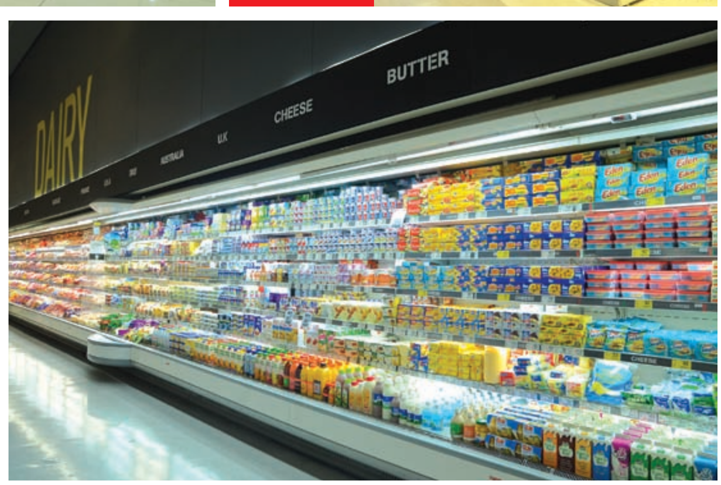
Awards and citations the group received in the past validated these innovations. In January, SM Food Retail received the Corporate Gold Bagwis seal from the Department of Trade and Industry, the first supermarket chain given the honor. SM Supermarket and SM Hypermarket were also named as the Best Supermarket and Best Hypermarket of 2014 by the Philippine Retailers Association (PRA) in their 18th Outstanding Filipino Retailers and Shopping Centers of the Year Awards Night with Savemore Market as one of the finalists. Its SM Supermarket at North Reclamation and Consolacion as well as Savemore Parkmall, Elizabeth Mall, Canduman, Basak, Mactan, Maribago, Carcar were cited by Sunstar as Cebu's Best Supermarkets. Thirteen SM Food Retail stores were also presented Top Taxpayer Awards by their respective communities.

In 2015, SM Food Retail, Inc. unified its three formats – SM Supermarket, SM Hypermarket and Savemore Market under one mother brand now known as SM Markets. The launch of SM Markets emphasized the group's commitment to bring the same friendly service, wide selection, and great value across all its stores.

SM Food Retail also remains optimistic in 2015. Despite major competitors continuing their aggressive expansions and joint venture activities, the group believes that the strategies in place and experience in business will continue to win customer loyalty for SM. SM Food Retail addresses shoppers' preference for greater convenience, better choices, and more value for money as it keeps to its goal every year to be the store of choice. It also monitors market trends to continuously rationalize its listings for optimum assortment of products, expanding offerings and improving services accordingly.

SM Food Retail is an integral component of the SM Group's emergency relief program during times of calamities. The stores act as hubs for quick disaster response, while triggering an emergency response protocol to properly stock and replenish emergency items, instant meals, drinking water, and other essentials that the public needs.

On the corporate social responsibility front, SM Food Retail has been stepping up its Grow a Million Trees program, in partnership with SM Foundation, Inc. and key government agencies. Also, its *Baryanihan* Program, promotes community engagement among shoppers by inviting them to donate their loose change for the benefit of underprivileged public schools in the vicinity. Upon completion of its fourth year, the campaign, which ran in all SM Markets, raised over PHP10 million. SM Food Retail is optimistic about 2015, given its comprehensive plan to bring products and services to more rural communities, helping enhance their quality of life.



SM Food Retail received the Corporate Gold Bagwis seal from the Department of Trade and Industry, the first supermarket chain given the honor.

100
NCR Stores

Total NCR
Gross Selling Area (in sqm.)
781,745

20	THE SM STORES
14	SM Supermarkets
22	SM Hypermarkets
39	Savemore Stores
5	WalterMart Stores

Total Visayas
Gross Selling Area (in sqm.)
175,816

29
Visayas Stores

5	THE SM STORES
5	SM Supermarkets
4	SM Hypermarkets
15	Savemore Stores

267
Total Number of Stores

1,743,943
Total PHILIPPINES Gross Selling Area (in sqm.)

123
Luzon Stores

Total Luzon (outside of Metro Manila) Gross Selling Area (in sqm.)
682,024

21 THE SM STORES

16 SM Hypermarkets

17 WalterMart Stores

17 SM Supermarkets

52 Savemore Stores

15
Mindanao Stores

Total Mindanao Gross Selling Area (in sqm.)
104,358

4 THE SM STORES

7 Savemore Stores

4 SM Supermarkets

Property

NET INCOME
PHP18.4bn | ↑ 13.0%

MARKET CAP
PHP492.1bn

REVENUES
PHP66.2bn | ↑ 10.8%

50 PH Malls

12,862 Residential Units Sold in 2014

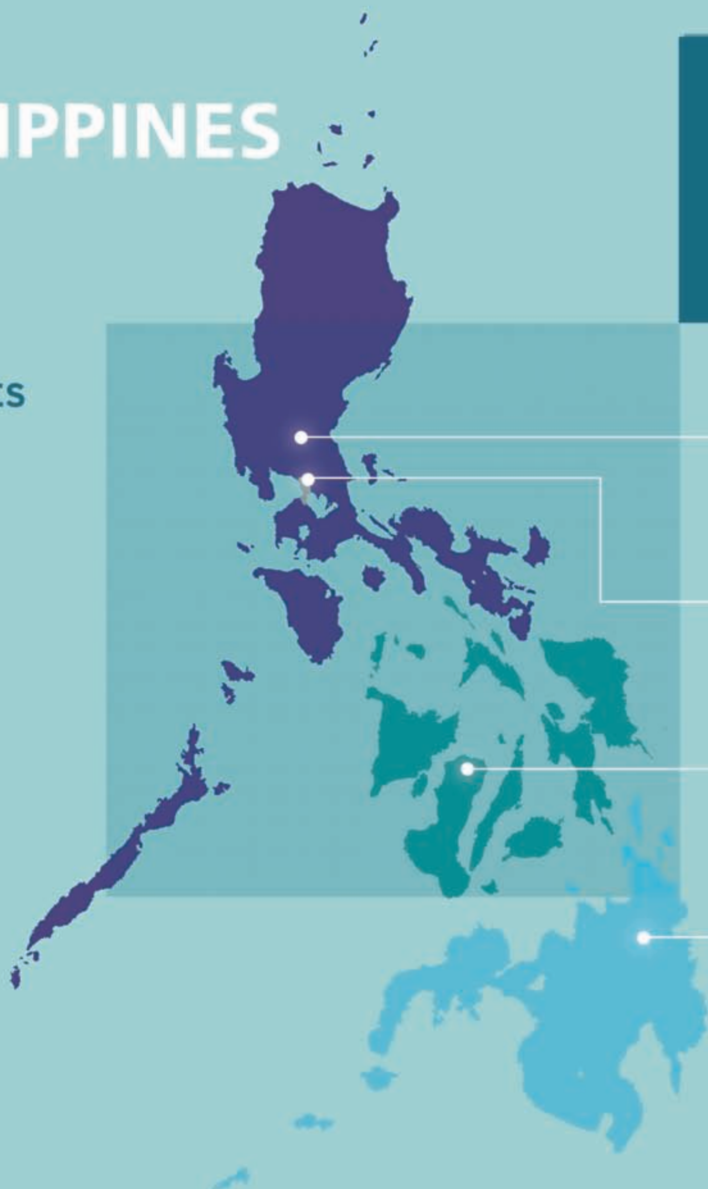
4 Office Commercial Buildings
(SM Cyber Makati One, SM Cyber Makati Two, SM Cyber West, TwoE-Com)

5 China Malls

4 Hotels

6 Convention Centers and Trade Halls

PHILIPPINES



50 MALLS

- 24 Luzon Malls
- 18 NCR Malls
- 4 Visayas Malls
- 4 Mindanao Malls

OTHER PROPERTIES

- 25 SM Residences
- 4 Office Commercial Buildings
- 6 Convention Centers and Trade Halls
- 4 Hotels

Total Gross Floor Area (in sqm.)

6,487,181

PH FAST FACTS

*Figures are for 2014

3.4MN
Average Daily Mall Pedestrian Count (Philippines and China)

17,338
Basketball Court Equivalent of Malls Total GFA

Total Gross Floor Area for PH & CHINA Malls (in sqm.)

7,281,277

5
MALLS

Total Gross FloorArea (in sqm.)

794,601

57,057
Total Number of Residential Units sold to date

35,640 sqm
Gross Leasable Area of SMXs and Megatrade Halls

120,192 sqm
Gross Leasable Area of Office Commercial Spaces

1,013
Total Number of Hotel Rooms

2014: 50 PHILIPPINE

SM Prime has established itself as a dominant player in the country's mall business. In a span of less than three decades it has developed 50 malls nationwide with a total gross floor area of 6.5 million sqm.

SM Center Angono

New Malls

The year 2014 saw another milestone in the history of SM Prime Holdings, Inc. (SM Prime) when its mall operations, the country's industry leader opened its 50th mall: SM Center Angono.

Located in Angono, Rizal province which is considered the "Arts Capital of the Philippines," the mall stands on an integral part of the CALABARZON (Cavite, Laguna, Batangas, Rizal, and Quezon) area, the second most densely populated region in the Philippines. SM Center Angono is the third SM mall in the province after SM City Masinag in Antipolo and SM City Taytay also in Rizal.

Occupying 41,481 square meters (sqm) of floor area, the new mall will house Savemore, seen as the biggest supermarket in the first-class urban municipality. The mall will also feature tenants such as Ace Hardware, Watsons and BDO Unibank.

Since it built its first mall in North EDSA in 1985, SM Prime has established itself as a dominant player in the country's mall business. In a span of less than three decades, it has developed 50 malls nationwide with a total gross floor area of 6.5 million sqm, the largest footprint across the country. In its portfolio are three of the world's largest malls: SM Megamall with a GFA of 488,767 sqm, SM North EDSA with 482,959 sqm and SM Mall of Asia with 406,961 sqm.

SM City Cauayan

Another mall that opened in 2014 is SM City Cauayan in Isabela province, the first-ever SM mall in the Cagayan Valley region. Since it opened its doors to shoppers in May 2014, the mall made a mark to customers, not only with its wide array of shops and choices, but also because of the al fresco shopping experience it offers — the first non-premier SM Supermall to have this design.

Staying true to the sustainable design of other SM malls, SM City Cauayan uses ceiling fans instead of typical air-conditioners to ventilate arcaded walkways and corridors and to reduce chlorofluorocarbon emissions while minimizing energy consumption. The mall also uses LED parking locators for easier and systematic parking while helping customers save on gas by liberating them from the tiresome chore of finding a vacant parking space.

SM City Cauayan is expected to strengthen business networks in the agro-industrial capital of Cagayan Valley. Despite the agri-centric economy of the region, shopping centers remain scattered and offer limited options. SM City Cauayan is best positioned to address this void while providing a unique shopping experience to the community.

MALLS AND GROWING

The SM mall experience continues to be anchored on diversity — aspirational, with new and exciting international retail brands, yet within reach of and maintaining the sweet spot in consumer needs and preferences.

Transforming Existing Mall Spaces

As the Philippine economy continues to expand, consumers' tastes evolve with the times, and spending power rises, SM Prime gears up for accelerated business expansion to meet growing market demands.

Where communities progress, SM Prime refurbishes and expands its existing malls to accommodate new and exciting concepts for its customers. As such in 2014, SM Prime further expanded four malls in the Philippines, foremost of which was the transformation of SM Megamall into the country's biggest mall with 488,767 square meters (sqm). It opened the 100,000-sqm Mega Fashion Hall at SM Megamall in Mandaluyong City, now home to 131 new retail stores.

Global brands make up most of the new stores in this wing, including the three-storey flagship store of the renowned Swedish fashion brand H&M. It is home to the most popular fashion brands, Uniqlo and Zara and the first US Furniture and Home accessories shop in the country, Crate & Barrel.

The Mega Fashion Hall also offers an appetizing journey with its well-curated dining flagships, including Michelin-star restaurant, Tim Ho Wan; most wanted ramen in Japan, Ippudo; Hong Kong's dining hotspot, Linguini Fini; Gyoza Specialist, Osaka Osho; and St. Marc Café of Tokyo as well as homegrown specialty restaurants like Abe, artisanal pastries at Chez Karine, and the hearty Viking's Luxury Buffet.

The year also marked the expansions of SM Bacolod, SM Lipa in Batangas, and SM Baliwag in Bulacan. Combined with the Mega Fashion Hall, the expansions generated an additional gross floor area of 227,420 sqm. SM Bacolod's expanded section houses a 4,500-seater SMX Convention Center, spaces for 200 more retail brands, a bigger food court, a grand atrium and a Cyberzone. SM City Lipa on the other hand completed a six-storey annex building. The first two levels will house commercial spaces while the third level will be for BPO companies. The fourth to sixth levels are dedicated for parking. SM Baliwag on the other hand added 29,979 sqm with the expansion of the main mall.

The SM mall experience continues to be anchored on diversity — aspirational, with new and exciting international retail brands, yet within reach of and maintaining the sweet spot in consumer needs and preferences. It also aims for greater convenience and service to its customers by providing SM Prestige

SM Megamall Fashion Hall

SM City Lipa


SM City Bacolod

Lounges, Global Pinoy Centers for overseas Filipino workers as well as government services, bills payment and other financial services, clinics and nursing stations.

SM Prime commits to innovation and transformation, keeping the constantly evolving Filipino shopper in mind. With every new project comes, not just fresh concepts, but the affordable luxury, accessibility and convenience that SM malls have always been known for.

2015: PHILIPPINES

As SM seeks to expand in various cities outside of Metro Manila, it brings new jobs, a more robust commercial activity while promoting the city's innate tourism, culture and talents.

Artist rendering of SM Seaside City Cebu

New Opportunities in the Metro and the Regions

SM City Cabanatuan

SM City San Mateo

SM Center Sangnagdaan

The Philippines continues to be an open field for growth in large-scale development and resilient consumer sector that finds strength from remittances and business process outsourcing revenues. Given its well-entrenched position in Metro Manila and Luzon, SM Prime has been pouring more of its resources into the regions.

With the exception of SM Sangandaan in Caloocan, Metro Manila, SM Prime is set to open new malls in provincial areas namely, San Mateo in Rizal and Cabanatuan in Nueva Ecija.

It is set to complete SM Seaside City Cebu, the largest and most modern mall in the Visayas. This is part of the 30-hectare Seaside City Complex, the up and coming lifestyle city that found inspiration from the highly successful Mall of Asia Complex.

SM Sangandaan in Caloocan will be the first SM mall in the city, one of the most populous with nearly 1.5 million people. The entry of SM in Caloocan reflects SM's optimism and underscores its catalyst role in providing jobs to thousands of people.

SM Cabanatuan, meantime, is set to rise in the business capital of Nueva Ecija, which is home to over 100 banking and non-banking institutions and serves as the corporate headquarters of some of the largest rural banks in Central Luzon.

SM San Mateo will be located in one of the fastest growing municipalities in Rizal Province. The mall will also have a BPO tower with its own separate entrance.

SM Prime is also planning to expand its mall in Iloilo, and in Lipa. Combined, these new and expanded malls will add a total of 795,929 square meters to SM Prime's total gross floor plate.

As SM seeks to expand in various cities outside of Metro Manila, it brings new jobs, a more robust commercial activity while promoting the city's innate tourism, culture and talents to forge ahead and serve as a catalyst for greater progress in the communities where it operates.

AND CHINA

With SM Zibo, SM Prime gains access to a very important traffic center in Shandong province and a vital economic zone.

SM City Zibo:

Creates a Haven for the Young and Trendy Market

SM is officially opening its sixth mall in Zibo, Shandong Province in early 2015, a city that is home to over 4.5 million people.

SM City Zibo, SM's first shopping mall in the Zichuan District consists of nine towns with an estimated one million population. With a gross floor area of 154,913 square meters (sqm), it will cater to a wide range of customers, primarily the young and trendy residents of Zibo.

The mall's over 260 tenants will offer a variety of products and services to its vistors while maintaining its sustainable design and customer-friendly vibe. Its anchor tenants include a department store which covers 21,000 sqm; Spar Jia Jia Yue Supermarket, one of the world's largest supermarket chains, with 11,000 sqm; Dadi Cinema, the first company in China with pure digital cinema films, with 2,940 sqm; and the foodcourt, with 1,218 sqm. SM Zibo's sprawling parking space can hold 948 vehicles. The five-level mall will be operational from 9 am to 9 pm everyday.

Even prior to its soft opening, SM City Zibo has already been cited for its business potential, clinching the Mall China Golden Mall Awards 2014 Potential Project in April 2014, alongside SM City Xiamen in the Fujian Province which bagged the Mall China Golden Mall Awards 2014 Excellent Upgrade. Mall China is the country's largest ogranization, representing the shopping center sector with 700 members.

With SM Zibo, SM Prime gains access to a very important traffic center in Shandong province and a vital economic zone. SM Zibo's entry to the market could not have come at a better time as it caters to the growing consumer market that has preference for enhanced lifestyles. With a total gross floor area of 948,601 sqm, or nearly a million sqm in floorplate, SM Zibo fortifies SM's presence in China's burgeoning retail arena.

SM also brings greater convenience to its residents as majority of the properties are located near or right next to SM malls, schools, offices and transport hubs.

Three New Game-Changers in Urban Living

SM Development Corporation (SMDC) flourished in 2014 with the launch of three new projects and premier brands seen as game-changers in cosmopolitan living.

Air Residences, launched in August 2014, is located off Ayala Avenue in Makati City, a 59-storey single-tower on 8,056 square meters of prime real estate. It will boast of its own mall and a list of world-class luxurious amenities like landscaped lawns and terraces, jogging trails, leisure and lap pools, a pool island and pavilion, and kids' pool and play area. Its location right across RCBC Plaza is next door to top multinational companies, or a step closer to individuals' future successful careers.

Meanwhile, launched in October 2014 is Fame Residences in Mandaluyong City along EDSA, inspired by the entertainment industry's zest for recognition. Its gold glass curtain windows accent the building façade, giving owners of select special units unobstructed views of the city.

The Project will consist of four residential towers, a commercial area at the ground floor and a 153-meter "Walk of Fame" pathway that can access all amenities on the 7th floor like the lounge pool, central sunken garden, outdoor fitness zone and children's playground.
In keeping with the theme, function rooms are aptly named the Emmy, Grammy, Oscars and Tony.

The mid-rise Cool Suites @ Wind Residences, launched in December 2014, forms Phase Two of the 15-hectare development of Wind Residences in Tagaytay City for families and foreign buyers seeking secondary homes or investment opportunities. Nestled inside are nature-focused amenities like pocket gardens, a lawn, a pathway with trellis, a jogging or walking trail and gazebos to allow residents to commune more with nature. The country club-like amenities like the covered badminton, tennis and basketball courts and the indoor and outdoor pools let the residents enjoy a more active weekend with

Fame Residences Ampitheater

Cool Suites @ Wind Residences

friends and family. These new projects also have adequate elevators, round-the-clock security features, and vast green spaces.

SM brings greater convenience to its residents as majority of the properties are located near or right next to SM malls, schools, offices and transport hubs.

RESIDENCES

SMDC's newest amenities and retail offerings harness the strong synergies of the SM group of companies to deliver special lifestyle offerings to the communities it operates in.

Creating Aspirational Lifestyles

For 2015, SM Development Corporation (SMDC) is launching projects located in Quezon City, Taguig City, Parañaque City, Mandaluyong City, Las Piñas City, Makati City and the Mall of Asia Complex equivalent to about 11,000 additional units. Most of the projects will be situated near SM malls, offices, civic centers and the mass transport system, remaining true to SMDC's philosophy in offering convenience and accessibility for residents. Not too far in the future are more economical house-and-lot developments that will penetrate key cities and municipalities outside Metro Manila to bring an aspirational aura to new, untouched places.

As SM Prime Holdings, Inc., SMDC's parent firm, builds new integrated developments, SMDC will tap into synergies and continue to innovate in the residential spaces, offering attractively priced units with luxury amenities in key locations as well as convenience and aspirational lifestyles to a highly underserved market particularly in Metro Manila.

One of these innovations in 2015 is the opening of its latest retail podium dubbed Light Mall at the Light Residences right at the corner of Madison Street and EDSA in Mandaluyong City, the first to offer a digital cinema experience for its residents and neighboring communities.

Light Mall patrons are expected to enjoy a more private and personal movie experience with three digital cinema theaters. Cinema 1 has 150 seats while Cinemas 2 and 3 have 87 seats each. In keeping with SM's cinema standards, the Light Mall theaters have screens that project crystal-clear images in tandem with surround sound systems.

According to Light Residences unit owner Rehina Lim, "I'm very excited about the opening of Light Mall. It's nice to know that everything we will ever need – whether groceries, dining options with family or friends at a cool restaurant, a day at the spa or the latest Hollywood or local flick—is just an elevator ride away."

Light Mall's roster of popular restaurants include Chef Lau's Pugon Roasters, Taisho Ramen and Eduardo's Peri-Peri. Other dining and food establishments located at the Light Mall are Classic Savory, Formosa Bakery, Sbarro, Shakey's and Wendy's.

As anchor tenants, Light Mall houses Savemore, Watsons, Automatic Centre, Ace Hardware, BDO and National Bookstore. The mall also features tenants for Cyberzone, Wellness, and Services to complete the list of services for the residents' utmost convenience.

Light Mall was designed by award-winning international architectural firm SPARK. Spanning a total leasable area of 11,810 square meters, it is the fourth SMDC mall after Jazz Mall in Makati, Sun Mall and MPlace Mall, both in Quezon City.

SMDC's newest amenities and retail offerings harness the strong synergies of the SM group of companies to deliver special lifestyle offerings to the communities it operates in.

2014 OFFICE

To serve the rising demand of the Business Process Outsourcing (BPO) sector, SM Prime, through the Commercial Properties Group, has fast-tracked the development of new world-class office buildings in Metro Manila and other parts of the country.

Another Icon Rises

SM Cyberwest Avenue


FiveE-com Center

To serve the rising demand of the Business Process Outsourcing (BPO) sector, SM Prime, through the Commercial Properties Group, has fast-tracked the development of new world-class office buildings in Metro Manila and other parts of the country. Following the successes of OneE-com Center and TwoE-com Center, the company has launched two more E-com buildings in 2014, reinforcing the flagship master-planned estate Mall of Asia (MOA) Complex in Pasay City, as an IT hub.

In September 2014, the 15-storey ThreeE-Com Center broke ground with a total gross floor area of 111,727 square meters (sqm), and targeted for completion in 2017. Another project, the FiveE-Com Center was topped off in May 2014 with a gross floor area of 129,281 sqm and approximately 81,000 sqm of leasable space. It will feature modern and comfortable workspaces and has an open-air, fourth-floor podium called FiveE-Com-Prism Plaza that has a scenic view of Manila Bay.

Miami-headquartered Arquitectonica designed the iconic buildings with an international flair and larger mixed-use development features. The designs use "simple, pure forms" to achieve the physical, urban, and communal context of its projects. Outside of the MOA Complex, SM Cyber West Avenue was completed in 2014, noteworthy for its use of mechanical parking lifts (the first of its kind in SM) and its strict compliance with Green Building laws in Quezon City. The 15-storey building leases out over 24,000 sqm of office space to manufacturing and technology firm Emerson Electric (Asia) Ltd.

COMMERCIAL PROPERTIES 2015

With office developments such as the E-comCenters, SM Prime integrates a vital piece of the "work" component into its lifestyle cities.

Future E-comCenters:

Going Beyond Business

SM Prime's iconic office buildings have become a haven for job opportunities, providing a prestigious address for current and future locators.

In 2015, SM Prime is adding more office spaces as it opens the 15-level FiveE-com Center on a gross floor area of roughly 129,281 square meters (sqm). With a unique "shifting blocks" design by Miami-based Arquitectonica, it will offer a landscaped deck on its open-air fourth floor podium, capitalizing on the scenic views of Manila Bay. Its two main towers are linked with multiple steel-framed bridgeways from the sixth up to the 15th floors.

Another project, ThreeE-com Center broke ground in September 2014, also designed by Arquitectonica. It will feature semi-circular twin towers with glass panels similar to landscaped carvings of canyons. The fourth floor podium level will have waterfalls, the first E-com building to have such a feature. With a gross floor area of 111,727 sqm, it will have a three-level parking podium and a ground floor that will cater to commercial and retail tenants while offices will occupy the fifth to 15th floors.

Breaking ground in 2015 is the 15-storey FourE-com Center, spanning 159,864 sqm in gross floor area. Reminiscent of pyramids, its three main prism, crystal-like towers have inclined curtain walls that meet up to the top of every tower. Both Three and FourE-com are being positioned for LEED certification, the seal of good housekeeping in the design, construction, operation and maintenance of green buildings.

These new E-com centers form SM Prime's growing office portfolio in the six-series commercial complex at Mall of Asia: are easily accessible from the transportation hubs, the nearby ferry and a few minutes away from the Ninoy Aquino International Airport in Pasay City.

With office developments such as the E-com Centers, SM Prime integrates a vital piece of the "work" component into its lifestyle cities which have shopping, entertainment, business and residential facilities. Combined, these buildings house employment and career choices, accessibility and convenience while catering to the growing lifestyle aspirations of its host and surrounding communities.

ThreeE-com Center

FourE-com Center

HOTELS AND

SM is setting the benchmark in experiencing world renowned Filipino hospitality as well as in offering world-class facilities for both international and local conferences and events that will promote the Philippines as a preferred destination.

Conrad Hotel artist rendering

Manila Awaits Launch of Iconic Conrad Hotel

In 2014, SM Hotels and Convention Centers Corporation continued to create a suite of world-class venues amid a flourishing tourism sector. For one, it laid the groundwork for the entry of one of the most elite hotels in the country.

The most awaited Conrad Manila, slated to open in 2015, will be an iconic premier hotel along the scenic Manila Bay with its distinctive architecture similar to big vessels that ply the bay. With 347 guestrooms, Conrad Manila will add to SM's roster of hotels now with over 1,300 rooms including Taal Vista Hotel in Tagaytay City, Radisson Blu in Cebu, Park Inn by Radisson in Davao, and Pico Sands Hotel in Batangas.

Conrad Manila will have a high proportion of suites to anticipate and meet the expectations of a growing number of seasoned business and leisure travellers. The hotel will have two ballrooms, meeting rooms, lobby and executive lounges, restaurants, an infinity swimming pool, complete gym and spa facilities.

The eight-storey structure will also house two floors of high-end retail stores, including three state-of-the-art cinemas.

A HERITAGE THAT LASTS FOREVER

For Mr. Henry Sy, Sr., the iconic Taal Vista Hotel in Tagaytay holds a distinctive memory that was instrumental in sculpting his visions into reality. In the sixties, Mr. Sy was one of the hotel's many regular visitors who often chose one spot on the grounds from which to gaze out and dream. His company, SM Investments Corporation, would later acquire Taal Vista Hotel in 1988.

Under SM, Taal Vista Hotel underwent a series of renovations from 2002 to the present, with the iconic Tudor House refurbished and expanded. From just 50 rooms, the hotel now has 260 rooms with a ballroom that can easily seat 1,000 people, in addition to its other function and meeting rooms. Combined with its spectacular view of Taal Lake and Volcano, the hotel has become one of the most popular sites for weddings and conferences in Tagaytay.

To commemorate its milestones, Taal Vista Hotel built a historical wall measuring 870 cm x 415 cm located at the Sampaguita Foyer of the main building. A multi-media exhibit which showcased the hotel's rich history, was first launched at the SM Aura and went on tour at select SM Malls. The celebration likewise featured seven celebrated chefs preparing unique dishes for the hotel's Café Veranda customers on all the weekends of September to November 2014.

And to make its anniversary more meaningful, Taal Vista feted its longest-serving employees who have dedicated most of their lives to ensure that the hotel's legacy of quality service continues to live on.

CONVENTION CENTERS

A dedicated sky park is planned on the roof deck with dining and other amenities that offer additional space to appreciate the panoramic views and spectacular sunsets of the Manila Bay.

Apart from nurturing its employees and customers, SM Hotels also demonstrated that it too can be a model in protecting the environment. Its Radisson Blu in Cebu gained international recognition after it received the Sustainable Hotel Award at the 25th Annual Hotel Investment Conference Asia Pacific (HICAP) in Hong Kong for its sustainability and energy conservation efforts. Radisson Blu Hotel Cebu is also one of only two hotels in the country that is EarthCheck Silver Certified, the world's most credible environmental benchmarking and certification program for the travel and tourism industry.

Apart from hotels, SM is also actively promoting the Philippines as an ideal destination for Meetings, Incentives, Conventions and Exhibitions (MICE). To this end, there are now four SMX convention centers around the country — SMX Manila in Mall of Asia Complex, SMX Davao in SM Lanang Premier, SMX Taguig in SM Aura Premier, and SMX Bacolod in SM City Bacolod and two trade halls in SM Megamall and in Cebu with a total leasable space of 35,640 square meters.

As it continues to develop new hotels and convention centers, SM is setting the benchmark in experiencing world renowned Filipino hospitality as well as in offering world-class facilities catering to both international and local conferences and events that will promote the Philippines as a preferred destination.

ESTABLISHING A HUB FOR CONVENTIONS IN THE VISAYAS

In a bid to catapult the Visayan region into a major destination for meetings, incentives, conventions and exhibitions (MICE), SMX Convention Centers opened its first convention center in Bacolod, Negros Occidental. SMX Bacolod is strategically located in the heart of the city particularly on the third level of SM City Bacolod.

The convention center is within the bustling domestic and international port area and is within close proximity to several commercial establishments and popular tourist destinations.

The convention center is a premier exhibition and convention venue in the region with world-class modern meeting facilities and services. It offers 5,995 square meters (sqm) of event space, with a pre-function lobby, six meeting rooms, and three function rooms that can accommodate up to 4,500 people.

Making its maiden debut in the international arena, SMX is among the key venues that will host the Asia-Pacific Economic Cooperation (APEC) Summit Meetings in 2015. The Summit is an important platform to add visibility to the country in the global arena and further develop tourism and the economy.

Further cementing the Visayan region as a MICE destination, plans are also underway for SMX Cebu within SM's new lifestyle city dubbed SM Seaside City Cebu. With these additional convention spaces, SMX Convention Centers operates a total of 75,069 sqm in gross floor area in 2015 which includes SMX in Pasay City, SMX Taguig, and SMX Davao.

Banking

GROSS OPERATING INCOME (BDO AND CHINA BANK)

PHP99.6bn

↑10.5%

TOTAL RESOURCES (BDO AND CHINA BANK)

PHP2,334.5bn

↑11.9%

2014 was another record-breaking year for BDO as net profit surged to PHP22.8 billion, boosted by an 18% growth in recurring earnings. China Bank likewise posted PHP5.1 billion in net income on the back of net interest income growth of 41.8%

NO. OF BRANCHES AND ATMs (BDO AND CHINA BANK)

ATMs	3,252
BRANCHES	1,346

As clients' diverse needs and technology-driven lifestyles evolve, BDO sets its sights on more innovative products and services as it continues to find better ways to serve its clients.

EXPANDING INTO NEW MARKETS

Total Resources

PHP1,863.6bn

↑11.4%

Gross Operating Income

PHP80.7bn

↑7.6%

Net Profit

PHP22.8bn

↑0.9%

Total No. of Branches

876

INDUSTRY RANKING

- 1st in Total Resources
- 1st in Loans
- 1st in Deposits
- 1st in Assets under Management

BDO UNIBANK FAST FACTS

*Figures are for 2014

876
No. of Branches

2,591
No. of ATMs

PHP1,089.4bn
Gross Customer Loans

14.6%
Total Capital Adequacy Ratio

1.3%
NPLs

Gearing up for heightened competition ahead of the ASEAN Economic Integration (AEC), BDO Unibank, Inc. strengthened its business franchise by growing its core businesses and expanding its network, thus cementing its position as the country's largest bank and the industry leader in most business lines. The Bank opened 61 new branches mostly outside Metro Manila last year, allowing BDO to reach out to more clients and cater to the growing demands of the economy. As of end-2014, the Bank's network grew to 876 branches, complemented by 2,591 ATMs nationwide.

In terms of financial results, the bank had another record-breaking year in 2014 with a net profit of PHP22.8 billion, driven by the strong performance of its core businesses. This represented a growth of 18.0% in terms of recurring earnings, after excluding one-off gains booked in 2013.

The Bank's customer loan portfolio grew by 19.5% to PHP1.1 trillion on broad-based growth across all customer segments. Total deposits rose 10.9% to PHP1.5 trillion, driven by a 24.0% increase in current and savings accounts (CASA). As a result, net interest income grew 18.7% to PHP51.2 billion.

Fee-based income contributed PHP18.0 billion, up 16.5% versus a year ago. This strong growth in net interest income and fees more than offset the decline in trading and foreign exchange gains.

The Bank kept its operating expense growth at 12.2% despite the sustained business and branch expansion.

To further scale up its local presence, BDO continued to complement organic growth with mergers and acquisitions. BDO completed the acquisitions

To complement its traditional banking services, BDO also strengthened its digital presence through its internet and mobile banking channels.

One Network Bank

of The Real Bank (A Thrift Bank), Inc., which has 24 branches in Metro Manila and Luzon; Citibank Savings Inc., which has 10 branches; and the trust business of Deutsche Bank in the Philippines. In December, BDO announced the acquisition of One Network Bank (ONB), one of the largest rural banks in the Philippines, with 105 branches and micro-banking offices located mainly in Mindanao and Panay Island. The ONB acquisition, approved by the BSP in March 2015, is part of BDO's efforts to tap new market segments and expand further into the southern Philippines.

To bolster its overseas presence ahead of the AEC, BDO opened a representative office in Seoul, Korea, and entered into an agreement with Japanese bank, The Joyo Bank Ltd. to provide financing assistance to small- and medium- enterprise clients from Japan that are looking to invest in the Philippines. BDO also plans to open marketing and representative offices in other markets in the region to follow its natural market composed of overseas Filipinos and Philippine corporates with cross-border transactions. The Bank currently has a branch in Hong Kong as well as 28 overseas remittance and representative offices in Asia, Europe, North America and the Middle East.

To complement its traditional banking services, BDO also strengthened its digital presence through its internet and mobile banking channels. Further, BDO introduced contactless payments through pay wave technology for Visa credit card holders, as well as enhanced the features of its debit cards to cater to the remittance service requirements of Philippine-based Korean nationals.

In 2015, BDO plans to further broaden client coverage through branch expansion and market penetration. The Bank will continue to leverage on its extensive branch network to reinforce client relationships as well as build cross-sell opportunities and referrals across the Bank. As clients' diverse needs and technology-driven lifestyles evolve, BDO sets its sights on more innovative products and services as it continues to find better ways to serve its clients.

With over nine decades of solid financial performance, strong commitment to personalized, high-quality service, significant contributions to the country's economic and financial development, and an enduring legacy of successful partnerships with generations of clients who have entrusted the Bank with their businesses, wealth, and future, China Bank remains one of the most respected, trusted, stable and profitable financial institution in the country.

FORTIFYING ITS MARKET POSITION

INDUSTRY RANKING

5th in Assets Among Private Universal Banks

6th in Market Capitalization

Total Resources
PHP470.9bn
↑13.8%

Gross Operating Income
PHP18.8bn
↑24.8%

Net Profit
PHP5.1bn
↑0.3%

Total Deposits
PHP399.30bn
↑12.7%

CHINA BANK FAST FACTS

*Figures are for 2014

470
No. of Branches

661
No. of ATMs

PHP297.7bn
Gross Customer Loans

PHP56.6bn
Total Capital

PHP80.7bn
Market Capitalization

14.9%
Total Capital Adequacy Ratio

In 2014, China Banking Corporation (China Bank) emerged as the fifth largest private universal bank in the Philippines in terms of assets and number of branches after the BSP approval of Plantersbank acquisition. With its 2013 acquisition of Planters Development Bank (Plantersbank) to strengthen its presence and support the Small Medium Enterprises (SME) sector, China Bank has grown its branch network to 470 branches nationwide as of end-2014, comprised of 314 from the main bank plus 78 branches each for China Bank Savings and Plantersbank. To complete its suite of product offerings, China Bank recently launched its credit card under the Mastercard brand (World, Platinum and Prime).

China Bank also successfully returned to the capital markets in 2014 and raised PHP8 billion from a stock rights offering — its first since March 1997, just before the Asian financial crisis. More than 161 million China Bank shares at PHP49.50 apiece were listed on the Philippine Stock Exchange on May 13, 2014. The fresh equity was used to fund the growth in the Bank's loan portfolio, branch network expansion, and technology upgrades.

In 2014, it posted a consolidated net income of PHP5.1 billion, which translated to a return on equity of 9.9% and return on assets of 1.1%. Net interest income grew by 41.8% to PHP14.1 billion from 2013 levels, as a result of earnings from loans and receivables.

Also in 2014, China Bank further strengthened its partnership with Manulife Philippines by increasing its ownership stake from 5% to 40% in its bancassurance joint venture, Manulife China Bank Life Assurance Corp. (MCBLife).

The Bank expresses its deep appreciation and gratitude for the 42 years of service of Peter S. Dee, 29 of which as President and CEO. He continues to serve on the Board of Directors and Executive Committee. As Peter S. Dee's deputy for many years, the Board elected Ricardo R. Chua as President and CEO effective September 1, 2014.

The year was equally significant for China Bank as it won, for the third time, the prestigious 2014 PSE Bell Awards, emerging as the only bank among the five awardees in the Listed Companies category. China Bank was also named Asia's Outstanding Company on Corporate Governance by Corporate Governance Asia, the most authoritative quarterly magazine on corporate governance in Asia. China Bank Chairman Hans Sy was also recognized by Corporate Governance Asia as one of the ten Asian Corporate Directors of the Year for the Philippines, along with BDO Chairperson Teresita Sy-Coson. Other SM Group companies, BDO,

In 2014, China Banking Corporation (China Bank) emerged as the fifth largest private universal bank in the Philippines in terms of assets and number of branches after the BSP approval of Plantersbank acquisition.

SM Investments Corp., and SM Prime Holdings, Inc. were also ranked among the 51 Asian companies recognized as Asia's Icons on Corporate Governance.

The China Bank Group includes China Bank, China Bank Savings, Plantersbank, China Bank Insurance Brokers, Inc. (CBIBI), and bancassurance affiliate MCBLife. With over nine decades of solid financial performance, strong commitment to personalized, high-quality service, significant contributions to the country's economic and financial development, and an enduring legacy of successful partnerships with generations of clients who have entrusted the Bank with their businesses, wealth, and future, China Bank remains one of the most respected, trusted, stable and profitable financial institutions in the country.

ATM

CHINABANK
www.chinabank.ph
Since 1920

China Bank Savings

Manulife China Bank Life Assurance Corporation

PLANTERSBANK
The SME Bank
A subsidiary of China Banking Corporation

CHINABANK INSURANCE BROKERS, INC.

SPECIAL FEATURE

Primarily, Belle marked its 25th year in real estate operations, after changing its business from a mining venture in 1989. From signature log cabins to themed lot developments, it offers residential communities that cater to different discriminating tastes and a unique lifestyle.

BUILDING NEW MILESTONES

Belle Corporation, a premiere developer of integrated resorts and leisure properties, achieved record growth in consolidated revenues in 2014 at PHP3.2 billion, higher by 21% from the previous year. On the strength of this increase, Belle posted recurring earnings at PHP1.0 billion, up 81% due to higher income from sales of real estate, higher revenues from the lease of property to City of Dreams Manila, and increased income from its listed subsidiaries - Premium Leisure Corp. (PLC) and Pacific Online Systems Corporation. At the end of 2014, Belle's consolidated net income was at PHP2.6 billion, from PHP3.6 billion in 2013 due to higher net non-recurring extraordinary gains in 2013.

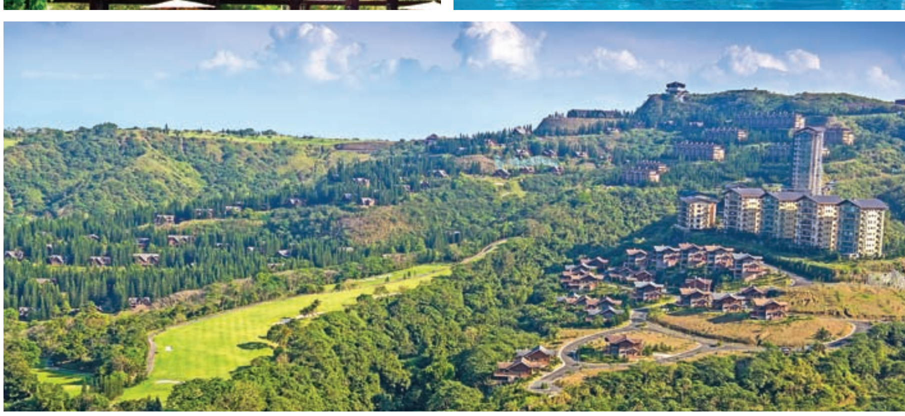
2014 also saw a number of milestones for Belle.

Primarily, Belle marked its 25th year in real estate operations, after changing its business from a mining venture in 1989. From signature log cabins to themed lot developments, it offers residential communities that cater to different discriminating tastes and a unique lifestyle. During the past year, significant progress was noted in several residential lot developments. Katsura and Yume were transformed into authentic Japanese communities with eight parks. Nob Hill, a 7.7-hectare modern architecture-inspired high-end subdivision, was substantially completed. Sycamore Heights, a 26-hectare Asian contemporary subdivision, became accessible to its future homeowners to appreciate magnificent views of Taal Lake and the surrounding mountains.

Secondly, The Country Club at Tagaytay Highlands marked its 20th anniversary in 2014. During the year, the Country Club and its two sister clubs in Belle's premium mountain resort, Tagaytay Highlands International Golf Club and Tagaytay Midlands Golf Club, carried out enhancements in club facilities and estate services, and expanded its community services. Such enhancements entailed capital expenditures for a number of structural and aesthetic restoration works,





the acquisition of new equipment and the inauguration of a convenience store to service the needs of Highlands residents.

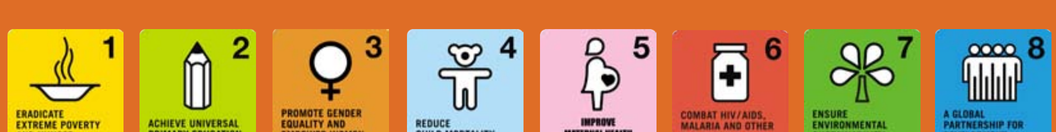
Belle and its operating partner, the Melco Crown Group, completed and launched City of Dreams Manila on December 14, 2014 with most of its facilities already in operation such as the casino, Hyatt Hotel, Nobu Hotel, Crown Towers and a host of luxury stores and dining options. Belle owns the City of Dreams Manila property, which it has leased on a long-term basis to Melco Crown. Through its 79%-owned unit, PLC, which holds the gaming license for the project through a subsidiary, Belle also shares in the gaming income of City of Dreams Manila through an operating agreement with the Melco Crown Group.

In 2014, Belle also launched *KAAGAPAY* (translated as standing side by side), a program focused on health, education, calamity aid and assistance, livelihood, social services and the protection of the environment teaches communities realistic, sustainable activities to promote empowerment and productivity. This supplements Belle's continuing tree-planting and recycling activities. With the *KAAGAPAY* Program, Belle intends to be a strong partner of the local community.

SM Foundation remains steadfast in its commitment to uplift the quality of life of Filipinos by making strategic social investments in education, healthcare, livelihood and shelter. Through its various programs and complementary business practices, the Foundation promotes initiatives to protect and enhance the Philippines' unique and diverse ecological heritage. As the lead convener of the SM group's corporate social responsibility efforts, SM Foundation works directly with communities to provide targeted interventions they require by leveraging its corporate assets to secure resources and build awareness, and by engaging with strong partners to create programs that promote a cycle of positive change.

SM Foundation

All of SM's CSR programs are aligned with the Millennium Development Goals and are in accordance with the proposed UN Sustainable Development Goals 2030.



TOTAL NUMBER OF CURRENT SM SCHOLARS

1,649

COLLEGE	1,500
TECHNICAL-VOCATIONAL	149

TOTAL NUMBER OF MEDICAL BENEFICIARIES 2014

105,936

TOTAL NUMBER OF FARMERS TRAINED 2014

2,798

SM Foundation envisions a Philippines where everyone has the opportunity for self-improvement and the environment is sustained for future generations.

CREATING OPPORTUNITIES FOR A BETTER FUTURE

SM Scholars to date

3,400

School Buildings donated to date

67 School Buildings

196 Classrooms

Medical Missions Conducted to date

1,019

Wellness Centers Reconstructed to date

101

Farmers Trained to date

10,080

5 Mall-Based Programs for People and the Community to date

Saplings Planted

426,186

Inclusive and Equitable Quality Education

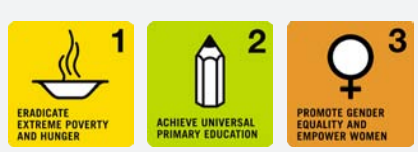
SM Foundation recognizes the critical role of quality education in helping people create avenues for lasting positive change. A healthy and dynamic system of education at base level of society serves as the foundation in moving communities up the economic ladder.

SM Foundation is committed to substantially contribute in providing access to quality primary public education. Through its School Building Program, it aims to narrow the gap of school building requirements and to provide a more conducive environment for learning. For 2014 alone, in collaboration with its partners, SM Foundation has built 11 school buildings and 56 classrooms, creating impact for more than 4,000 students nationwide.

Furthermore, inspired by its founder's firm belief on the power of education in one's ability to rise out of poverty, SM Foundation continues to invest most of its resources on its Scholarship Program both for university education and technological vocational education. Currently, SM Foundation has awarded a total of 1,649 scholarship grants — 1,500 for university education and 149 for technological vocational education. To promote gender equality in the country, the program displays a good balance of women scholars. The SM Scholarship Program has established itself to be one of the most prestigious university scholarship grants with its impressive quality of graduates, many of whom attain Latin honors. To date, SMFI has awarded a total of 3,400 scholarships nationwide.

Dedicated in harnessing the full potential of the youth, SM Foundation takes a step further in equipping the youth with skill sets to match the market demands. The program has successfully empowered the youth to become productive members of the workforce and thrive into the future to be relevant stakeholders in their communities.

**Aligned with the
UN Millennium Development Goals:**



Promoting Healthy Lives and Well-Being

Access to universal health care continues to serve as one of the greatest challenges in the country. Advancement in this focus area has achieved giant steps this past year, through the approval of the expanded PhilHealth Out-Patient Coverage and the free membership for all senior citizens. SM Foundation serves as a strategic partner in providing access to universal health care, promotion of maternal health and combating focus diseases in the Philippines through its wellness program.

For more than 30 years, SM Foundation has been making its mark in the health care services gap through its Felicidad T. Sy Wellness Program which renovates, refurbishes and builds medical facilities that eventually become accredited for the PhilHealth 4-1 Program. For 2014 alone, it has upgraded 14 health centers situated in municipalities providing access to PhilHealth for over 100,000 people per area. On top of that, as part of the special project on the Yolanda rebuilding efforts, the Foundation rebuilt and upgraded the Tacloban City Hospital, a 2,500 square meter compound serving 138 barangays in the capital of Leyte

province. Completed in barely five months, the hospital was re-launched with a 100-bed capacity, double its previous capacity, a Malnutrition Ward and the Felicidad T. Sy Wellness Center for Children and the Elderly. Through this strategic intervention, more medical facilities are able to provide the services covered by the expanded PhilHealth program, providing greater access to health care.

The SM Foundation health program also conducts medical and dental missions, providing immediate health care needs for the communities it serves. In 2014, the Foundation conducted a total of 118 medical missions benefitting 105,936 patients. In support of the battle against specific diseases, the medical missions serve as sentinels for vaccination programs and the promotion of maternal health.

Aligned with the UN Millennium Development Goals:

1 ERADICATE EXTREME POVERTY AND HUNGER
4 REDUCE CHILD MORTALITY
5 IMPROVE MATERNAL HEALTH
6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES

Food Security and Sustainable Agriculture


Farmers at Silay Negros Occidental

SM Foundation promotes inclusive growth primarily at the base of the pyramid. It has identified food security as the cornerstone of sustenance and anchor for supplementary development programs. Through its *Kabalikat sa Kabuhayan* (KSK) Program, which translates to "Partner in Livehood," the Foundation conducts farmers' trainings promoting sustainable agriculture, with a primary objective to attain food security for communities at the grassroots level.

For this year, it has completed 19 KSK training programs, equipping 2,798 farmers in 53 municipalities from 421 barangays all over the country.

The KSK Program has wheeled economic activity, enhancing farmer membership in cooperatives propelling livelihood in basic forms. Enterprising farmers and cooperatives have leveraged on the KSK training, maximizing its value and have progressed to be back-end suppliers of SM agricultural suppliers.

Aligned with the UN Millennium Development Goals:

1 ERADICATE EXTREME POVERTY AND HUNGER
7 ENSURE ENVIRONMENTAL SUSTAINABILITY

Sustainable Environment for All

Tree planting in General Santos, Mindanao

SM is committed to environmental programs focused on sustainability by raising awareness, conservation and preservation, and disaster resilience.

The Foundation raises awareness on environmental issues through several programs across its businesses. Among its mall-based campaigns is the annual Green Retail Agenda which aims to discuss the latest in environmental innovations not just for its thousands of tenants but for the public in general. The annual Green Film Festival also showcases films about the environment to students who can watch them for free. Complementing this program, SM initiated the "Trash to Cash" recycling market where the public is encouraged to exchange their recyclable materials for cash every first Saturday of the month in all SM malls. The program has resulted this year in converting PHP47 million worth of recycled goods. And in partnership with World Wildlife Fund (WWF), the SM group annually shuts off its lights to participate in the Earth Hour Campaign, the world's largest celebration to raise awareness of the world's need to conserve energy and other environmental concerns. All SM Retail stores, on the other hand, encourage the use of recyclable bags.

In the area of environmental conservation and preservation, a number of property-based programs are geared toward reducing the group's carbon footprint through well studied and measured solutions for many years now. Among these are integrated facilities for water catchment, treatment and recycling, renewable energy through solar power technology, and improved air emission standards.

Environmental protection and preservation is likewise showcased in SM's Hamilo Coast in Nasugbu, Batangas—a sprawling 5,600 hectare property reserved for more tourism-related development. Since 2007, Hamilo Coast has worked in partnership with WWF-Philippines on environmental programs aimed at preserving the quality of its natural surroundings with three focused areas; renewable energy through solar power, waste management, and the conservation and preservation of biodiversity of marine life, flora and fauna in the area.

Hamilo has a 30-kilometer coastline with 13 coves. To date, three of its coves have been declared Marine Protected Areas (MPA) which make them subject to the Reef Check system while a monthly inspection is done to check coral damages and parasite infestation like the Crown-of-Thorns starfish. Giant clams are also being seeded constantly to help regenerate marine life by providing reef structures, a filtering system that fosters the growth of macro algae. The beaches of Hamilo Coast also serve as natural nesting grounds for marine turtles.

Hamilo also expanded its Coastal Resources Management Program to include the terrestrial environment initially by conducting an inventory of terrestrial species (flora and fauna). Moreover, a total of 10,000 mangrove seedlings have been planted to date. The mangrove forest now covers a total of 10 hectares, a natural breeding ground for marine species. Integral to its core, SM is steadfast in its commitment and responsibility in creating a sustainable environment for the communities it serves.

Promoting disaster prevention and resilience, the Foundation has rallied members of the SM group to take active part in tree planting through its Grow a Million Trees Program. As of 2014, a total of 426,186 saplings were planted nationwide. In November 2014, fortifying the SM group's initiatives on renewable energy, SM Prime launched the 5,760 solar panels on the rooftop of SM City North EDSA (Quezon City) harnessing renewable solar energy which generate 1.5 megawatt power enough to power 1,000 households or light 150,000 10-watt light bulbs. The power generated from the solar panels could offset 1,200 tons of carbon dioxide per year, the equivalent of planting 6,000 trees. All SM malls, including offices and hotel structures, are built to withstand disasters such as heavy rains, floods and earthquakes, with an increasing number of new structures becoming LEED certified.

Aligned with the UN Millennium Development Goals:

7 ENSURE ENVIRONMENTAL SUSTAINABILITY

Inclusive, Safe and Resilient Communities

SM Cares, a division of SM Foundation, focuses on creating a favorable environment with equal access for all — people with disabilities, nursing mothers, elderly, and the youth.

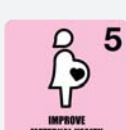
Serving as champions for the needs of Persons With Disabilities (PWD), the malls have developed PWD-friendly facilities, with staff and tenants trained to attend to their requirements. In 2014, it intensified this advocacy by increasing the number of parking slots and ramps for PWDs in SM malls across the country. Placing a strong emphasis on the rights of special children, SM Cares conducts fun runs and awareness activities for children with Down syndrome and the annual Angels Walk for children with autism.

It also launched a "Special Movie Screening for the Blind and the Deaf," a quarterly event wherein films are re-formatted with subtitles and audio descriptions to cater to the needs of both the visually and hearing impaired members of society.

SM Cares promotes maternal and child health by providing breastfeeding and providing nursing stations in all SM malls. To enhance services for children, SM equips the malls with the latest child-proof technology for a safer environment while frontline staff attend child management seminars to equip them with skills to provide proper care and service to children.

Promoting quality family time, SM Cares launched programs to enhance services for senior citizens. Under the "Senior Citizen Community Service Program," senior citizens are encouraged to showcase their hospitality and work as SM mall greeters and ushers. In 2014 alone, three batches consisting of 854 senior citizens were hired as casual workers by SM. Another special segment addressed by SM Cares is the Oversees Filipino Workers. Through its Global Pinoy Centers, visiting OFWs and their families can avail of convenient access to financial services (bank services, bills payment assistance, currency exchange and remit), as well as relax in special lounges.

Aligned with the UN Millennium Development Goals:



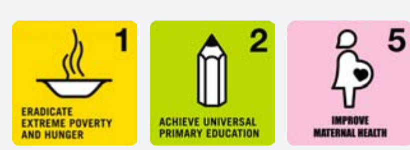
Response to Climate Change

One of the most destructive typhoons to hit the Philippines was typhoon Haiyan, locally known as Yolanda. To help the thousands displaced and left homeless by it, the SM group of companies worked hand in hand in creating a synergistic effort toward rebuilding areas left devastated. The holistic development approach involved providing free education, health services, livelihood and shelter. SM Foundation worked in partnership with SM Cares, BDO Foundation and many other partners. The collective effort has accomplished the following:

1. Granted 100 college scholarships
2. Completed eight school buildings with 48 classrooms
3. Built 200 homes and committed to build 800 more
4. Rebuilt the Tacloban City Hospital
5. Renovated two health centers with Mother and Child Care facilities
6. Conducted 20 medical missions benefitting 10,354 patients
7. Conducted 10 farmers' trainings helping 1,682 farmers

SM Foundation is committed to providing holistic community development interventions that foster and create lasting change in the lives of the people it serves.

Aligned with the UN Millennium Development Goals:



BOARD OF DIRECTORS

Mr. HENRY SY, SR.
Chairman

Ms. TERESITA SY-COSON
Vice Chairperson

Mr. HENRY T. SY, JR.
Vice Chairperson

Mr. HARLEY T. SY
Director

Mr. JOSE T. SIO
Director

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

Mr. AH DOO LIM*
Independent Director

Mr. JOSEPH R. HIGDON*
Independent Director

Ms. ELIZABETH T. SY
Adviser to the Board

Mr. HANS T. SY
Adviser to the Board

Mr. HERBERT T. SY
Adviser to the Board

Atty. CORAZON I. MORANDO
Adviser to the Board

Mr. STEPHEN CUUNJIENG
Adviser to the Board

BOARD OF DIRECTORS

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

The following are the business experience/s of the Company's Directors during the last five years:

HENRY SY, SR. is the Chairman of the Board of Directors of SMIC. He is the founder of the SM group and is currently Chairman of SM Prime, SM Development, and Highlands Prime, Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 which has since evolved into a dynamic group of companies with three core businesses – retail, financial services, and real estate development. He is likewise Chairman Emeritus of BDO Universal Bank, Inc. and Honorary Chairman of China Banking Corporation. In 2014, Mr. Sy received the Lifetime Achievement Award from international news channel CNBC and the Lifetime Contributors Award from the Asia CEO Awards.

TERESITA SY-COSON 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 SM'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. Among the awards received by Ms. Sy-Coson in 2014 are the Entrepreneurship Excellence Award from BizNews Asia and the Asian Corporate Director Award from Corporate Governance Asia.

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

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

JOSE T. SIO is the Executive Vice President and Chief Finance Officer of SMIC. He is presently a Director of the Board of the following companies listed with the Philippine Stock Exchange (PSE): (i) China Banking Corporation, (ii) Atlas Consolidated Mining and Development Corporation, and (iii) Belle Corporation. Mr. Sio is also an Adviser to the Board of BDO Unibank, Inc. and Premium Leisure Corporation. He also serves as Director of the following companies not listed in the PSE: (i) SM Keppel Land, Inc. (ii) Asia Pacific College, (iii) OCLP (Ortigas) Holdings, Inc., (iv) Carmen Copper Corporation, (v) First Asia Realty Development Corporation, and (vi) Manila North Tollways Corporation. Mr. Sio was a Senior Partner of SyCip Gorres Velayo & Co. (SGV) from 1977 to 1990. He was voted as 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 Hong Kong-based publications such as Alpha Southeast Asia, Corporate Governance Asia, Finance Asia and The Asset. Mr. Sio holds a Master's degree in Business Administration from New York University, USA.

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

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

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

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

PERIOD OF DIRECTORSHIP

Name	Period Served
Henry Sy, Sr.	1960 to present
Teresita Sy-Coson	1979 to present
Henry T. Sy, Jr.	1979 to present
Harley T. Sy	1993 to present
Jose T. Sio	2005 to present
Vicente S. Perez, Jr.	2005 to present
Ah Doo Lim	2008 to present
Joseph R. Higdon	2010 to present

EXECUTIVE OFFICERS AND BOARD COMMITTEES

Mr. Harley T. Sy
President

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

Mr. Frederic C. DyBuncio
Senior Vice President
Investments Portfolio

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

Mr. Franklin C. Gomez
Senior Vice President, Finance

Ms. Cecilia R. Patricio
Senior Vice President
Corporate Tax

Ms. Grace F. Roque
Senior Vice President, Treasury

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

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

Atty. Epitacio B. Borcelis, Jr.
Senior Vice President, Legal

Ms. Marissa Helena L. Nubla
Senior Vice President
Special Projects

Mr. Gil L. Gonzales
Vice President
Corporate Governance

Ms. Marie Therese E. Necio
Vice President
Corporate Communications

Ms. Carmelita C. Daduya
Vice President, Internal Audit

Ms. Josefina P. Hizon
Vice President
Human Resources

Atty. Elmer B. Serrano
Corporate Secretary

COMMITTEES

Audit and Risk Management Committee

Vicente S. Perez, Jr.	-**Chairman** (Independent Director)
Ah Doo Lim	- Member (Independent Director)
Jose T. Sio	- Member
Atty. Serafin U. Salvador	- Adviser

Compensation and Remuneration Committee

Teresita Sy-Coson	-**Chairperson**
Jose T. Sio	-Member
Vicente S. Perez, Jr.	-Member (Independent Director)

Nomination Committee

Joseph R. Higdon	**-Chairman (Independent Director)**
Teresita Sy-Coson	-Member
Vicente S. Perez, Jr.	-Member (Independent Director)

Compliance Officers

Atty. Marianne M. Guerrero	- Compliance Officer
Atty. Elmer B. Serrano	- Alternate Compliance Officer

Corporate Information Officers

Jose T. Sio	- Corporate Information Officer
Franklin C. Gomez	- Alternate Corporate Information Officer

Corporate Governance

SM Investments Corporation believes that good corporate governance is essential to the Company's long-term growth and strives to enhance its corporate governance culture in line with regional and global standards. At the heart of the Company's corporate governance principles are SM's core values of leadership, integrity, innovation, sustainability, accountability and hard work.

THE BOARD OF DIRECTORS

SMIC's commitment to the principles of corporate governance emanate from its Board of Directors. It is the Board that embodies the core values of the Company, setting the "tone at the top" and maintaining the highest standard of excellence and integrity that permeates throughout the organization. The primary role of the Board of Directors is to formulate and execute sound strategies that will ensure the long-term success of the business in a manner that demonstrates fairness, accountability and transparency. The Board is composed of eight (8) directors, three (3) of whom are highly certified, non-executive independent directors. The independent directors are chosen based on their fields of expertise that provide a more diverse perspective of the business to enrich the decision making process. They must be independent of management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment. Apart from providing diversity of views, independent directors also monitor and provide feedback on management's performance, and safeguard the interests especially those of the minority.

SM Investments Corporation's Board of Directors					
Director's Name	Directorship	Age	Year First Elected	Elected When (Annual/Special Meeting)	No. of Years Served as Director
Henry Sy, Sr.	Non-Executive Director	90	1960	Annual	55
Teresita Sy-Coson	Non-Executive Director	64	1979	Annual	36
Henry T. Sy, Jr.	Non-Executive Director	61	1979	Annual	36
Harley T. Sy	Executive Director	55	1993	Annual	22
Jose T. Sio	Executive Director	75	2005	Annual	10
Vicente S. Perez, Jr.	Independent Director	56	2005	Annual	10
Ah Doo Lim	Independent Director	65	2008	Annual	7
Joseph R. Higdon	Independent Director	73	2010	Annual	5

Aside from their general responsibilities, the Board also performs the following:

- Periodically (at least every three [3] years) reviews SMIC's purpose, vision and mission;
- Manages the selection process and succession planning that ensures a healthy mix of competent directors and officers;
- Ensures compliance with all relevant laws, regulations and the Code of Ethics;
- Identifies, assesses and diligently mitigates key risk areas and adopts a robust system of internal checks and balances;
- Protects the interest of shareholders through policies that ensure the integrity of related party transactions, and establish clear communication through an active investor relations program.

Directorships in Other Listed Companies		
Director's Name	**Listed Companies**	**Directorship**
Henry Sy, Sr.	SM Prime Holdings, Inc. BDO Unibank, Inc. China Banking Corporation	Non-Executive Director (Chairman Emeritus) Non-Executive Director (Chairman Emeritus) Non-Executive Director (Honorary Chairman)
Teresita Sy-Coson	BDO Unibank, Inc. BDO Leasing and Finance, Inc.	Executive Director (Chairperson) Non-Executive Director (Chairperson)
Henry T. Sy, Jr.	SM Prime Holdings, Inc. National Grid Corporation	Non-Executive Director (Chairman) Executive Director (President)
Harley T. Sy	China Banking Corporation	Non-Executive Director
Jose T. Sio	China Banking Corporation Belle Corporation Atlas Consolidated Mining and Development Corp.	Non-Executive Director Non-Executive Director Non-Executive Director
Vicente S. Perez, Jr.	Double Dragon Properties Corporation	Independent Director
Ah Doo Lim	Sembcorp Marine Ltd. Sateri Holdings Limited Linc Energy Limited GP Industries Ltd. ARA-CWT Trust Management Ltd.	Director Director Director Director Director
Joseph R. Higdon	International Container Terminal Services, Inc. Security Bank Corporation	Independent Director Independent Director

THE CHAIRMAN AND PRESIDENT

The roles of the Chairman of the Board and the President are held by separate individuals, whose functions and responsibilities are contained in the Manual on Corporate Governance. The key responsibilities of the Chairman of the Board include:

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

The responsibilities of the President include:

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

BOARD COMMITTEES

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

I. 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 perform the following:

- Assist the Board in overseeing the implementation of strategies;
- Define and monitor the Company's performance improvement goals;
- Define Group-wide policies and actions (sustainable development, including environment, health and safety, internal communications, internal control and risk management, innovation and research and technology, purchasing) and oversee their rollout; and
- Foster the sharing and dissemination of best practices in all areas amoing the different business groups.

II. The Nomination Committee

The Nomination Committee is tasked with the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws.

Nomination Committee				
Office	Name	No. of Meetings Held	No. of Meetings Attended	Length of Service in the Committee
Chairman (ID)	**Joseph R. Higdon**	1	1	1yr.
Member	**Teresita Sy-Coson**	1	1	1yr.
Member (ID)	**Vicente S. Perez, Jr.**	1	1	1yr.

Evaluation of the Board and President

Under the guidance of the Nomination Committee, the Board conducts an annual performance self-evaluation based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for in SMIC's By-Laws and Manual on Corporate Governance. Directors are asked to rate the performance of the Board, the Board Committees, themselves as directors and the President, as the embodiment of Management.

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

The Committee also ensures that those nominated to the Board keep abreast with the developments especially in the area of corporate governance which continues to evolve as best practices are established. It facilitates training for Board members and key officers provided by consultants duly accredited by the Securities and Exchange Commission.

Details of Continuing Education/Training of the Board of Directors			
Director's Name	**Date of Training**	**Program**	**Name of Training Institution**
Teresita Sy-Coson	8/6/14	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
	5/28/14	Exclusive Orientation Course on Corporate Governance (BDO)	Institute of Corporate Directors (ICD)
Henry T. Sy, Jr.	8/6/14	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Harley T. Sy	1/8/14	Exclusive Orientation Course on Corporate Governance (CBC)	Institute of Corporate Directors (ICD)
	8/6/14	Anti-Money Laundering Act (AMLA) Seminar	Bangko Sentral Pilipinas (BSP)
Jose T. Sio	1/8/14	Exclusive Orientation Course on Corporate Governance (CBC)	Institute of Corporate Directors (ICD)
	2/24/14	Exclusive Orientation Course on Corporate Governance (SMPH)	Institute of Corporate Directors (ICD)
	8/6/14	Anti-Money Laundering Act (AMLA) Seminar	Bangko Sentral Pilipinas (BSP)
Vicente S. Perez, Jr.	11/20/14	Distinguished Corporate Governance Speaker Series (DCGSS)	Institute of Corporate Directors (ICD)
Ah Doo Lim	8/6/14	Exclusive Orientation Course on Corporate Governance (SMIC)	Institute of Corporate Directors (ICD)
Joseph R. Higdon	4/29/14	Corporate Governance Seminar (SBC)	Risks, Opportunities, Assessment and Management (ROAM)

Board Performance and Attendance

Regular meetings of the Board are held quarterly and scheduled in the previous year to ensure high participation. Special meetings may also 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. Materials used during Board meetings are distributed to the relevant parties at least one (1) week before the actual meeting.
The Board of Directors held seven (7) meetings in 2014; on February 26, April 30, May 14, June 3, August 6, August 8, and November 5. *Please see the SMIC website at www.sminvestments.com, for the full details of director attendance.*

III. The Audit and Risk Management Committee

The Audit and Risk Management Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. The Committee's primary task is the review of the Company's financial reports, and recommends the same to the Board for approval. Furthermore, the Committee reviews SMIC's internal control system, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks. The Committee is composed of three (3) members, majority of whom are independent directors, namely Mr. Ah Doo Lim and the Committee Chairman, Mr. Vicente S. Perez, Jr. *Please see the Audit and Risk Management Committee Report for more information on the Committee's roles and activities.*

IV. The Compensation and Remuneration Committee

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

Compensation and Remuneration Committee				
Office	Name	No. of Meetings Held	No. of Meetings Attended	Length of Service in the Committee
Chairperson	**Teresita Sy-Coson**	1	1	8yrs.
Member	**Jose T. Sio**	1	1	8yrs.
Member (ID)	**Vicente S. Perez, Jr.**	1	1	8yrs.

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

To keep pace with the latest in corporate governance best practices, SMIC periodically reviews and enhances its Manual on Corporate Governance, Code of Ethics, and other corporate governance related policies. The Company also publishes its policies through its website, www.sminvestments.com.

The Manual on Corporate Governance

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

There have been no deviations from the Manual since it was adopted. In January 2014, SMIC submitted to the SEC its certification of full compliance with the Manual, certifying that the Company, its directors, officers, and employees have adopted and fully complied with all leading practices and principles of good corporate governance as provided by the Manual.

The Code of Ethics

The pillar of good corporate governance is the Code of Ethics, which every employee and all business partners are required to adhere. The Code underlines the importance of integrity in all the dealings with investors, creditors, customers, contractors, suppliers, regulators, co-employees, and the general public by the Company's directors, officers, and employees in the performance of their duties and responsibilities. It also highlights the Company's duties to its employees, shareholders and the importance of corporate social responsibility.

The expanded Code of Ethics was approved by the Board in 2013 and was rolled out across the different operating and support units of the Company in 2014 through various training programs per mandate of the Board.

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. Trading done by directors and officers are reported to the appropriate regulators in a timely fashion.
Related Party Transactions	SMIC discloses in detail the nature, extent and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE. Management regularly presents the details of transactions entered into by SMIC with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SMIC conducts all related-party transactions at market and arm's length basis.
Conflict of Interest Policy	SMIC's Conflict of Interest policy defines a conflict as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him from acting in the best interests of the Company. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company.
Guidelines on Acceptance of Gifts and Travel Sponsored by Business Partners	Based on the provisions of the Code of Ethics, SMIC directors, officers and employees are prohibited from soliciting or accepting gifts in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate giveaways, tokens or promotional items of nominal value. When it is deemed improper to refuse a gift, the issue is elevated to Management for proper disposition. 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 for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or director, officer or employee is one of the nominees vying for the award. SM may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or director, officer or employee.
Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)	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. A compilation of concluded reports is periodically presented to the Audit and Risk Management Committee.
Accreditation of Vendors and Suppliers Process	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.
Alternative Dispute Resolution System	Ensures that the Company maintains an alternative dispute resolution system to settle conflicts between the Company and its stockholders or other third parties, including regulatory authorities.

Disclosure and Transparency

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

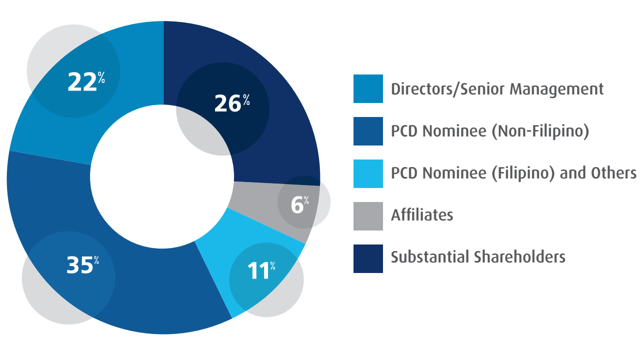
The Investor Relations Group (IR Group) of SMIC is the main avenue of communication between the company and its various stakeholders. The IR Group arranges regular teleconferences and site visits for investors, and conducts annual roadshows with stops in various locations throughout the world. They also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

Annual Corporate Governance Report (ACGR)

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

Ownership Structure

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



The Annual Stockholders' Meeting

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

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

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. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Management, the Corporate Secretary and the External Auditors are encouraged to be present during the ASM.

RIGHTS, ROLES AND PROTECTION OF STAKEHOLDERS

The Corporate Governance Manual contains the Company's commitment to protect the rights and interests of shareholders, employees, customers, business partners, creditors as well as the communities where it operates.

Rights of Shareholders

The Manual on Corporate Governance protects the shareholders' appraisal right as well as their right 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.

CORPORATE GOVERNANCE

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.

Employee Welfare

In line with its mission and vision, 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 a 24 hour roving ambulance service. SMIC has also adopted holiday themed activities, to foster camaraderie and provide balance in a fast paced work atmosphere.

Emergency Preparedness Program

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

Orientation and Training

Awareness and understanding of the principles of good corporate governance are essential to the continued development of SMIC's corporate governance culture. Through the Orientation for New Employees of SM (ONE SM), new employees are given an overview of SMIC's corporate governance framework, policies and its various components. A substantial portion of the orientation is devoted to the discussion of SM's core values and the Code of Ethics, and highlights the roles that each individual can play in the overall development of the corporate governance culture. Skills and Leadership development courses are also conducted regularly, covering topics such as Seven Habits of Effective People, Coaching for Performance and Work Attitude and Values Enhancement. In 2014, nearly 100 of these courses were held, attended by close to 2,000 employees.

Corporate Social Responsibility

The Company owes its success to the communities within which it operates, and provides direct employment to numerous communities through the various businesses in the entirety of its supply chain. The SM Group, through its SM Foundation, endeavors to improve the standard of living in various communities by providing access to quality education to thousands of deserving students, and giving them the opportunity to be part of the growing SM family when they have completed their degrees. Using the entire SM retail and property network, SM is also one of the first movers to provide aid and shelter during calamities. Through these actions the SM Group demonstrates its commitment to the principle that a healthy community is the foundation for a better quality of life.

For issues or concerns, stakeholders may refer to:

Mr. Gil L. Gonzales
Vice President for Corporate Governance
10th Floor, OneE-com Center
Palm Coast Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
+63 2 8570100 local 0323
gil.gonzales@sminvestments.com

SM INVESTMENTS CORPORATION

CNBC
Mr. Henry Sy, Sr.
Lifetime Achievement Award

Asia CEO Awards
Mr. Henry Sy, Sr.
Lifetime Contributors Award

BizNewsAsia
Ms. Teresita Sy-Coson
Entrepreneurship
Excellence Award

The Asset Corporate Awards
Platinum Awardee (2009-2014)
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Investor Relations
- Social Responsibility

Finance Asia Best Managed Companies Awards
Best Managed Company (6th)
Best Corporate Governance (4th)
Best Corporate
Social Responsibility (3rd)
Jose T. Sio Best CFO (3rd)

Finance Asia Fixed Income Poll Awards
Best Borrower
in the Philippines

Alpha Southeast Asia Institutional Investor Corporate Awards
Most Organised
Investor Relations
Best Strategic Corporate
Social Responsibility
Best Senior
Management IR Support
Strongest Adherence
to Corporate Governance
Mr. Jose T. Sio
Best CFO in the Philippines

Corporate Governance Asia Awards
Asia's Icon on
Corporate Governance

CG Asia Asian Excellence Recognition Awards
Best Corporate
Communications Team
Best Corporate
Social Responsibility
Best Investor
Relations Company
Jose T. Sio
Asia's Best CFO
(Investor Relations)
Corazon P. Guidote
Best Investor
Relations Professional

Yazhou Zhoukan
Global Chinese
Business 1000

Anvil Award
2013 SM Unified
Annual Reports
- Silver Award

SM PRIME HOLDINGS, INC.

People Asia Magazine
Mr. Hans T. Sy
People of the Year Award
for Sustainability

BizNewsAsia
Mr. Hans T. Sy
Management Excellence Award

Asia CEO Awards
SM Prime Holdings, Inc.
KPMG Executive Leadership
Team of the Year Award
SM Cares - Finalist in the CSR
of the Year Award

The Asset Corporate Awards
Platinum Awardee (2010-2014)
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Investor Relations
- Social Responsibility

Corporate Governance Asia Awards
Asia's Icon on
Corporate Governance
Mr. Hans T. Sy - Asian
Corporate Director Award

CG Asia Asian Excellence Recognition Awards
Best Investor Relations Company
Best Environmental Responsibility
Hans T. Sy
Asia's Best CEO
(Investor Relations)
Jeffrey C. Lim
Asia's Best CFO
(Investor Relations)

Mall China Golden Mall Awards
SM City Xiamen/SM Lifestyle Center
City Advancement Award
SM City Chengdu - Community Shopping Center Award
SM City Chongqing - Regional Shopping Center Award

Philippine Retailers Association Outstanding Filipino Retailers and Shopping Centers of the Year Awards
SM Center Muntinlupa
Shopping Center of the Year (Small Category)

Sustainable Business Awards
SM Supermalls - Strategy and Vision
Radisson Blu Hotel Cebu – Special Recognition for Climate Change and EarthCheck Silver Certified

2014 ASEAN Best Practice for Energy Management in Buildings and Industries
SM City Davao
SM City Naga

World Bank Philippine Chiller Energy Efficiency Project (PCEEP)
SM Supermalls -
Certificate of Recognition

Department of Energy Don Emilio Abello Energy Efficiency Awards
SM City Clark - Hall of Fame
SM Center Las Pinas,
SM Center Muntinlupa,
SM Center Valenzuela – Citation
SM City Batangas,
SM City Bacolod, SM City Bacoor,
SM City Cebu, SM City Fairview,
SM City Iloilo, SM City Lipa,
SM City Lucena,
SM City Manila – Outstanding Award

BSP Stakeholders Award
SM Lifestyle Entertainment, Inc.
Outstanding Partner for Currency Information Program

SM RETAIL

Interbrand's
Top 30 Best Retail Brands 2014
SM - 9th Best Retail Brand in Asia-Pacific

Philippine Retailers Association Outstanding Filipino Retailers and Shopping Centers of the Year Awards
Ms. Teresita Sy-Coson
PRA President's Award / Philippine Retailing's Woman Visionary Leader
THE SM STORE - Hall of Fame in the Full Line Department Store Category
Forever 21
Foreign Fashion Apparel Award (Large store category)
Ace Hardware
Foreign Brand Category Killer

Licensing Industry Merchandisers Association
THE SM STORE
Best Licensed Retailer of the Year

Apolinario Mabini Awards for Disabled-Friendly Establishments
THE SM STORE Makati, Marilao, Baliwag, Ortigas and Las Pinas – Bronze Award

SM FOOD RETAIL

Philippine Retailers Association Outstanding Filipino Retailers and Shopping Centers of the Year Awards
SM Supermarket
Best Supermarket
SM Hypermarket
Best Hypermarket

Department of Trade and Industry Bagwis Seal of Service Excellence
SM Supermarket – Corporate Gold Bagwis Seal of Excellence
Store Level Gold Bagwis Seals
- SM Supermarket – 38 Gold Seals
- SM Hypermarket – 11 Gold Seals
- Savemore Market – 26 Gold Seals

Sunstar Best of Cebu Award
SM Supermarket
SM City Cebu and Consolacion
Savemore Parkmall, Elizabeth Mall, Canduman, Basak, Mactan, Maribago and Carcar

BDO UNIBANK

Corporate Governance Asia Awards
Ms. Teresita Sy-Coson
Asian Corporate Director Award
BDO - Asia's Icon on Corporate Governance

CG Asia Asian Excellence Recognition Awards
Teresita Sy-Coson
Asia's Best CEO
(Investor Relations)
Best Corporate Communications Team
Best Corporate Social Responsibility
Best Investor Relations Company
Luis Reyes, Jr.
Best Investor
Relations Professional

The Asset Corporate Awards
Platinum Awardee (2010-2014)
For All Around Excellence in:
- Management
- Financial Performance
- Corporate Governance
- Investor Relations
- Social Responsibility

The Asset Triple A Country Awards Southeast Asia
Best Domestic Bank
in the Philippines
BDO Capital and Investment Corp.
Best Domestic Investment Bank
BDO Capital and Investment Corp.
Best Deal Category
for Century Pacific's IPO

Alpha Southeast Asia Institutional Investor Corporate Awards
Best Bank
Best Trade Finance Bank
Best FX Bank for Corporates
and Financial Institutions
BDO Capital and Investments Corporation
Best Investment Bank
BDO Private Bank
Best Private Wealth
Management Bank

Asian Banking and Finance
Philippines' Domestic Project
Finance of the Year
(Wholesale Banking)
SME Bank of the Year
(Retail Banking)
Online Banking Initiative
of the Year (Retail Banking)
BDO Foundation
Corporate Social Responsibility
of the Year, Silver

Asia Responsible Entrepreneurship Awards
BDO Foundation

CHINA BANKING CORPORATION

Philippine Stock Exchange
PSE Bell Award
for Good Corporate Governance

Corporate Governance Asia Awards
Asia's Outstanding Company
on Corporate Governance

CG Asia Asian Company Secretary Awards
Atty. Corazon I. Morando
Asia's Company Secretary
of the Year

Acquisition International
China Bank Acquisition
of Plantersbank
Deal of the Year
and Deal of the Month

SM FOUNDATION

48th Founding Anniversary of the 520th Air Base Wing of the Philippine Air Force (PAF)
For SMFI's Yolanda Relief Efforts
during and after the typhoon

Awarding of Unsung Heroes:
Typhoon Yolanda Responders
From the Department of Health

26th Annual Perlas Awards

Jose Rizal Award
For Conducting Mobile
Blood Donation activities

SM INVESTMENTS CORPORATE INFORMATION

COMPANY HEADQUARTERS

10th Floor, OneE-com Center
Palm Coast Drive, Mall of Asia Complex
Pasay City 1300
Philippines

External Auditor

SyCip Gorres Velayo & Co.

Stockholder Inquiries

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

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

BDO Unibank, Inc. - Trust and Investments Group

BDO Corporate Center
7899 Makati Avenue
Makati City 0726
Philippines
Tel.: (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54

Investor Relations

Tel.: (632) 857-0100
Email: ir@sminvestments.com
www.sminvestments.com

Financial Statements

MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Calendar Year Ended December 31, 2014 and 2013

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2014	12 / 31 / 2013	% Change
Revenue	**₱275.7**	**₱253.3**	**8.9%**
Cost and Expenses	223.5	202.0	10.7%
Income from Operations	**52.2**	**51.3**	**1.8%**
Other Income (Charges)	(5.7)	(7.7)	(24.9%)
Provision for Income Tax	7.6	5.4	39.7%
Minority Interest	10.5	10.8	(2.8%)
Net Income Attributable to Equity Holders of the Parent	**₱28.4**	**₱27.4**	**3.5%**

SM Investments Corporation and Subsidiaries (the Group) reported a Net Income Attributable to Equity Holders of the Parent of ₱28.4 billion and Revenues of ₱275.7 billion in 2014. This represents a 3.5% increase in *Net Income Attributable to Equity Holders of the Parent* and 8.9% growth in *Revenues.*

Income from Operations increased by 1.8% to ₱52.2 billion from ₱51.3 billion in 2013. *Operating Margin* and *Net Margin* is at 18.9% and 10.3%, respectively.

Merchandise Sales, which grew by 9.0% from ₱180.9 billion in 2013, accounts for 71.5% or ₱197.1 billion of the total revenues in 2014. The increase is attributable to the opening of the following new stores in 2014:

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

The *Non-Food* and *Food Group* comprised 40% and 60%, respectively, of merchandise sales in 2014 and 41% and 59%, respectively, of merchandise sales in 2013.

As of December 31, 2014, *SM Retail* had 269 stores nationwide, namely: 50 *SM Stores*, 40 *SM Supermarkets,* 113 *SaveMore* stores, 42 SM *Hypermarkets* and 24 *WalterMart* stores.

Real Estate Sales increased by 6.5% to ₱22.6 billion from ₱21.2 billion in 2013 due to higher construction accomplishments of projects and increase in number of units sold in Grace Residences in Taguig, Shell Residences, Shore Residences and Breeze Residences in Pasay, Green Residences in Manila, Shine Residences in Pasig, and Grass Residences Phase2 and Trees Residences in Quezon City.

Real Estate Gross Margin improved from 42.4% in 2013 to 44.6% in 2014. This is attributable to efficient management and the reigning-in of construction costs.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 17.6% to ₱32.8 billion from ₱27.9 billion in 2013. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013 and 2014, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province, as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong and *SM Center Angono* in Rizal province. The expanded mall gross floor area is now 6.5 million square meters, an increase of 0.3 million square meters from yearend 2013. Excluding the new malls and expansions, same-store rental growth is at 7%.

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

Cinema Ticket Sales and *Amusement Revenues* increased by 16.7% to ₱5.8 billion from ₱4.9 billion in 2013 due to the opening of additional digital cinemas in the new/expanded malls and the showing of international and local blockbuster movies. Strong patronage of amusement rides and additional recreational facilities also contributed to the increase.

Equity in Net Earnings of Associates and Joint Ventures decreased by 2.8% to ₱13.2 billion from ₱13.6 billion in 2013. This is attributable mainly to BDO's exceptional trading gains in early 2013.

Gain on Sale of Available-for-sale Investments and Fair Value Changes on Investments Held for Trading - net decreased by 63.5% to ₱0.05 billion in 2014 from ₱0.14 billion in 2013 due primarily to the gain on sale of available-for-sale investments in 2013.

Dividend Income decreased by 32.6% to ₱0.6 billion in 2014 from ₱0.9 billion in 2013 due to decrease in dividends received from certain investees.

Management and Service Fees remained at ₱1.4 billion in 2014 and 2013.

Other Revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues slightly decreased by 7.7% to ₱2.1 billion in 2014 from ₱2.2 billion in 2013.

Operating Expenses increased by 17.7% to ₱60.1 billion from ₱51.0 billion in 2013 due mainly to additional operating expenses associated with the construction of new, and/or, expansion of malls, new retail stores, store renovations and current real estate projects.

Other Charges (net) decreased by 24.9% to ₱5.7 billion from ₱7.7 billion in 2013. *Interest Expense* increased by 6.3% to ₱11.6 billion from ₱10.9 billion in 2013 due mainly to loan availments during the year. *Interest Income* decreased by 18.2% to ₱3.0 billion from ₱3.7 billion in 2013 due to lower average balance of temporary investments. *Gain on disposal of investments and properties - net* increased by 426.9% to ₱2.9 billion from P0.5 billion in 2013 resulting mainly from the sale of the Group's 2% stake in BDO. *Loss on Fair Value Changes on Derivatives - net* decreased by 81.0% to ₱0.2 billion from P1.0 billion in 2013. This fair value change pertains mainly to the US$250.0 million convertible bonds of SMIC. *Foreign Exchange Gain and Others* increased by 201.4% to ₱179.1 million from ₱59.4 million in 2013. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.40 : USD1.00 in 2013 to PHP44.72 : USD1.00 in 2014.

Provision for Income Tax increased by 39.7% to ₱7.6 billion from ₱5.4 billion in 2013 resulting mainly from the SM Property group restructuring transaction in 2013, higher taxable income in 2014 as well as expiration of certain income tax holiday incentives on certain residential projects of SM Prime in 2014. The effective income tax rate is 16.3% in 2014 and 12.4% in 2013.

Non-controlling Interests decreased by 2.8% to ₱10.5 billion in 2014 from ₱10.8 billion in 2013.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2014	12 / 31 / 2013	% Change
Current assets	₱186.0	₱162.9	14.2%
Noncurrent assets	525.9	470.1	11.9%
Total assets	**₱711.9**	**₱633.0**	**12.5%**
Current liabilities	₱96.3	₱132.1	-27.1%
Noncurrent Liabilities	265.6	200.7	32.4%
Total Liabilities	**361.9**	**332.8**	**8.8%**
Stockholders' Equity	**350.0**	**300.2**	**16.6%**
Total Liabilities and Stockholders' Equity	**₱711.9**	**₱633.0**	**12.5%**

Total *Assets* increased by 12.5% to ₱711.9 billion from ₱633.0 billion in 2013. Likewise, total *Liabilities* increased by 8.8% to ₱361.9 billion from ₱332.8 billion in 2013.

Current Assets

Current Assets increased by 14.2% to ₱186.0 billion from ₱162.9 billion in 2013.

Cash and Cash Equivalents increased by 37.7% to ₱69.1 billion from ₱50.2 billion in 2013. The increase represents the loan proceeds from availments and share sale proceeds from SM Prime's top-up placement in 2014.

Time Deposits and Short-term Investments decreased by 68.9% to ₱9.0 billion from ₱28.9 billion in 2013 due to maturity of certain Short-term deposits, a portion of which was used to pay off maturing bonds and/or reinvested in Long-term time deposits.

Investments Held for Trading and Sale increased by 274.5% to ₱4.2 billion from ₱1.1 billion in 2013 due mainly to new available-for-sale (AFS) investments and reclassification of maturing noncurrent AFS investments.

Receivables increased by 16.4% to ₱31.0 billion from ₱26.6 billion in 2013 due mainly to the ₱3.8 billion increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units as well as new sales for the period and ₱0.6 billion increase in *Receivable from Tenants.*

Merchandise Inventories increased by 12.5% to ₱14.9 billion from ₱13.2 billion in 2013. The increase is mainly attributable to the Food Group.

Other Current Assets increased by 35.0% to ₱57.8 billion from ₱42.8 billion in 2013 due mainly to the receivable resulting from the sale of the Group's 2% stake in BDO.

Noncurrent Assets

Noncurrent Assets increased by 11.9% to ₱525.9 billion from ₱470.1 billion in 2013.

AFS Investments increased by 16.4% to ₱19.2 billion from ₱16.5 billion in 2013 due mainly to increase in market value of certain AFS investments and new AFS investments.

Investments in Associates and Joint Ventures increased by 4.7% to ₱145.5 billion from ₱139.0 billion in 2013 mainly due to the 12-month *Equity in Net Earnings of Associates and Joint Ventures,* net of *Dividend Income* received from these associates and sale of 2% stake in BDO.

Time Deposits increased by 74.0% to ₱47.1 billion from ₱27.1 billion in 2013 due mainly to the reinvestment of matured deposits from short-term to long-term.

Property and Equipment increased by 8.6% to ₱19.9 billion from ₱18.3 billion in 2013 due mainly from new stores in 2014.

Investment Properties increased by 15.0% to ₱221.4 billion from ₱192.6 billion in 2013. The increase mainly represents mall-related investments in land and buildings located in Cebu City, Cabanatuan, and San Mateo in the Philippines and Zibo and Tianjin in China; landbanking; and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-com and Conrad Hotel Manila.

Land and Development slightly increased by 3.8% to ₱26.6 billion from ₱25.7 billion in 2013 due mainly to reclassification of certain Land and Development project costs from noncurrent to current.

Deferred Tax Assets slightly increased by 5.6% to ₱2.3 billion from ₱2.2 billion in 2013 due to higher NOLCO from *SM Prime.*

Other Noncurrent Assets decreased by 24.4% to ₱21.5 billion from ₱28.4 billion in 2013. The decrease mainly represents the reclassification of deposits for land acquisitions to current portion of Land and Development and reclassification of a portion of the receivable from real estate buyers to current.

Current Liabilities

Current Liabilities decreased by 27.1% to ₱96.3 billion from ₱132.1 billion in 2013 due mainly to net payments in 2014.

Bank Loans decreased by 49.6% to ₱13.9 billion from ₱27.6 billion in 2013.

Current Portion of Long-term Debt decreased by 69.1% to ₱10.7 billion from ₱34.6 billion in 2013.

Accounts Payable and Other Current Liabilities increased by 2.6% to ₱69.9 billion from ₱68.1 billion in 2013.

Dividends Payable increased by 26.0% to ₱0.3 billion from ₱0.2 billion in 2013. This mainly represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable remained at ₱1.6 billion in 2014 and 2013.

Noncurrent Liabilities

Noncurrent Liabilities increased by 32.4% to ₱265.6 billion from ₱200.7 billion in 2013.

Long-term Debt - Net of Current Portion increased by 35.0% to ₱237.1 billion from ₱175.6 billion to in 2013 due mainly to SMIC and SMPHI's bond issuances and loan availments in 2014 obtained to fund capital expenditures and for working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Tenants' Deposits and Others increased by 20.3% to ₱21.6 billion from P18.0 billion in 2013. The increase is coming mainly from *SM Prime* and the *Net Group* relating to their leasable spaces.

Deferred Tax Liabilities decreased by 1.5% to ₱6.9 billion from ₱7.0 billion in 2013.

Noncurrent Derivative Liability decreased by 63.3% to ₱0.1 billion from ₱0.2 billion in 2013 due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

Equity

Total *Equity* increased by 16.6% to ₱350.0 billion from ₱300.2 billion in 2013.

Equity Attributable to Owners of the Parent increased by 17.1% ₱257.0 billion from ₱219.4 billion in 2013. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 24.5% to ₱72.0 billion from ₱57.8 billion in 2013 due mainly to the recognition of *Equity Reserve* arising from the US$400 million top-up placement of SM Prime in November 2014 (b) *Net Unrealized Gain on AFS Investments* which increased by 39.1% to ₱10.2 billion from ₱7.3 billion in 2013 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Equity Adjustments from Common Control Transactions* which decreased by ₱0.7 billion relative to the adjustment in valuation for the acquisition of a subsidiary, and (d) *Remeasurement Loss on Defined Benefit Asset/Obligation* which decreased by ₱0.07 billion as a result of valuation of the Group's retirement plan. These are partially offset by the 29.7% decrease in *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso from ₱1.2 billion to ₱0.9 billion in 2014.

Non-controlling Interests increased by 15.0% to ₱92.9 billion from ₱80.8 billion in 2013 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

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

Accounts	12 / 31/ 2014	12 / 31/ 2013
Current Ratio	1.9	1.2
Asset to Equity	2.0	2.1
Debt-equity Ratios:		
On Gross Basis	50 : 50	52 : 48
On Net Basis	34 : 66	37 : 63
Revenue Growth	8.9%	13.1%
Net Income to Revenues	10.3%	10.8%
Net Income Growth	3.5%	11.2%
Return on Equity	12.0%	13.0%
EBITDA (In Billions of Pesos)	P63.1B	P60.8B
Interest Rate Coverage	5.4x	5.6x

Current Ratio improved to 1.9 from 1.2 in 2013 due mainly to increase in *Current Assets* of 14.2% coupled with a decrease in *Current Liabilities* of 26.8%.

Asset to equity ratio slightly decreased to 2.0 from 2.1 in 2013.

Gross debt-equity ratio decreased to 50:50 from 52:48 in 2013 due to lower increase in gross debts of 10.1% from ₱237.7 billion to ₱261.7 billion in 2014 compared to a 17.1% increase in equity base from ₱219.4 billion to ₱257.0 billion in 2014.

Net debt-equity ratio decreased to 34:66 from 37:63 in 2013 due to lower increase in net debts of 4.1% from ₱126.5 billion to ₱131.7 billion in 2014.

Revenue growth decreased to 8.9% in 2014 due mainly to the 2013 exceptional trading gains of the Group's bank associates, partially offset by the increase in merchandise and real estate sales, rent, and cinema ticket sales and amusement in 2014.

Net income growth decreased to 3.5% in 2014 due mainly to the 2013 exceptional trading gains of the Group's bank associates.

Return on equity decreased to 12.0% from 13.0% in 2013 due mainly to slower net income growth and higher equity growth in 2014.

EBITDA increased by 3.8% to ₱63.1 billion from ₱60.8 billion in 2013.

Interest Rate Coverage minimally changed to 5.4x from 5.6x in 2013 due to higher increase in interest expense of 6.2% compared to an EBITDA increase of 3.8%.

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

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

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

TERESITA SY-COSON
Vice Chairperson of the Board

HARLEY T. SY
President

JOSE T. SIO
Chief Financial Officer

Signed this 4th day of March 2015.

REPORT OF AUDIT AND RISK MANAGEMENT COMMITTEE

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

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

- Mr. Vicente S. Perez, Jr. (Chairman) – Mr. Perez is an Independent Director of SM Investments Corporation (SMIC), and is also the Chief Executive Officer of Alternergy Partners, a renewable power company for emerging Asian countries, and Chairman of Merritt Partners, an advisory firm. He was the youngest and longest serving Secretary of the Department of Energy. In 2001, he briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF International Board. Mr. Perez also currently serves as an Independent Director of DoubleDragon Properties Corp. and ST Telemedia. Mr. Perez is a member of the advisory boards of Coca-Cola Phils., Pictet Clean Energy Fund, and Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

- Mr. Ah Doo Lim (Member) – Mr. Ah Doo Lim, 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 ARA-CWT Trust Management (Cache) Ltd., GP Industries Ltd., Linc Energy Limited, and U Mobile Sdn Bhd. He is also a Director of Sateri Holdings Limited, a world leader in the specialty cellulose industry. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

- Mr. Jose T. Sio (Member) – Mr. Sio is the Executive Vice President and Chief Finance Officer of SMIC. He is presently a Director of the Board of the following companies listed with the Philippine Stock Exchange (PSE): (i) China Banking Corporation, (ii) Atlas Consolidated Mining and Development Corporation, and (iii) Belle Corporation. Mr. Sio is also an Adviser to the Board of BDO Unibank, Inc. and Premium Leisure Corporation. He also serves as Director of the following companies not listed in the PSE: (i) SM Keppel Land, Inc., (ii) Asia Pacific College, (iii) OCLP (Ortigas) Holdings, Inc., (iv) Carmen Copper Corporation, (v) First Asia Realty Development Corporation, and (vi) Manila North Tollways Corporation. Mr. Sio was a Senior Partner of SyCip Gorres Velayo & Co. (SGV) from 1977 to 1990. He was voted as 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 Hong Kong-based publications such as Alpha Southeast Asia, Corporate Governance Asia, Finance Asia and The Asset. Mr. Sio is a Certified Public Accountant and holds a Master's degree in Business Administration from New York University, USA.

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

- Develop an annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit and Risk Management Committee for review and approval.
- Implement the approved annual audit plan, including special tasks or projects mandated by the Audit and Risk Management Committee.
- Issue periodic reports to the Audit and Risk Management Committee and Senior Management, summarizing results of audit activities.
- Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit and Risk Management Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

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

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

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

- Monitored reports related to the Policy on Accountability, Integrity and Vigilance (PAIV) which provides for the process and safeguards of elevating concerns to Management on possible violations of anyone in the Company with regard to the Code of Ethics and other Company rules and regulations;
- Established a succession plan for the committee;
- Deliberated with the Internal Auditor and SGV on the state of risk-based internal controls;
- Reviewed the initial results of financial, operations, compliance and hazard risk assessments and mitigation exercises of core business units;
- Monitored Management's SM Group-wide awareness program on risk management;
- Approved the roll-out of the Enterprise Risk Management Program utilizing the Risk Register template as instrument in documenting and monitoring risks;
- Discussed the legal and regulatory risks of pending bills in Congress, rules from regulators and bills enacted into law that have significant impact to the Company; and
- Reviewed and approved the Annual Corporate Governance Report submission, discussed areas for improvement and approved the resulting action plan.

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

- The Audit and Risk Management Committee is composed of three (3) members, majority of whom are independent directors, namely Mr. Ah Doo Lim and the Committee Chairman, Mr. Vicente S. Perez, Jr.;
- We met four (4) times in 2014 (on February 26, April 30, August 6, and November 5);

Members	2/26/14	4/30/14	8/6/14	11/5/14	Percentage
Vicente S. Perez, Jr. (ID) Chairman	√	X	√	√	75
Ah Doo Lim (ID) Member	n/a	√	√	√	100
Jose T. Sio Member	√	√	√	√	100
Henry T. Sy, Jr. Member	√	√	n/a	n/a	100
Corazon I. Morando Member	√	√	n/a	n/a	100
Joseph R. Higdon (ID) Member	√	√	n/a	n/a	100

- Composition of the Audit and Risk Management Committee was changed during the Organizational Meeting of the Board of Directors held on April 30, 2014. The first three (3) rows constitute the current committee membership, consisting of two (2) independent directors and one (1) non-independent director.

- Each member of the Committee possesses adequate knowledge and competence of finance and accounting processes;
- We have reviewed and approved the following with regard to our Independent Auditor, SGV and our Internal Auditor:
  - Their respective annual audit plans and strategic direction, scope, risk-based methods and timetable;
  - The results of their examinations and action plan to address pending audit issues; and
  - The assessment of internal controls and quality financial reporting.
- We have received and reviewed the report of SGV on significant accounting issues, changes in accounting principles, relevant pending tax legislation which would impact SMIC and its subsidiaries;
- We have reviewed and approved all audit and non-audit services provided by SGV and related audit fees;
- We have reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors and found that the system is adequate and appropriate;
- We have reviewed and ensured that the Company's related party transactions are conducted at market and arm's length basis;
- We have discussed the status of the Enterprise Risk Management system roll-out across the listed companies of the SM Group, with initial focus on Financial, Information Technology, Operational and Compliance Risks;
- We have discussed with SGV the matters required to be discussed by the prevailing applicable Auditing Standards, and we have received written disclosures and the letter from SGV as required by prevailing applicable Independence Standards and have discussed with SGV its independence;
- We have reviewed the financial statements of SMIC and its subsidiaries for the first quarter ended March 31, 2014, six month period ended June 30, 2014, and third quarter ended September 30, 2014;
- 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 SMIC and its subsidiaries for the year ended December 31, 2014.
- We have reviewed and discussed the performance, independence and qualifications of the Independent Auditor, SGV, in the conduct of their audit of the financial statements of SMIC and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV as external auditors for 2015.

Vicente S. Perez, Jr.*
Chairman

Ah Doo Lim*
Member

Jose T. Sio
Member

Atty. Elmer B. Serrano
Corporate Secretary

*Independent Director

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4751259, January 5, 2015, Makati City

March 4, 2015

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 29)	**₱69,133,381**	₱50,209,657
Time deposits and short-term investments (Notes 8 and 29)	**9,000,324**	28,912,650
Investments held for trading and sale (Notes 9 and 29)	**4,190,449**	1,118,980
Receivables (Notes 10, 29 and 30)	**31,009,820**	26,637,734
Merchandise inventories - at cost (Note 23)	**14,882,200**	13,232,308
Other current assets (Notes 11 and 29)	**57,801,636**	42,827,624
Total Current Assets	**186,017,810**	162,938,953
Noncurrent Assets		
Available-for-sale investments (Notes 12 and 29)	**19,205,044**	16,499,092
Investments in associates and joint ventures (Note 13)	**145,476,174**	138,994,366
Time deposits (Notes 8 and 29)	**47,124,000**	27,080,950
Property and equipment (Note 14)	**19,903,014**	18,323,380
Investment properties (Note 15)	**221,429,714**	192,609,189
Land and development (Note 16)	**26,629,864**	25,666,930
Intangibles (Note 17)	**22,303,203**	20,255,055
Deferred tax assets - net (Note 27)	**2,293,944**	2,172,799
Other noncurrent assets (Notes 17 and 29)	**21,501,842**	28,453,455
Total Noncurrent Assets	**525,866,799**	470,055,216
	₱711,884,609	₱632,994,169
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22 and 29)	**₱13,892,641**	₱27,588,259
Accounts payable and other current liabilities (Notes 19 and 29)	**69,861,065**	68,088,327
Income tax payable	**1,593,060**	1,612,784
Current portion of long-term debt (Notes 20 and 29)	**10,669,108**	34,566,619
Dividends payable (Note 29)	**264,882**	210,189
Total Current Liabilities	**96,280,756**	132,066,178
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**237,113,555**	175,589,418
Derivative liabilities (Notes 29 and 30)	**58,705**	159,974
Deferred tax liabilities - net (Note 27)	**6,867,925**	6,970,527
Tenants' deposits and others (Notes 15, 26, 28, 29 and 30)	**21,615,259**	17,967,224
Total Noncurrent Liabilities	**265,655,444**	200,687,143
Total Liabilities	**361,936,200**	332,753,321
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**7,963,406**	7,962,723
Additional paid-in capital (Note 21)	**71,952,082**	57,799,360
Equity adjustments from common control transactions (Note 21)	**(1,902,933)**	(2,584,210)
Cost of Parent common shares held by subsidiaries (Note 21)	**(25,386)**	(25,386)
Cumulative translation adjustment	**866,360**	1,233,177
Remeasurement loss on defined benefit asset/obligation (Note 26)	**(126,530)**	(195,074)
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**10,207,259**	7,338,500
Retained earnings (Note 21):		
Appropriated	**27,000,000**	27,000,000
Unappropriated	**141,069,856**	120,904,727
Total Equity Attributable to Owners of the Parent	**257,004,114**	219,433,817
Non-controlling Interests	**92,944,295**	80,807,031
Total Equity	**349,948,409**	300,240,848
	₱711,884,609	₱632,994,169

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		
	2014	2013	2012
REVENUE			
Sales:			
Merchandise	**₱197,080,971**	₱180,873,042	₱158,888,415
Real estate	**22,629,335**	21,242,138	22,499,679
Rent (Notes 15, 22 and 28)	**32,845,909**	27,929,390	24,695,579
Equity in net earnings of associates and joint ventures (Note 13)	**13,225,022**	13,602,269	9,042,034
Cinema ticket sales, amusement and others	**5,771,529**	4,945,795	4,824,228
Management and service fees (Note 22)	**1,452,771**	1,437,561	1,112,302
Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 9, 12 and 30)	**51,525**	141,163	2,055
Dividend income (Note 22)	**595,204**	883,494	628,385
Others	**2,065,870**	2,237,952	2,184,597
	275,718,136	253,292,804	223,877,274
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 23)	**150,917,587**	138,720,368	117,896,688
Real estate	**12,529,076**	12,243,534	14,124,779
Selling, general and administrative expenses (Note 24)	**60,081,307**	51,043,797	44,978,822
	223,527,970	202,007,699	177,000,289
OTHER INCOME (CHARGES)			
Interest expense (Note 25)	**(11,627,529)**	(10,943,401)	(10,811,736)
Interest income (Note 25)	**3,032,635**	3,709,484	4,416,746
Gain on disposal of investments and properties - net (Notes 13 and 15)	**2,879,746**	546,552	1,301,888
Loss on fair value changes on derivatives - net (Note 30)	**(189,554)**	(997,576)	(1,403,411)
Foreign exchange gain - net (Note 29)	**179,080**	59,411	565,132
	(5,725,622)	(7,625,530)	(5,931,381)
INCOME BEFORE INCOME TAX	**46,464,544**	43,659,575	40,945,604
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**7,723,852**	7,367,602	6,453,836
Deferred	**(149,863)**	(1,947,105)	91,250
	7,573,989	5,420,497	6,545,086
NET INCOME	**₱38,890,555**	₱38,239,078	₱34,400,518
Attributable to			
Owners of the Parent (Note 31)	**₱28,398,584**	₱27,445,682	₱24,674,381
Non-controlling interests	**10,491,971**	10,793,396	9,726,137
	₱38,890,555	₱38,239,078	₱34,400,518
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 31)	**₱35.66**	₱34.85	₱31.76

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
NET INCOME	**₱38,890,555**	₱38,239,078	₱34,400,518
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain on available-for-sale investments (Note 12)	**4,243,049**	2,290,960	4,753,031
Share in unrealized gain (loss) on available-for-sale investments of associates - net (Notes 12 and 13)	**435,121**	(2,756,754)	1,514,343
Cumulative translation adjustment	**(720,937)**	892,452	(205,702)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**112,849**	(2,841,627)	3,772
	4,070,082	(2,414,969)	6,065,444
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 26)	**129,883**	(201,304)	–
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**(38,965)**	60,391	–
	90,918	(140,913)	–
TOTAL COMPREHENSIVE INCOME	**₱43,051,555**	₱35,683,196	₱40,465,962
Attributable to			
Owners of the Parent	**₱30,969,070**	₱23,836,811	₱29,223,730
Non-controlling interests	**12,082,485**	11,846,385	11,242,232
	₱43,051,555	₱35,683,196	₱40,465,962

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands, Except Per Share Data)

	Equity Attributable			
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries
Balance at December 31, 2013	**₱7,962,723**	**₱57,799,360**	**(₱2,584,210)**	**(₱25,386)**
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Issuance of Parent common shares (Note 21)	**683**	**47,194**	–	–
Cash dividends - ₱10.34 a share (Note 21)	–	–	–	–
Decrease in non-controlling interests	–	–	–	–
Common control transactions (Note 5)	–	–	**681,277**	–
Re-issuance by a subsidiary of treasury shares to non-controlling shareholders (Note 21)	–	**14,105,528**	–	–
Cash dividends received by non-controlling shareholders	–	–	–	–
Balance at December 31, 2014	**₱7,963,406**	**₱71,952,082**	**(₱1,902,933)**	**(₱25,386)**
Balance at December 31, 2012	₱6,229,746	₱42,858,920	(₱2,332,796)	(₱125,906)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Issuance of Parent common shares (Note 21)	156,404	14,802,328	–	–
Disposal of Parent common shares held by subsidiaries (Note 21)	–	138,112	–	100,520
Cash dividends - ₱11.80 a share (Note 21)	–	–	–	–
Stock dividends (Note 21)	1,576,573	–	–	–
Reversal of appropriation (Note 21)	–	–	–	–
Increase in non-controlling interests	–	–	–	–
Common control transactions (Notes 5 and 21)	–	–	(251,414)	–
Cash dividends received by non-controlling shareholders	–	–	–	–
Balance at December 31, 2013	₱7,962,723	₱57,799,360	(₱2,584,210)	(₱25,386)
Balance at December 31, 2011	₱6,121,640	₱35,536,615	(₱2,332,796)	(₱263,195)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Issuance of Parent common shares (Note 21)	108,106	7,216,451	–	–
Disposal of Parent common shares held by subsidiaries (Note 21)	–	105,854	–	137,289
Cash dividends - ₱10.40 a share (Note 21)	–	–	–	–
Appropriation (Note 21)	–	–	–	–
Decrease in non-controlling interests	–	–	–	–
Cash dividends received by non-controlling shareholders	–	–	–	–
Balance at December 31, 2012	₱6,229,746	₱42,858,920	(₱2,332,796)	(₱125,906)

See accompanying Notes to Consolidated Financial Statements.

to Owners of the Parent							
Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱1,233,177	**₱7,338,500**	**(₱195,074)**	**₱27,000,000**	**₱120,904,727**	**₱219,433,817**	**₱80,807,031**	**₱300,240,848**
–	**–**	**–**	**–**	**28,398,584**	**28,398,584**	**10,491,971**	**38,890,555**
(366,817)	**2,868,759**	**68,544**	**–**	**–**	**2,570,486**	**1,590,514**	**4,161,000**
(366,817)	**2,868,759**	**68,544**	**–**	**28,398,584**	**30,969,070**	**12,082,485**	**43,051,555**
–	**–**	**–**	**–**	**–**	**47,877**	**–**	**47,877**
–	**–**	**–**	**–**	**(8,233,455)**	**(8,233,455)**	**–**	**(8,233,455)**
–	**–**	**–**	**–**	**–**	**–**	**(728,799)**	**(728,799)**
–	**–**	**–**	**–**	**–**	**681,277**	**–**	**681,277**
–	**–**	**–**	**–**	**–**	**14,105,528**	**3,540,159**	**17,645,687**
–	**–**	**–**	**–**	**–**	**–**	**(2,756,581)**	**(2,756,581)**
₱866,360	**₱10,207,259**	**(₱126,530)**	**₱27,000,000**	**₱141,069,856**	**₱257,004,114**	**₱92,944,295**	**₱349,948,409**
₱266,915	₱11,718,559	₱–	₱35,000,000	₱94,458,694	₱188,074,132	₱73,570,846	₱261,644,978
–	–	–	–	27,445,682	27,445,682	10,793,396	38,239,078
966,262	(4,380,059)	(195,074)	–	–	(3,608,871)	1,052,989	(2,555,882)
966,262	(4,380,059)	(195,074)	–	27,445,682	23,836,811	11,846,385	35,683,196
–	–	–	–	–	14,958,732	–	14,958,732
–	–	–	–	–	238,632	–	238,632
–	–	–	–	(7,423,076)	(7,423,076)	–	(7,423,076)
–	–	–	–	(1,576,573)	–	–	–
–	–	–	(8,000,000)	8,000,000	–	–	–
–	–	–	–	–	–	1,830,497	1,830,497
–	–	–	–	–	(251,414)	(2,083,843)	(2,335,257)
–	–	–	–	–	–	(4,356,854)	(4,356,854)
₱1,233,177	₱7,338,500	(₱195,074)	₱27,000,000	₱120,904,727	₱219,433,817	₱80,807,031	₱300,240,848
₱428,058	₱7,008,067	₱–	₱5,000,000	₱106,167,942	₱157,666,331	₱64,620,530	₱222,286,861
–	–	–	–	24,674,381	24,674,381	9,726,137	34,400,518
(161,143)	4,710,492	–	–	–	4,549,349	1,516,095	6,065,444
(161,143)	4,710,492	–	–	24,674,381	29,223,730	11,242,232	40,465,962
–	–	–	–	–	7,324,557	–	7,324,557
–	–	–	–	–	243,143	52,402	295,545
–	–	–	–	(6,383,629)	(6,383,629)	–	(6,383,629)
–	–	–	30,000,000	(30,000,000)	–	–	–
–	–	–	–	–	–	(235,336)	(235,336)
–	–	–	–	–	–	(2,108,982)	(2,108,982)
₱266,915	₱11,718,559	₱–	₱35,000,000	₱94,458,694	₱188,074,132	₱73,570,846	₱261,644,978

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱46,464,544**	₱43,659,575	₱40,945,604
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 13)	**(13,225,022)**	(13,602,269)	(9,042,034)
Interest expense (Note 25)	**11,627,529**	10,943,401	10,811,736
Depreciation and amortization (Notes 14, 15 and 24)	**10,907,625**	9,513,584	8,057,871
Interest income (Note 25)	**(3,032,635)**	(3,709,484)	(4,416,746)
Gain on disposal of investments and properties - net (Note 15)	**(2,879,746)**	(546,552)	(1,301,888)
Dividend income	**(595,204)**	(883,494)	(628,385)
Unrealized foreign exchange loss (gain)	**424,836**	1,213,565	(93,811)
Loss on fair value changes on derivatives - net (Note 30)	**189,554**	997,576	1,403,411
Gain on available-for-sale investments and fair value changes on investments held for trading - net (Notes 12 and 30)	**(51,525)**	(141,163)	(2,055)
Reversal of impairment loss (Notes 10, 13 and 15)	**(288,547)**	(1,018,156)	(2,743,711)
Income before working capital changes	**49,541,409**	46,426,583	42,989,992
Decrease (increase) in:			
Land and development	**(21,724,031)**	(20,763,530)	(13,700,945)
Other current assets	**(3,599,889)**	(6,220,848)	(6,043,200)
Merchandise inventories	**(1,649,892)**	870,608	33,694
Receivables	**(513,876)**	(2,268,025)	(1,809,471)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(1,112,518)**	16,109,852	13,234,113
Tenants' deposits and others	**3,645,973**	3,600,244	2,390,156
Defined benefit liability (Note 26)	**123,467**	126,011	(48,178)
Net cash generated from operations	**24,710,643**	37,880,895	37,046,161
Income tax paid	**(7,737,385)**	(7,220,176)	(6,314,700)
Net cash provided by operating activities	**16,973,258**	30,660,719	30,731,461
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Shares of stock of associates and joint ventures	**7,448,221**	1,108,036	1,870,174
Available-for-sale investments and held for trading	**2,250,004**	1,646,038	2,233,812
Property and equipment	**236,518**	374,196	161,834
Investment properties	**134,890**	8,596	236,210
Additions to:			
Investment properties (Note 15)	**(37,487,584)**	(25,885,092)	(27,932,103)
Property and equipment (Note 14)	**(4,522,820)**	(5,131,795)	(6,614,570)
Available-for-sale investments	**(3,089,078)**	–	(3,237,646)
Investments in associates and joint ventures (Note 13)	**(1,925,455)**	(5,492,653)	(28,261,006)
Time deposits	**–**	–	(23,005,702)
Decrease in:			
Other noncurrent assets	**12,650,366**	4,817,513	1,984,796
Pledged time deposits	**252,851**	5,572,971	–
Dividends received	**4,996,065**	4,758,493	795,953
Interest received	**3,518,976**	3,924,505	4,208,464
Acquisition of subsidiaries, net of cash acquired (Note 5)	**–**	(16,750,597)	–
Net cash used in investing activities	**(15,537,046)**	(31,049,789)	(77,559,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**84,040,740**	66,196,550	71,638,384
Bank loans	**10,862,833**	60,249,390	62,039,335
Payments of:			
Long-term debt	**(47,795,955)**	(47,783,598)	(14,495,495)
Bank loans	**(24,568,200)**	(70,185,745)	(55,910,180)
Interest	**(11,870,553)**	(11,608,952)	(9,918,610)
Dividends	**(10,935,343)**	(13,243,597)	(8,421,026)
Re-issuance by a subsidiary of treasury shares to non-controlling shareholders	**17,645,687**	–	–
Proceeds from issuance of new common shares (Note 21)	**–**	6,424,666	6,329,678
Disposal of Parent common shares held by subsidiaries (Note 21)	**–**	100,520	295,546
Net cash provided by (used in) financing activities	**17,379,209**	(9,850,766)	51,557,632
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**18,815,421**	(10,239,836)	4,729,309
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**108,303**	(265,227)	(64,911)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**50,209,657**	60,714,720	56,050,322
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱69,133,381**	₱50,209,657	₱60,714,720

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) as approved and recommended for approval by the Audit Committee on March 4, 2015.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

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

Basis of Consolidation
The Group is considered to have control over an investee, if and only if, the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Group's voting rights and potential voting rights.

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

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and,
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income 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			
		2014		2013	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**49**	**1**	51	1
SM Development Corporation (SMDC) and Subsidiaries	Real estate development	**–**	**100**	–	100
Magenta Legacy, Inc. (Magenta)	Real estate development	**–**	**100**	–	100
Associated Development Corporation	Real estate development	**–**	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	**–**	**100**	–	100
Summerhills Home Development Corp. (SHDC)	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. (PMI)	Real estate development	**–**	**100**	–	100
Rappel Holdings, Inc. (Rappel) and Subsidiaries	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	**–**	**100**	–	100
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	Hotel and tourism	**–**	**100**	–	100
Tagaytay Resort Development Corporation (TRDC)	Real estate development	**–**	**100**	–	100
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	Real estate development	**100**	**–**	100	–
Belleshares Holdings, Inc.(BHI) (formerly SM Commercial Properties, Inc.) and Subsidiaries	Real estate development	**59**	**40**	59	40
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central, Inc. (Prime Central) and Subsidiaries	Real estate development	**100**	**–**	100	–
Bellevue Properties, Inc.	Real estate development	**62**	**–**	62	–
Net Group	Real estate development	**90**	**–**	90	–
Sto. Roberto Marketing Corp. (Sto. Roberto)	Real estate development	**100**	**–**	100	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	**–**	100	–
Retail					
SM Retail, Inc. (SM Retail) and Subsidiaries	Retail	**100**	**–**	100	–
Others					
Primebridge Holdings, Inc. (Primebridge)	Investment	**80**	**20**	80	20
Asia Pacific Computer Technology Center, Inc.	Education	**52**	**–**	52	–
Multi-Realty Development Corporation (MRDC)	Investment	**91**	**–**	91	–
Henfels Investments Corp.	Investment	**99**	**–**	99	–

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

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% and 48% of SM Prime as at December 31, 2014 and 2013, respectively.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2014	2013
	(In Thousands)	
Current assets	**₱105,996,381**	₱85,685,323
Noncurrent assets	**282,843,778**	249,898,359
Total assets	**388,840,159**	335,583,682
Current liabilities	**50,799,205**	56,882,069
Noncurrent liabilities	**135,802,751**	112,480,088
Total liabilities	**186,601,956**	169,362,157
Total equity	**₱202,238,203**	₱166,221,525
Attributable to:		
Owners of the Parent	**₱199,087,690**	₱163,266,540
Non-controlling interests	**3,150,513**	2,954,985
	₱202,238,203	₱166,221,525

Statements of Income

	Years Ended December 31		
	2014	2013	2012
		(In Thousands)	
Revenue	**₱66,240,070**	₱59,794,410	₱57,215,094
Costs and expenses	**38,553,561**	35,658,865	35,145,277
Other income (charges)	**(4,012,373)**	(3,425,454)	(1,635,923)
Income before income tax	**23,674,136**	20,710,091	20,433,894
Provision for income tax	**4,777,647**	3,984,163	3,790,461
Net income	**₱18,896,489**	₱16,725,928	₱16,643,433
Attributable to:			
Owners of the Parent	**₱18,390,352**	₱16,274,820	₱16,202,777
Non-controlling interests	**506,137**	451,108	440,656
	18,896,489	16,725,928	16,643,433
Other comprehensive income	**5,083,311**	1,441,681	6,133,848
Total comprehensive income	**₱23,979,800**	₱18,167,609	₱22,777,281
Attributable to:			
Owners of the Parent	**₱23,474,512**	₱17,717,168	₱22,336,625
Non-controlling interests	**505,288**	450,441	440,656
Total comprehensive income	**23,979,800**	18,167,609	22,777,281
Dividends paid to non-controlling interests	**(₱309,760)**	(₱329,760)	(₱10,000)

Summarized Consolidated Statements of Cash Flows

	Years Ended December 31		
	2014	2013	2012
		(In Thousands)	
Net cash inflow from operating activities	**₱7,009,309**	₱23,818,522	₱6,587,696
Net cash outflow from investing activities	**(29,693,053)**	(30,715,461)	(20,527,706)
Net cash inflow from financing activities	**30,796,950**	12,708,892	17,907,072
Effect of exchange rate changes on cash and cash equivalents	**(9,506)**	30,187	(13,005)
Net increase in cash and cash equivalents	**₱8,103,700**	₱5,842,140	₱3,954,057

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

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

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

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

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

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

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

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

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

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 derecognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Derivatives are recognized on a trade date basis.

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

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

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

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

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

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

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

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

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated 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.

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

AFS Investments
AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance 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 derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period. Otherwise, they are classified as noncurrent.

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

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

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

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

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

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

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

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

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

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

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

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized. However, if an entity expects that all or a portion of a loss recognized in other comprehensive income 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 other comprehensive income until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statement of comprehensive income is recognized immediately in the consolidated statement of income.

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

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

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case, 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 investment in bonds and convertible bonds payable are the Group's bifurcated embedded derivatives.

Derecognition 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

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

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

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

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

<u>Merchandise Inventories</u>
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.

<u>Land and Development and Condominium Units for Sale</u>
Land and development and condominium 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.

<u>Investments in Associates and Joint Ventures</u>
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 associates and joint ventures are accounted for under the equity method of accounting. Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

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

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

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

Also, 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 or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then, recognizes the loss in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured 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 PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured and subsequent settlement is accounted for within equity.

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue and Cost Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements 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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions

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

Borrowing Costs

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

Taxes

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

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.

<u>Business Segments</u>
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.

<u>Basic/Diluted Earnings Per Common Share (EPS)</u>
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.

<u>Contingencies</u>
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.

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

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to standards, new interpretation and improvements, starting January 1, 2014. The adoption did not have any impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 27, *Separate Financial Statements – Investment Entities*
- Amendments to PAS 32 – *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to PAS 36 – *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to PAS 39 – *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- Philippine Interpretation IFRIC 21 – *Levies*
- Annual Improvements to PFRSs (2010-2012 cycle) on PFRS 13 – *Fair Value Measurement –Short-term receivables and payables with no stated interest rates*
- Annual Improvements to PFRSs (2011-2013 cycle) on amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – First-time Adoption of PFRS*

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, 2014. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

I. *Standards Issued but not yet Effective*

PFRS 9 – Financial Instruments – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015, but mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (PFRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15 – Agreements for the Construction of Real Estate

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

II. *Issued by the International Accounting Standards Board (IASB) and adopted by the PFRSC but for approval by the BOA*

Effective January 1, 2015

PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans, this amendment would be relevant to the Group since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) include the following:

- *PFRS 2, Share-based Payment – Definition of Vesting Condition.* This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.
- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement.* The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments clarify the following:
  - An entity must disclose the judgments in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization.* The amendment clarifies that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures – Key Management Personnel.* The amendment clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) include the following:

- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that joint arrangements, not just joint ventures, are outside the scope of PFRS 3 and the scope exception applies only to the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement – Portfolio Exception.* The amendment clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- *PAS 40, Investment Property.* The amendment clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

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

The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any impact to the Group.

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

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. These amendments are not expected to have any impact to the Group.

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. These amendments are not expected to have any impact to the Group.

PFRS 14, Regulatory Deferral Accounts

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) include the following:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendment clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures – Servicing Contracts.* PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements.* The amendment clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits – regional market issue regarding discount rate.* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'.* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, Financial Instruments – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

PFRS 9 (2013 version) includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach.

PFRS 9 (2013 version) has no mandatory effective date, but eventually set to January 1, 2018 when the final version of PFRS 9 was adopted by the PFRSC. Such adoption, however, is still for approval by the BOA.

PFRS 9, Financial Instruments (2014 or final version)

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 comparative information is not compulsory. The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

III. *Issued by the IASB but not adopted yet by the FRSC*

IFRS 15 Revenue from Contracts with Customers (issued in May 2014)

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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 of reporting date.

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

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

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

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

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

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

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

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

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

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

Assessing of Control or Significant Influence of Investees.

Net Group. Management assessed that SMIC has control of these land-holding companies as the contracting parties intend to align the voting interest in the land-holding companies to reflect the economic interest in these subsidiaries. On June 27, 2014, the Board of Directors and stockholders of the land-holding companies approved the amendment of the Articles of Incorporation to reclassify all its voting preferred shares to common shares resulting in the alignment of SMIC's voting and economic interests. The amendment is pending review and approval by the SEC as at March 4, 2015.

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

BDO Unibank , Inc. (BDO) The Group has 47% 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).

Estimates and Assumptions

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

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

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

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

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

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

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records. In 2014 and 2013, the Group assessed that the net realizable value of merchandise inventories, condominium units for sale and land and land development are higher than cost, hence, the Group did not recognize any losses on writedown.

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 Shares of Stock of Associates. Impairment review of investments in shares of stock of associates is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.

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

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

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

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

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

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

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

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

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

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and other comprehensive income. See Notes 29 and 30 for related balances.

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

5. CORPORATE RESTRUCTURING AND SIGNIFICANT ACQUISITIONS

Corporate Restructuring

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

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

a. SM Land's Tender Offers for SMDC and HPI

Both SMDC and HPI are companies primarily engaged in real estate development listed in the PSE and registered with the Philippine SEC. On June 4, 2013, SM Land launched a tender offer to the existing shareholders of SMDC and HPI in exchange for SM Prime shares held by SM Land. The terms of the tender offer were executed at an exchange ratio of 0.472 SM Prime share for 1 SMDC share and 0.135 SM Prime share for 1 HPI share. The exchange ratios were arrived at based on SM Prime's one month volume-weighted average price (VWAP) of ₱18.66 per share and a six percent premium to SMDC's one month VWAP of ₱8.303 per share. For HPI, the exchange ratios were arrived at based on SM Prime's one month VWAP of ₱18.66 per share and a fifteen percent premium to HPI's one month VWAP of ₱2.195 per share. The tender offers were completed on August 12, 2013. Total number of SM Prime common shares held by SM Land exchanged to complete the tender offer to shareholders of SMDC and HPI is 1,778,427,940. After the completion of the Tender Offer, SMDC and HPI became 98.9% and 99.9% subsidiaries of SM Land.

On November 5, 2013, SMDC and HPI were delisted from the PSE.

b. Merger of SM Prime and SM Land

Following the completion of the tender offer, on October 10, 2013, the SEC approved the merger of SM Prime and SM Land via a share-for-share swap where the stockholders of SM Land received new SM Prime shares in exchange for their shareholdings in SM Land. SM Prime is the surviving entity while SM Land is the absorbed entity. As a result of the merger, SMDC and HPI became subsidiaries of SM Prime effective October 10, 2013. In addition to the shareholdings in SMDC and HPI, SM Prime now holds SM Land's real estate assets which includes among others, Mall of Asia Complex (MOAC), office buildings such as Two E-Com in MOAC, Cyber 1 and Cyber 2 in Makati, and certain real properties leased to SM SaveMore and SM Department Store. The merger ratio of 738 SM Prime shares for 1 SM Land share were arrived based on the net appraised values of SM Prime and SM Land as at February 28, 2013 as conducted by CB Richard Ellis. The total number of new SM Prime common shares issued to SM Land shareholders is 14,390,923,857.

c. Acquisition of unlisted real estate companies and real estate assets from SMIC and the Sy Family
On October 10, 2013, the SEC approved SM Prime's acquisition of SMIC's unlisted real estate companies including SM Hotels, SM Arena, Costa, PMI and TRDC (collectively, the "Unlisted Real Estate Companies"). The SEC likewise approved SM Prime's acquisition of real property assets of SMIC which includes among others, SMX Convention Center in MOAC and real properties located in Tagaytay, by issuing new SM Prime shares to SMIC. The unlisted real estate companies and real estate assets of SMIC were acquired based on the appraised values as at February 28, 2013 as conducted by CB Richard Ellis. The total acquisition price of the unlisted real estate companies and real property assets amounted to ₱25.8 billion equivalent to 1,382,841,458 SM Prime common shares issued based on SM Prime 30-day VWAP of ₱18.66.

The Group viewed the series of the corporate restructuring transactions described above as a "single" or "linked" arrangements effected by the Sy Family (the Controlling Shareholder) to re-organize its real estate businesses and assets. The companies and real estate assets (accounted for as business units) involved in the restructuring are all under the common control by the Sy Family.

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

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

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

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

Acquisitions
Net Group. On December 2, 2013, SMIC entered into a Shareholders Agreement and Share Purchase Agreement for the acquisition of ownership interests in the following companies (collectively, the "Net Group"):

Company	Voting Interest	Economic Interest
6-24 Property Holdings, Inc.	90%	90%
14-678 Property Holdings, Inc.	90%	90%
19-1 Property Holdings, Inc.	90%	90%
18-2 Property Holdings, Inc.	90%	90%
6-3 Property Holdings, Inc.	90%	90%
Crescent Park 6-24 Property Holdings, Inc.	40%	90%
Crescent Park 14-678 Property Holdings, Inc.	40%	90%
Crescent Park 19-1 Property Holdings, Inc.	40%	90%
Crescent Park 18-2 Property Holdings, Inc.	40%	90%
Crescent Park 6-3 Property Holdings, Inc.	40%	90%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. SEGMENT INFORMATION

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

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

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

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

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

Operating Segment Financial Data

	2014				
	Property	**Retail**	**Financial Services and Others**	**Eliminations**	**Consolidated**
			(In Thousands)		
Revenue:					
External customers	**₱61,746,895**	**₱200,028,416**	**₱13,942,825**	**₱–**	**₱275,718,136**
Inter-segment	**7,493,808**	**75,500**	**14,327,200**	**(21,896,508)**	**–**
	₱69,240,703	**₱200,103,916**	**₱28,270,025**	**(₱21,896,508)**	**₱275,718,136**
Segment results:					
Income before income tax	**₱25,127,676**	**₱8,721,887**	**₱13,906,050**	**(₱1,291,069)**	**₱46,464,544**
Provision for income tax	**(4,886,808)**	**(2,590,050)**	**(101,865)**	**4,734**	**(7,573,989)**
Net income	**₱20,240,868**	**₱6,131,837**	**₱13,804,185**	**(₱1,286,335)**	**₱38,890,555**
Net income attributable to:					
Owners of the Parent	**₱19,725,253**	**₱5,858,974**	**₱13,804,185**	**(₱10,989,828)**	**₱28,398,584**
Non-controlling interests	**515,615**	**272,863**	**–**	**9,703,493**	**10,491,971**

	2013				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱56,109,064	₱183,606,666	₱13,577,074	₱–	₱253,292,804
Inter-segment	6,004,771	117,556	16,101,800	(22,224,127)	–
	₱62,113,835	₱183,724,222	₱29,678,874	(₱22,224,127)	₱253,292,804
Segment results:					
Income before income tax	₱23,672,023	₱8,551,740	₱12,331,124	(₱895,312)	₱43,659,575
Provision for income tax	(3,991,614)	(2,446,033)	289,085	728,065	(5,420,497)
Net income	₱19,680,409	₱6,105,707	₱12,620,209	(₱167,247)	₱38,239,078
Net income attributable to:					
Owners of the Parent	₱19,229,302	₱5,748,921	₱12,620,209	(₱10,152,750)	₱27,445,682
Non-controlling interests	451,107	356,786	–	9,985,503	10,793,396

	2012				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱52,609,032	₱161,149,617	₱10,118,625	₱–	₱223,877,274
Inter-segment	11,498,582	89,139	11,891,579	(23,479,300)	–
	₱64,107,614	₱161,238,756	₱22,010,204	(₱23,479,300)	₱223,877,274
Segment results:					
Income before income tax	₱25,528,157	₱9,258,062	₱10,061,252	(₱3,901,867)	₱40,945,604
Provision for income tax	(3,687,017)	(2,708,977)	(149,092)	–	(6,545,086)
Net income	₱21,841,140	₱6,549,085	₱9,912,160	(₱3,901,867)	₱34,400,518
Net income attributable to:					
Owners of the Parent	₱19,828,629	₱6,328,141	₱9,912,160	(₱11,394,549)	₱24,674,381
Non-controlling interests	2,012,511	220,944	–	7,492,682	9,726,137

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2014	2013
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱9,428,922**	₱10,202,986
Temporary investments (see Notes 18 and 22)	**59,704,459**	40,006,671
	₱69,133,381	₱50,209,657

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

8. TIME DEPOSITS AND SHORT-TERM INVESTMENTS

This account consists of:

	2014	2013
	(In Thousands)	
Time deposits:		
Not pledged (see Note 22)	**₱54,167,524**	₱34,018,075
Pledged (see Notes 20 and 22)	**1,956,800**	21,087,625
	56,124,324	55,105,700
Short-term investments (see Note 22)	**–**	887,900
	56,124,324	55,993,600
Less current portion	**9,000,324**	28,912,650
Noncurrent portion	**₱47,124,000**	₱27,080,950

The time deposits as at December 31, 2014 and 2013 bear annual interest ranging from 1.0% to 4.9% and 1.1% to 5.4%, respectively.

Time deposits amounting to nil and US$475.0 million (₱21,087.6 million) as at December 31, 2014 and 2013, respectively are used as collateral for loans obtained by the Parent Company (see Note 20).

Time deposits amounting to US$44.4 million (₱1,956.8 million), as at December 31, 2014 are used as collateral for certain credit lines and loans of a subsidiary (see Note 20).

Interest earned from time deposits and short-term investments is disclosed in Note 25.

9. INVESTMENTS HELD FOR TRADING AND SALE

This account consists of:

	2014	2013
	(In Thousands)	
Investments held for trading -		
Bonds	**₱307,835**	₱459,754
AFS investments (see Note 12):		
Bonds and corporate notes	**986,742**	–
Shares of stock		
Listed	**2,890,592**	659,226
Unlisted	**5,280**	–
	3,882,614	659,226
	₱4,190,449	₱1,118,980

The Group recognized a gain of ₱2.1 million, loss of ₱18.2 million and a gain of ₱16.3 million from fair value adjustments of investments held for trading in 2014, 2013 and 2012, respectively. The amounts are included under “Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net” account in the consolidated statements of income.

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

10. RECEIVABLES

This account consists of:

	2014	2013
	(In Thousands)	
Trade:		
Real estate buyers	**₱30,642,764**	₱29,150,833
Third-party tenants	**4,597,101**	3,329,038
Related-party tenants (see Note 22)	**1,890,274**	2,594,444
Due from related parties (see Note 22)	**1,194,099**	1,334,076
Dividends	**875,032**	766,816
Management and service fees (see Note 22)	**516,967**	433,921
Total	**39,716,237**	37,609,128
Less allowance for impairment loss	**364,834**	334,891
	39,351,403	37,274,237
Less noncurrent portion of receivables from real estate buyers (see Note 17)	**8,341,583**	10,636,503
Current portion	**₱31,009,820**	₱26,637,734

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units, at various terms of payment.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss follow:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱334,891**	₱155,274
Provision for the year (see Note 24)	**30,200**	179,640
Reversal of provision	**(257)**	(23)
Balance at end of year	**₱364,834**	₱334,891

The allowance for impairment loss pertains to receivables from real estate buyers and tenants which were identified through specific assessment.

The aging analysis of receivables as at December 31, 2014 and 2013 follows:

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

	December 31, 2013					
	Neither	Past Due but not Impaired				
	Past Due nor Impaired	31–90 Days	91–120 Days	Over 120 Days	Individually Impaired	Total
	(In Thousands)					
Trade:						
Real estate buyers:						
Current	₱17,142,278	₱231,862	₱145,587	₱671,699	₱322,904	₱18,514,330
Noncurrent	10,636,503	–	–	–	–	10,636,503
Third-party tenants	3,208,416	69,975	38,660	–	11,987	3,329,038
Related-party tenants	2,594,444	–	–	–	–	2,594,444
Due from related parties	1,334,076	–	–	–	–	1,334,076
Dividends	766,816	–	–	–	–	766,816
Management and service fees	433,921	–	–	–	–	433,921
Net receivables before allowance for impairment loss	₱36,116,454	₱301,837	₱184,247	₱671,699	₱334,891	₱37,609,128

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:

	2014	2013
	(In Thousands)	
Land and development (see Note 16)	**₱19,571,526**	₱12,542,783
Non-trade receivables, net of allowance for impairment loss of ₱5.7 million	**10,994,304**	5,086,936
Condominium units for sale (see Note 16)	**7,600,260**	6,213,523
Prepaid taxes and other prepayments	**6,839,583**	5,652,642
Advances and deposits	**6,401,689**	5,091,059
Input tax	**2,995,345**	2,987,264
Receivable from banks and credit cards	**1,625,671**	2,423,215
Escrow fund (see Note 17)	**667,778**	439,119
Accrued interest receivable	**473,422**	959,763
Advances for project development (see Note 22)	**16,467**	88,615
Others	**615,591**	1,342,705
	₱57,801,636	₱42,827,624

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year.
- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Escrow fund pertains to amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account. Interest income earned from the cash in escrow amounted to ₱7.0 million, ₱5.0 million and ₱84.0 million in 2014, 2013 and 2012, respectively.
- Accrued interest receivable relates mostly to time deposits and are normally collected within the next financial year.
- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

12. AVAILABLE-FOR-SALE INVESTMENTS

This account consists of:

	2014	2013
	(In Thousands)	
Shares of stock:		
Listed (see Note 20)	**₱17,379,067**	₱11,539,018
Unlisted	**99,467**	99,468
Bonds and corporate notes (see Note 20)	**5,626,784**	5,539,822
Club shares	**13,590**	11,260
	23,118,908	17,189,568
Less allowance for impairment loss	**31,250**	31,250
	23,087,658	17,158,318
Less current portion (see Note 9)	**3,882,614**	659,226
Noncurrent portion	**₱19,205,044**	₱16,499,092

- Listed shares of stock of the Group pertain to investments in publicly-listed companies. These are measured at the quoted market price of the shares. A portion of these investments amounting to nil and ₱3,594.0 million as at December 31, 2014 and 2013, respectively, are pledged as collateral for a portion of the Group's long-term debt.
- Unlisted shares of stock of the Group pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for the long-term.
- Investments in bonds and corporate notes as at December 31, 2014 and 2013 include third party convertible bonds and corporate notes with fixed interest rates ranging from 3.9% to 8.25%. These investments will mature on various dates beginning February 2015 to October 2023. The fair values of these investments as at December 31, 2014 and 2013 amounted to US$125.8 million (₱5,626.8 million) and US$124.8 million (₱5,539.8 million), respectively.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2014 and 2013 follow:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱7,338,500**	₱11,718,559
Share in net unrealized gain (loss) on AFS investments of associates (see Note 13)	**322,170**	(2,687,077)
Gain (loss) due to changes in fair value of AFS investments	**2,595,964**	(1,542,034)
Transferred to profit or loss	**(49,375)**	(150,948)
Balance at end of year	**₱10,207,259**	₱7,338,500

Gain (loss) on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading - net" account in the consolidated statement of income amounted to ₱49.4 million, ₱150.9 million and (₱0.1) million for the years ended December 31, 2014, 2013 and 2012, respectively. The amounts are exclusive of non-controlling interests.

Interest earned from AFS investments is disclosed in Note 25.

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The movements in this account follow:

	2014	2013
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱96,600,517**	₱92,840,123
Disposals - net of realized deferred gain	**(3,374,617)**	(21,556)
Additions	**1,925,455**	5,492,653
Acquisition of controlling interest of HPI and SHDC (see Note 5)	**–**	(1,710,703)
Balance at end of year	**95,151,355**	96,600,517
Accumulated equity in net earnings:		
Balance at beginning of year	**42,393,849**	36,388,668
Equity in net earnings	**13,225,022**	13,602,269
Dividends received	**(4,509,077)**	(4,499,652)
Accumulated equity in net earnings of investments sold	**(1,210,251)**	(2,208)
Accumulated equity in net earnings of investments - HPI and SHDC	**–**	(338,474)
Balance at end of year	**49,899,543**	45,150,603
Share in net unrealized gain (loss) on AFS investments of associates	**435,121**	(2,756,754)
	50,334,664	42,393,849
Translation adjustment	**(9,845)**	–
Allowance for impairment loss:		
Balance at beginning of year	**–**	775,047
Recovery (Note 24)	**–**	(775,047)
Balance at end of year	**–**	–
	₱145,476,174	₱138,994,366

The major associates and joint venture of the Group follow:

	Percentage of Ownership				
	December 31, 2014		December 31, 2013		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. and Subsidiaries (BDO)	**47**	**45**	48	47	Financial services
China Banking Corporation and Subsidiaries (China Bank)	**22**	**20**	23	20	Financial services
Belle Corporation and Subsidiaries (Belle)	**32**	**28**	32	28	Real estate development and tourism
Atlas Consolidated Mining, Inc. (Atlas)	**29**	**29**	29	29	Mining
Sodexo Motivation Solutions Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**25**	25	25	Retail
CityMall Commercial Centers, Inc. (CityMall)	**34**	**34**	–	–	Real estate development and tourism
Joint Venture					
Waltermart Mall	**51**	**25**	51	26	Shopping mall development

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

On April 25, 2014, SMIC, in response to a capital call, invested an additional ₱103.0 million equivalent to 1.0 million shares in CityMall.

China Bank
In March 2014, China Bank had a stock rights offering which entitled each eligible stockholder to subscribe to one common share for every 8.834 common shares held as at record date at an offer price of ₱49.50 per rights share. As at May 5, 2014, SMIC exercised its rights share and paid ₱1,383.6 million equivalent to 28.0 million China Bank shares.

In May 2014, China Bank declared a stock dividend equivalent to 8% of the outstanding capital stock of China Bank, which increased the number of common shares held by SMIC by 22.0 million. The shares were issued on October 15, 2014.

Belle
In 2013, SMIC acquired 100% ownership in Sto. Roberto. The acquisition of Sto. Roberto increased the Group's effective interest in BHI to 99% which resulted to an increase in the Group's effective ownership in BHI.

On various dates in 2013, the Group sold 20.2 million Belle shares on which the Group realized ₱10.8 million of deferred gain. The remaining balance of deferred gain as at December 31, 2014 and 2013 amounted to ₱1,065.7 million.

BDO
In 2014, MRDC sold 71.6 million BDO shares for ₱7,403.7 million at ₱104.0 per share resulting to a gain on sale of ₱2,863.4 million which is included under "Gain on disposal of investments and properties - net" account in the consolidated statement of income.

Atlas
In 2014, Primebridge acquired 2.2 million shares of Atlas for a total consideration of ₱25.7 million.

HPI
In 2013, through the corporate restructuring, HPI became a subsidiary of SMIC, indirectly through SM Prime. The acquisition of the controlling interest of HPI was considered as a business combination under common control. Thus, this was accounted for as a step-up acquisition using the pooling of interest method (Note 5).

In 2013, the Group reversed the allowance for impairment loss in investment in HPI amounting to ₱775.0 million and is included under "Reversal of impairment loss and others" under "Selling, general and administrative expenses" account in the consolidated statements of income (see Note 24). The Group made a reassessment of its investments in shares of stock of HPI and concluded that the impairment is no longer necessary in reference to the quoted stock price of HPI in the market.

Waltermart Mall
On January 7, 2013, SM Prime entered into Shareholders Agreement and Share Purchase Agreement for the acquisition of 51% ownership interest in the following companies (collectively, Waltermart Mall):

- Winsome Development Corporation
- Willin Sales, Inc.
- Willimson, Inc.
- Waltermart Ventures, Inc.
- Waltermart Development, Inc.

On July 12, 2013, the Deeds of Absolute Sale were executed between SM Prime and shareholders of Waltermart Mall. Waltermart Mall is involved in shopping mall operations and owns several malls across Luzon. The investment in Waltermart Mall was accounted as investment in joint ventures using the equity method of accounting because the contractual arrangement between the parties establishes joint control.

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:

	2014	2013
	(In Millions)	
Total assets	₱1,863,649	₱1,672,778
Total liabilities	(1,683,980)	(1,508,424)
Total equity	179,669	164,354
Proportion of the Group's ownership	47%	48%
	84,444	78,890
Goodwill and others	21,134	24,120
Carrying amount of the investment	₱105,578	₱103,010

	2014	2013	2012
		(In Millions)	
Interest income	₱63,583	₱56,606	₱54,014
Interest expense	12,358	13,440	17,893
Other expenses - net	(28,397)	(20,520)	(21,579)
Net income	₱22,828	₱22,646	₱14,542
Share in net income	₱11,002	₱10,676	₱6,897
Other comprehensive income (loss)	₱390	(₱4,766)	₱3,303
Total comprehensive income	23,218	17,880	17,845
Share in comprehensive income	₱11,122	₱8,381	₱8,360

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

	2014	2013	2012
		(In Millions)	
Share in net income	₱2,223	₱2,926	₱2,145
Share in other comprehensive income (loss)	315	(327)	111
Share in total comprehensive income	₱2,538	₱2,599	₱2,256

As at December 31, the fair values of investments in associates which are listed in the PSE are as follows:

	2014	2013
	(In Thousands)	
BDO	₱196,965,081	₱158,844,179
China Bank	18,199,904	19,003,197
Belle	16,334,039	16,434,274
Atlas	6,148,415	8,764,505

14. PROPERTY AND EQUIPMENT

The movements in this account follow:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements
Cost			
Balance as at December 31, 2012	₱2,412,990	₱4,369,288	₱7,576,904
Additions	–	566,841	1,194,897
Effect of business combination (see Note 5)	–	8,066	865,036
Reclassifications	(2,382,990)	67,187	1,410,778
Disposals/retirements	(30,000)	(605,516)	(8,598)
Balance as at December 31, 2013	–	4,405,866	11,039,017
Additions	–	1,041,481	265,057
Reclassifications	–	5,714,488	(8,595,757)
Disposals/retirements	–	(108,430)	(4,953)
Balance as at December 31, 2014	**₱–**	**₱11,053,405**	**₱2,703,364**
Accumulated Depreciation and Amortization			
Balance as at December 31, 2012	₱–	₱1,226,734	₱5,010,515
Depreciation and amortization	–	338,054	616,380
Effect of business combination (see Note 5)	–	–	725,138
Reclassifications	–	323,592	966,206
Disposals/retirements	–	(558,336)	(130,529)
Balance as at December 31, 2013	–	1,330,044	7,187,710
Depreciation and amortization	–	815,286	570,652
Reclassifications	–	826,353	(6,086,373)
Disposals/retirements	–	(78,543)	(3,021)
Balance as at December 31, 2014	**₱–**	**₱2,893,140**	**₱1,668,968**
Net Book Value			
As at December 31, 2014	**₱–**	**₱8,160,265**	**₱1,034,396**
As at December 31, 2013	–	3,075,822	3,851,307

As at December 31, 2014 and 2013, the Group has no idle property and equipment and the gross carrying amount of fully depreciated property and equipment still in use amounted to ₱11,242.2 million and ₱8,455.8 million, respectively.

Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
	(In Thousands)					
₱4,538,804	₱3,982,501	₱3,369,046	₱4,989,941	₱593,227	₱1,234,953	₱33,067,654
325,373	520,580	604,179	1,071,236	66,081	782,608	5,131,795
74,265	1,410	1,418	–	2,596	263,643	1,216,434
265,870	139,905	(285,449)	1,678,823	30,713	(776,681)	148,156
(580,863)	(29,769)	(37,616)	(36,577)	(5,923)	(177,169)	(1,512,031)
4,623,449	4,614,627	3,651,578	7,703,423	686,694	1,327,354	38,052,008
342,848	617,733	544,813	801,759	52,437	856,692	4,522,820
140,156	627,358	273,524	3,600,135	19,500	(776,085)	1,003,319
(30,884)	(33,948)	(58,338)	(158,692)	(2,764)	(141,458)	(539,467)
₱5,075,569	**₱5,825,770**	**₱4,411,577**	**₱11,946,625**	**₱755,867**	**₱1,266,503**	**₱43,038,680**
₱3,110,454	₱2,003,860	₱1,878,250	₱2,336,997	₱314,327	₱–	₱15,881,137
532,018	603,746	962,994	666,619	54,461	–	3,774,272
60,658	75	76	–	1,851	–	787,798
48,100	48,567	(513,915)	(309,346)	19,067	–	582,271
(552,812)	(16,421)	(19,823)	(15,873)	(3,056)	–	(1,296,850)
3,198,418	2,639,827	2,307,582	2,678,397	386,650	–	19,728,628
608,958	664,357	535,333	1,334,214	(239,563)	–	4,289,237
(78,738)	40,402	38,734	4,341,977	305,930	–	(611,715)
(16,759)	(27,022)	(50,086)	(92,407)	(2,646)	–	(270,484)
₱3,711,879	**₱3,317,564**	**₱2,831,563**	**₱8,262,181**	**₱450,371**	**₱–**	**₱23,135,666**
₱1,363,690	**₱2,508,206**	**₱1,580,014**	**₱3,684,444**	**₱305,496**	**₱1,266,503**	**₱19,903,014**
1,425,031	1,974,800	1,343,996	5,025,026	300,044	1,327,354	18,323,380

15. INVESTMENT PROPERTIES

The movements in this account follow:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2012	₱34,990,179	₱112,061,331	₱21,617,309	₱17,061,279	₱185,730,098
Additions	4,800,290	5,307,963	1,619,709	14,157,130	25,885,092
Effect of business combination (see Note 5)	–	20,774,116	–	–	20,774,116
Reclassifications	746,887	6,770,851	6,196,877	(4,637,452)	9,077,163
Translation adjustment	347,920	1,706,129	206,315	587,066	2,847,430
Disposals	(747,287)	(11,389,188)	(876,904)	(837,905)	(13,851,284)
Balance as at December 31, 2013	40,137,989	135,231,202	28,763,306	26,330,118	230,462,615
Additions	10,256,889	8,069,580	1,738,300	17,422,815	37,487,584
Reclassifications	6,057,326	4,054,655	(5,291,038)	(4,789,397)	31,546
Translation adjustment	(107,095)	(299,725)	(37,595)	(155,710)	(600,125)
Disposals	–	(122,231)	(47,621)	–	(169,852)
Balance as at December 31, 2014	**₱56,345,109**	**₱146,933,481**	**₱25,125,352**	**₱38,807,826**	**₱267,211,768**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2012	₱916,514	₱24,018,736	₱10,700,594	₱123,564	₱35,759,408
Depreciation and amortization	155,598	3,788,648	1,795,066	–	5,739,312
Reclassifications	(493,837)	8,730,336	1,059,532	–	9,296,031
Translation adjustment	47,656	783,816	76,446	–	907,918
Disposals	(41)	(12,698,071)	(1,151,131)	–	(13,849,243)
Balance as at December 31, 2013	625,890	24,623,465	12,480,507	123,564	37,853,426
Depreciation and amortization	304,954	4,411,548	1,901,886	–	6,618,388
Reclassifications	1,006,644	930,670	(276,046)	–	1,661,268
Translation adjustment	(9,031)	(43,422)	(15,047)	–	(67,500)
Reversal of impairment loss	(199,708)	–	–	–	(199,708)
Disposals	–	(49,968)	(33,852)	–	(83,820)
Balance as at December 31, 2014	**₱1,728,749**	**₱29,872,293**	**₱14,057,448**	**₱123,564**	**₱45,782,054**
Net Book Value					
As at December 31, 2014	**₱54,616,360**	**₱117,061,188**	**₱11,067,904**	**₱38,684,262**	**₱221,429,714**
As at December 31, 2013	39,512,099	110,607,737	16,282,799	26,206,554	192,609,189

As at December 31, 2014 and 2013, the allowance for impairment loss on land and improvements and land use rights, and construction in progress amounted to ₱723.6 million and ₱923.3 million, respectively. Allowance for impairment loss amounting to ₱199.7 million was reversed in 2014 (see Note 24).

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱488.0 million and ₱494.0 million as at December 31, 2014 and 2013, respectively, and a fair value of ₱13,531.0 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827.0 million paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of nil and ₱5,001.0 million as at December 31, 2014 and 2013, respectively, and estimated fair value of ₱20,109.0 million as at December 31, 2013, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱32,845.9 million, ₱27,929.4 million and ₱24,695.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱20,249.6 million, ₱17,075.0 million and ₱15,088.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱30,870.0 million and ₱18,279.0 million, and landbanking and commercial building constructions amounting to ₱7,746.0 million and ₱5,080.0 million as at December 31, 2014 and 2013, respectively.

In 2014, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa.

Shopping mall complex under construction includes cost of land amounting to ₱6,576.0 million and ₱2,149.0 million as at December 31, 2014 and 2013, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱81,977.0 million and ₱82,058.0 million as at December 31, 2014 and 2013, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱17,272.0 million and ₱28,857.0 million as at December 31, 2014 and 2013, respectively.

Interest capitalized to the construction of investment properties amounted to ₱51.0 million and ₱77.1 million in 2014 and 2013, respectively. Capitalization rates used ranged from 4.61% to 5.99% and 5.83% to 7.20% for the years ended December 31, 2014 and 2013, respectively.

The fair value of the investment properties amounting to ₱571,848.0 million and ₱555,039.4 million as at December 31, 2014 and 2013, 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, 2014, the Group believes that there were no conditions present in 2014 that would significantly reduce the fair value of investment properties from that determined on the most recent valuation.

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

The fair value disclosures of the investment properties are categorized under Level 3 as these were based on unobservable inputs.

16. LAND AND DEVELOPMENT AND CONDOMINIUM UNITS FOR SALE

This account consists of:

	2014	2013
	(In Thousands)	
Condominium units for sale (see Note 11)	**₱7,600,260**	₱6,213,523
Land and development:		
Current portion (see Note 11)	**19,571,526**	12,542,783
Noncurrent portion	**26,629,864**	25,666,930
	₱53,801,650	₱44,423,236

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱6,213,523**	₱2,670,943
Transfer from land and development	**4,153,333**	7,332,175
Recognized as costs of real estate sold	**(2,766,596)**	(4,183,500)
Additions	**–**	393,905
Balance at end of year	**₱7,600,260**	₱6,213,523

The condominium units for sale are stated at cost as at December 31, 2014 and 2013. There is no allowance for inventory write-down as at December 31, 2014 and 2013.

Land and Development
Land and development include land and cost of ongoing condominium projects.

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱38,209,713**	₱30,197,862
Development cost incurred	**14,840,948**	15,280,134
Recognized as costs of real estate sold	**(9,579,931)**	(7,727,066)
Land acquisition	**6,883,083**	5,483,396
Transfer to condominium units for sale	**(4,153,333)**	(7,332,175)
Borrowing cost capitalized	**690,462**	867,258
Transfer from (to) property and equipment and others (see Note 14)	**(689,552)**	1,440,304
Balance at end of year	**46,201,390**	38,209,713
Less current portion (see Note 11)	**19,571,526**	12,542,783
Noncurrent portion	**₱26,629,864**	₱25,666,930

The average rates used to determine the amount of borrowing costs eligible for capitalization ranged from 3.9% to 4.9% in 2014 and 3.8% to 5.1% in 2013.

SMDC
Land and development costs attributable to SMDC pertain to the ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱31,912.0 million and ₱32,645.0 million as at December 31, 2014 and 2013, respectively.

Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱290.0 million and ₱400.0 million as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the development of macro-infrastructure is still ongoing.

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱1,181.0 million and ₱1,364.0 million as at December 31, 2014 and 2013, respectively.

ICDC
Land and development costs attributable to ICDC pertain to the ongoing Susana Heights Subdivision project. Estimated cost to complete the project amounted to ₱759.5 million and ₱881.6 million as at December 31, 2014 and 2013, respectively.

Land and development are stated at cost as at December 31, 2014 and 2013. There is no allowance for inventory write-down as at December 31, 2014 and 2013.

17. INTANGIBLES AND OTHER NONCURRENT ASSETS

Intangible Assets

This account consists of:

	2014	2013
	(In Thousands)	
Goodwill	**₱16,270,060**	₱14,221,912
Less accumulated impairment loss	**91,619**	91,619
Net book value	**16,178,441**	14,130,293
Trademarks and brand names	**6,124,762**	6,124,762
	₱22,303,203	₱20,255,055

Goodwill is allocated to SM Prime, Supervalue, Inc. (SVI), Super Shopping Market, Inc. (SSMI), PMI, the Net Group and WSI and others as separate CGUs.

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

The recoverable amount of goodwill, trademarks and brand names have been determined 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 pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 13.55% to 13.66% and 12.30% to 12.34% as at December 31, 2014 and 2013, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.

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 2014 and 2013 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 2014 and 2013 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

	2014	2013
	(In Thousands)	
Receivables from real estate buyers (see Note 10)	**₱8,341,583**	₱10,636,503
Deposits and advance rentals	**5,483,200**	6,362,347
Derivative assets (see Notes 29 and 30)	**2,555,708**	2,643,487
Deferred input VAT	**2,042,045**	2,440,933
Advances for project development (see Note 22)	**48,270**	3,607,169
Defined benefit asset (see Note 26)	**561,160**	615,982
Escrow fund (see Note 22)	**132,460**	556,206
Long-term note (see Note 22)	**–**	218,124
Others	**2,337,416**	1,372,704
	₱21,501,842	₱28,453,455

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

- Long-term note pertains to an unquoted and unsecured subordinated debt instrument which carry a fixed interest rate of 7.5% and is payable quarterly in arrears. The long-term note will mature on March 20, 2019. On March 21, 2014, the long-term note was redeemed by the issuer. Interest income earned from this note is disclosed in Note 25.

- Escrow fund pertains mainly to the amounts deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. Escrow fund in 2014 and 2013 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:

	2014	2013
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱1,341,600**	₱2,219,750
Peso-denominated loans	**–**	6,550,000
Subsidiaries -		
Peso-denominated loans	**12,551,041**	18,818,509
	₱13,892,641	₱27,588,259

The U.S. dollar-denominated loans amounting to US$30.0 million and US$50.0 million with peso equivalent of ₱1,341.6 million and ₱2,219.8 million as at December 31, 2014 and 2013, respectively, bear fixed interest rates ranging from 1.08% to 1.79%.

The peso-denominated loans bear annual interest rates ranging from 2.00% to 4.40% and 1.06% to 6.75% in 2014 and 2013, respectively.

These loans have maturities of less than one year (see Note 29).

Interest on bank loans is disclosed in Note 25

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19. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

This account consists of:

	2014	2013
	(In Thousands)	
Trade	**₱44,292,704**	₱39,580,013
Nontrade	**6,561,399**	8,013,509
Accrued expenses	**5,372,054**	3,967,472
Payable arising from acquisition of land	**3,603,261**	4,838,686
Payable to government agencies	**2,687,879**	3,671,601
Accrued interest	**1,606,536**	1,784,520
Due to related parties (see Note 22)	**1,601,703**	2,091,305
Derivative liabilities (see Notes 29 and 30)	**1,092,382**	845,429
Gift checks redeemable and others	**3,043,147**	3,295,792
	₱69,861,065	₱68,088,327

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- 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 date	Maturity date
Parent Company		
U.S. dollar-denominated:		
Fixed rate bonds		
US$350.0 million senior bonds	June 10, 2014	June 10, 2024
US$500.0 million senior bonds	October 17, 2012	October 17, 2019
US$400.0 million exchanged bonds	October 13, 2010	October 13, 2017
US$500.0 million bonds	September 22, 2009	September 22, 2014
Convertible bonds		
US$250.0 million convertible bonds	February 15, 2012	February 15, 2017
US$300.0 million five-year term loans	June 19, 2013; July 2, 2013	May 15, 2018
Peso-denominated:		
Seven-year and ten-year retail bonds		
Series C Bonds	July 16, 2012	July 16, 2019
Series D Bonds	July 16, 2012	July 16, 2022
Series E Bonds	May 19, 2014	May 19, 2021
Series F Bonds	May 19, 2014	May 19, 2024
Five-year and seven-year retail bonds		
Series A Bonds	June 25, 2009	June 26, 2014
Series B Bonds	June 25, 2009	June 25, 2016
Bank loans collateralized with time deposits	January 8, 2010	January 8, 2015
Other peso bank loans	October 30, 2007 - June 30, 2014	October 30, 2014 - June 23, 2024
Subsidiaries		
U.S. dollar-denominated:		
Five-year term loans	May 6, 2011 - September 12, 2014	March 21, 2016 - April 14, 2019
Two-year, three-year and five-year bilateral loans	November 30, 2010 - December 7, 2012	November 30, 2015 - August 30, 2017
Other U.S. dollar loans	November 20, 2013	November 20, 2018
China Yuan Renminbi-denominated:		
Three-year loan	March 28, 2011	March 27, 2014
Five-year loan	August 26, 2009 - August 27, 2010	July 14, 2014 - August 4, 2015
Peso-denominated:		
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 - September 1, 2024
Fixed rate term loans	December 27, 2012 - December 29, 2014	December 23, 2015 - June 25, 2023
	July 12, 2014 - July 31, 2014	July 12, 2021 - July 31, 2021
Five-year and ten-year notes	June 19, 2012	June 20, 2017 - June 19, 2022
Five-year, seven-year and ten-year notes	January 12, 2012	January 13, 2017 - January 12, 2022
Five-year, seven-year and ten-year corporate notes	December 20, 2010 - June 13, 2011	December 21, 2015 - December 20, 2020
Ten-year corporate notes	April 14, 2009	April 14, 2019
Five-year floating rate notes	March 18, 2011 - November 28, 2014	March 19, 2016 - November 28, 2019
Corporate notes	June 3, 2013 - June 28, 2014	June 3, 2020 - June 3, 2023
Five-year bilateral loans	February 2, 2010 - October 24, 2011	February 2, 2015 - October 24, 2016
Five-year term loans	September 10, 2009 - April 13, 2010	September 10, 2014 - April 13, 2015
Other bank loans	August 15, 2006 - June 29, 2010	October 16, 2014 - August 15, 2016
Less debt issue cost		
Less current portion		

Parent Company

<u>Fixed Rate Bonds</u>
US$400.0 million Exchanged Bonds
This issuance is comprised of US$186.3 million, additional bonds, US$82.9 million, and US$130.8 million exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.00% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%). The carrying amount of the bonds amounted to ₱17,258.1 million and ₱17,023.9 million as at December 31, 2014 and 2013, respectively.

Interest rate/Term	Security	2014	2013
		(In Thousands)	
Fixed 4.88% ; semi-annual	Unsecured	**₱15,652,000**	₱–
Fixed 4.25% ; semi-annual	Unsecured	**22,360,000**	22,197,500
Fixed 5.50% ; semi-annual	Unsecured	**17,258,109**	17,023,867
Fixed 6.00% ; semi-annual	Unsecured	**–**	16,832,631
Fixed 1.625% ; semi-annual	Unsecured	**3,695,290**	3,732,919
Floating six-month LIBOR + margin ; semi-annual	Unsecured	**13,416,000**	13,318,500
Fixed 6.00% ; semi-annual	Unsecured	**4,648,460**	5,023,460
Fixed 6.94% ; semi-annual	Unsecured	**7,683,810**	8,058,810
Fixed 5.30% ; semi-annual	Unsecured	**11,669,620**	–
Fixed 5.61% ; semi-annual	Unsecured	**3,330,380**	–
Fixed 8.25% ; semi-annual	Unsecured	**–**	8,400,000
Fixed 9.10% ; semi-annual	Unsecured	**1,000,000**	1,000,000
Floating three-month PDST-F + margin ; quarterly	Secured	**–**	3,000,000
Fixed 4.39%-5.4% and PDST-F + margin	Unsecured	**20,195,650**	9,350,000
LIBOR + spread ; semi-annual	Unsecured	**43,825,600**	34,184,150
LIBOR + spread ; semi-annual	Unsecured	**4,472,000**	4,439,500
LIBOR + spread ; semi-annual	Unsecured	**1,118,000**	1,109,875
CBC rate less 5% ; quarterly	Secured	**–**	961,827
CBC rate less 10% ; quarterly	Secured	**–**	2,235,771
Fixed 5.10%-5.74% ; quarterly	Unsecured	**18,273,240**	–
Fixed 4.00%-5.88% ; semi-annual and quarterly	Unsecured	**23,323,000**	19,390,000
Fixed 5.25%-5.27% ; quarterly	Secured	**3,000,000**	–
Fixed 6.22%-6.81% ; PDST-F+margin ; quarterly	Unsecured	**7,301,000**	7,375,500
Fixed 5.86%-6.10% ; PDST-F+margin ; quarterly	Unsecured	**4,272,800**	4,316,400
Fixed 5.79%-6.65% ; PDST-F+margin ; quarterly	Unsecured	**6,528,000**	6,596,000
Fixed 10.11% ; quarterly	Unsecured	**–**	1,100,000
PDST-F + margin ; quarterly	Unsecured	**5,650,000**	4,900,000
Fixed 5.25%-5.88% ; semi-annual	Unsecured	**8,691,800**	8,200,000
Fixed 5.00% ; PDST-F+margin ; quarterly	Unsecured	**538,800**	617,600
5.00%-5.69%; quarterly	Secured	**–**	1,600,000
Fixed 9.75% ; PDST-F+margin ; semi-annual and quarterly	Unsecured	**1,985,280**	6,993,460
		249,888,839	211,957,770
		2,106,176	1,801,733
		247,782,663	210,156,037
		10,669,108	34,566,619
		₱237,113,555	₱175,589,418

<u>Convertible Bonds</u>
US$250.0 million Convertible Bonds
The convertible bonds have a yield-to-maturity of 2.875% at inception and are due on its maturity at 106.67%. The bonds contain multiple embedded derivatives which were bifurcated at inception (see Note 30).

- Conversion option - Unless previously redeemed, converted or purchased and cancelled, the holder has the right to convert its outstanding bonds for the Parent Company's common shares at any time, on or after June 15, 2012 until the close of business on February 5, 2017, at an initial conversion price of ₱781.45 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00. Effective July 8, 2013, the new conversion price is ₱624.625 after giving effect to the 25% stock dividends declared on April 25, 2013. If a bondholder exercises its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares. At various dates in 2014 and 2013, the bondholders of US$1.0 million (₱37.6 million) and US$150.8 million (₱5,778.9 million) opted to convert their holdings into 68,378 and 8,390,334 of SMIC's shares, respectively (see Note 21).

- Put option - entitles the bondholders to require the Parent Company to redeem all or some of its bonds on February 15, 2015 (put date) at 103.89%.

- Call option - gives to the Parent Company the right to redeem the Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into U.S. dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

Five-year U.S. Dollar Loans
Portion of the loan amounting to US$180.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

Seven-year and Ten-year Retail Bonds
Series C Bonds
At various dates in 2014 and 2013, the Parent Company redeemed ₱375.0 million and ₱1,317.7 million, respectively.

Series D Bonds
At various dates in 2014 and 2013, the Parent Company redeemed ₱375.0 million and ₱600.0 million, respectively.

Bank Loans Collateralized with Time Deposits
At various dates in 2014, the Parent Company pre-terminated ₱3,000.0 million of loans. These loans are collateralized by a portion of the Parent Company's time deposits amounting to US$475.0 million with peso equivalents of ₱21,087.6 million as at December 31, 2013 (see Note 8).

Other Peso Bank Loans
- In June 2014, the Parent Company obtained two seven-year term loans amounting to ₱1,600.0 million and ₱1,650.0 million. The annual principal repayment of ₱1.0 million will commence on the 12th month from issue date, with the last installment payment to be made at maturity date.

- In August 2013, the Parent Company obtained a seven-year term loan amounting to ₱2,000.0 million. The principal repayment of ₱2.0 million commenced on the 12th month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2014 and 2013 amounted to ₱1,998.0 million and ₱2,000.0 million, respectively.

- In April 2013, the Parent Company obtained a seven-year and ten-year term loans amounting to ₱2,250.0 million and ₱100.0 million. The annual principal repayment of ₱2.25 million and ₱0.10 million, respectively, commenced on the 12th month from issue date, with the last installment payment to be made at maturity date. The outstanding balance as at December 31, 2014 and 2013 amounted to ₱2,247.75 million and ₱99.9 million, respectively.

Subsidiaries

U.S. Dollar-denominated Five-Year Term Loans
This consists of the following:

- US$300.0 million syndicated loan obtained on various dates in 2013. The loans bear interest rates based on the London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US$150.0 million is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

- US$200.0 million syndicated loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 29 and 30).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- ₱20.0 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036.0 million with a fixed interest rate of 5.10% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362.0 million with a fixed interest rate of 5.20% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602.0 million with a fixed interest rate of 5.74% per annum due on September 1, 2024.

China Yuan Renminbi-denominated Five-Year Loans
- ¥350.0 million loan obtained on August 26, 2009 to finance the construction of shopping malls. The loan is payable in semi-annual installments until July 2014. The loan has a floating rate with annual re-pricing at prevailing rates dictated by Central Bank of China (CBC) less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.

- ¥150.0 million loan obtained on August 27, 2010 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made in 2013 and prepaid in June 2014. The loan has a floating rate with annual re-pricing at prevailing rates dictated by CBC less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013.

China Yuan Renminbi-denominated Three-Year Loan
¥187.0 million out of a ¥250.0 million loan facility obtained on March 28, 2011 to finance the construction of shopping malls. SM Prime prepaid the loans amounting to ¥132.0 million in 2014, ¥37.0 million in 2013 and ¥18.0 million in 2012. The loan has a floating rate with an annual re-pricing at prevailing rates dictated by CBC less 5%. The loan carries an interest rate of 6.20% in 2014 and 2013.

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 15).

Five-Year Term Loans
- Five-year term loans amounting to ₱1,600.0 million obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 5.69%. A portion of the loan is collateralized by AFS investments (see Note 12). Loans amounting to ₱1,582.0 million, ₱9.0 million and ₱9.0 million were prepaid in 2014, 2013 and 2012, respectively.

Debt Issue Costs
The movements in unamortized debt issue costs follow:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱1,801,733**	₱1,368,167
Additions	**854,380**	966,967
Amortization (see Notes 22 and 25)	**(549,840)**	(452,594)
Prepayments (see Notes 22 and 25)	**(97)**	(80,807)
Balance at end of year	**₱2,106,176**	₱1,801,733

Repayment Schedule
The repayment schedule of long-term debt follows:

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2015	₱11,012,230	(₱343,122)	₱10,669,108
2016	25,106,550	(267,548)	24,839,002
2017	29,623,048	(360,357)	29,262,691
2018	41,485,950	(353,531)	41,132,419
2019	47,306,410	(302,376)	47,004,034
2020	27,039,900	(28,983)	27,010,917
2021	26,844,540	(173,854)	26,670,686
2022	13,767,170	(61,817)	13,705,353
2023	4,518,960	(4,904)	4,514,056
2024	23,184,081	(209,684)	22,974,397
	₱249,888,839	(₱2,106,176)	₱247,782,663

Covenants
The long-term debts of the Group contain certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence with financial ratios namely, (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2014 and 2013, the Group is in compliance with the terms of its debt covenants.

21. EQUITY

Capital Stock

a. Common stock

	Number of Shares	
	2014	2013
Authorized - ₱10 par value per share	**1,190,000,000**	1,190,000,000
Issued and subscribed:		
Balance at beginning of year	**796,272,268**	622,974,620
Issuances	**68,378**	173,297,648
Balance at end of year	**796,340,646**	796,272,268

On June 14, 2013, the SEC approved the increase in authorized capital stock of the Parent Company from ₱6,900.0 million to ₱11,900.0 million.

On August 1, 2013, the Parent Company entered into a Placement Agreement with certain shareholders and UBS AG, Hong Kong Branch (the "Placement Agent"), where the selling shareholders shall sell 7,250,000 common shares (the "Sale Shares") at ₱900.0 per share to the Placement Agent, or to investors that the Placement Agent may procure outside the Philippines.

Simultaneously, the Parent Company entered into a Subscription Agreement with the selling shareholders, where the Parent Company agreed to issue new common shares (out of its authorized but unissued capital stock) in an amount equal to the aggregate number of the Sale Shares sold by the Selling Shareholders and the Selling Shareholders agreed to subscribe to the said shares.

The placement and subscription agreements increased "Capital stock" and "Additional paid-in capital" in the amount of ₱72.5 million and ₱6,370.6 million, respectively.

On various dates in 2014 and 2013, additional 68,378 common shares and 8,390,334 common shares, respectively, were issued as a result of conversion of the Parent Company's convertible bonds (see Note 20). The excess of the conversion price over par value totaling ₱47.2 million and ₱8,449.7 million in 2014 and 2013, respectively, are presented under "Additional paid-in capital" account in the consolidated balance sheets.

As at December 31 2014 and 2013, the Parent Company is compliant with the minimum public float as required by the PSE.

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

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010 to March 13, 2012 Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013 Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24, 2013		157,000,000	10
July 12, 2013		657,314	10
July 18, 2013 to November 1, 2013 Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014		68,378	625

The Parent Company declared stock dividends in 2013 and 2007. The total number of shareholders of the Parent Company is 1,237 and 1,249 as at December 31, 2014 and 2013, respectively.

b. Redeemable preferred shares

	Number of shares	
	2014	2013
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2014 and 2013.

Additional Paid-in Capital

	2014	2013
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱57,602,588**	₱57,555,394
Equity reserve from reissuance of common shares of a subsidiary	**14,105,528**	–
Disposal of Parent common shares held by subsidiaries	**243,966**	243,966
	₱71,952,082	₱57,799,360

On November 27, 2014, SM Prime reissued 1,060,000,000 common shares to its non-controlling shareholders for a total consideration of ₱17,645.7 million which resulted to an increase in "Non-controlling interests" of ₱3,540.2 million and an increase in "Additional paid-in capital" of ₱14,105.5 million as at December 31, 2014.

Cost of Parent Common Shares Held by Subsidiaries

Details of the cost of common shares held by subsidiaries as at December 31, 2014, 2013 and 2012 follow:

	Shares held by subsidiaries	Average cost	Cost of common shares held by subsidiaries	Selling price per share	Gain on disposal
			(In Millions)		*(In Millions)*
As at December 31, 2011	820,491	₱320.8	₱263.2	₱–	₱–
Sale by SM Land and MRDC	(430,000)	320.8	(137.3)	753.3	184.5
As at December 31, 2012	390,491	322.4	125.9	–	–
Stock dividends (25%)	97,623	–	–	–	–
Sale by SM Land	(389,612)	257.7	(100.5)	952.2	267.7
As at December 31, 2013 and 2014	98,502	₱257.7	₱25.4	₱–	₱–

Equity Adjustments from Common Control Transactions
Equity adjustments from common control transactions mainly pertains to the acquisition of various SM China Companies by SM Prime in 2007 and various service companies by SM Retail in 2009. These acquisitions were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to the pooling of interest method.

In 2013, the Group executed a corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime. At the consolidated level, all transactions with the subsidiaries were considered as equity transactions.

Retained Earnings

a. Appropriated

On December 14, 2012, the BOD approved the appropriation of ₱30,000.0 million retained earnings.

On April 25, 2013, the BOD approved to reverse ₱8,000.0 million of the appropriation.

As at December 31, 2014 and 2013, retained earnings appropriation is as follows:

Projects	Timeline	Appropriations
		(In Thousands)
Hotel projects	2013-2015	₱8,000,000
Commercial buildings	2012-2016	10,000,000
Acquisition of investments	2012-2018	9,000,000
		₱27,000,000

b. Unappropriated

The Parent Company's dividend declarations in 2014 and 2013 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
				(In Thousands)
April 30, 2014	**May 30, 2014**	**June 26, 2014**	**₱10.34**	**₱8,233,455**
April 25, 2013	May 24, 2013	June 20, 2013	11.80	7,423,076

On April 25, 2013, the BOD approved the declaration of cash dividends of 118.0% of the par value or ₱11.80 per share for a total amount of ₱7,402.0 million in favor of stockholders on record as at May 24, 2013. This was paid on June 20, 2013. On the same date, the BOD approved the declaration of 25% stock dividends in favor of stockholders on record to be fixed by the SEC.

On June 24, 2013 and July 12, 2013, the SEC approved the issuance of 157,000,000 and 657,314 shares as stock dividends to stockholders on record as of July 8, 2013. The stock dividends were issued on August 1, 2013.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱137,756.2 million and ₱108,146.6 million as at December 31, 2014 and 2013, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

22. RELATED PARTY TRANSACTIONS

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

The significant transactions with related parties follow:

a. Rent
The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

b. Management and Service Fees
The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. (related parties under common stockholders) for the management of certain office and mall premises. The Group also provides manpower and other services to related parties under common stockholder.

SMIC and SM Retail also receive management and service fees from retail entities under common stockholder for management, consultancy, manpower and other services.

c. Dividend Income
The Group earns dividend income from certain related parties under common stockholders.

d. Cash Placements and Loans
The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

e. Others
The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances as at and for the years ended December 31, 2014, 2013 and 2012 follow:

	Amount of Transactions		
	2014	2013	2012
Banking Group			
Cash placement and investment in debt securities	**₱17,036,362**	(₱14,392,658)	₱54,171,200
Interest income	**2,474,837**	3,041,039	3,950,656
Loans	**(8,891,382)**	(9,831,644)	(5,175,006)
Interest expense	**1,211,036**	794,208	859,134
Rent income	**615,757**	82,929	52,860
Escrow fund	**–**	–	–
Long-term notes	**–**	–	–
Retail entities under common stockholders			
Rent income	**3,959,364**	4,451,749	4,002,084
Management fee income	**461,322**	309,310	713,226
Management fee expense	**1,111,368**	976,415	872,853
Dividend income	**510,685**	716,384	552,768
Service income	**537,693**	685,260	1,097
Due from related parties	**(139,977)**	(1,131,895)	1,040,720
Due to related parties	**(489,602)**	(1,173,710)	530,600
Receivable for project development	**(3,231,672)**	147,529	1,962,578

Terms and Conditions of Transactions with Related Parties

For the years ended December 31, 2014 and 2013, the Group did not make any provision for impairment loss relating to amounts owed by related parties. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of Key Management Personnel of the Group

The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2014, 2013 and 2012 consist of short-term employee benefits amounting to ₱938.2 million, ₱777.3 million and ₱708.7 million, respectively, and post-employment benefits amounting to ₱109.0 million, ₱88.7 million and ₱144.4 million, respectively.

Outstanding Amount				
2014	2013	2012	Terms	Conditions
(In Thousands)				
₱116,657,952	₱99,621,590	₱114,014,248	Interest-bearing; 0.2% to 5.4%	Unsecured; no impairment
436,604	798,688	1,011,987	Interest-bearing; 0.2% to 5.4%	Unsecured; no impairment
13,298,618	22,190,000	32,021,644	Interest-bearing; 1.7% to 10.1%	Unsecured
38,903	41,054	286,719	Interest-bearing; 1.7% to 10.1%	Unsecured
181,459	3,060	2,547	Noninterest-bearing	Unsecured; no impairment
130,000	130,000	–	Noninterest-bearing	Unsecured; no impairment
–	218,124	218,124	Noninterest-bearing	Unsecured; no impairment
1,708,815	2,591,384	1,516,066	Noninterest-bearing	Unsecured; no impairment
227,814	54,533	154,172	Noninterest-bearing	Unsecured; no impairment
101,941	109,177	2,020	Noninterest-bearing	Unsecured; no impairment
871,103	719,861	292,917	Noninterest-bearing	Unsecured; no impairment
190,196	4,998	49,098	Noninterest-bearing	Unsecured; no impairment
1,194,099	1,334,076	2,465,971	Noninterest-bearing	Unsecured
1,601,703	2,091,305	3,265,015	Noninterest-bearing	Unsecured
–	3,231,672	3,084,143	Noninterest-bearing	Unsecured; no impairment

23. COST OF MERCHANDISE SALES

This account consists of:

	2014	2013	2012
		(In Thousands)	
Merchandise inventories at beginning of year	**₱13,232,308**	₱13,402,762	₱13,436,456
Purchases	**152,567,479**	138,549,914	117,862,994
Total goods available for sale	**165,799,787**	151,952,676	131,299,450
Less merchandise inventories at end of year	**14,882,200**	13,232,308	13,402,762
	₱150,917,587	₱138,720,368	₱117,896,688

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	2014	2013	2012
		(In Thousands)	
Personnel cost (see Notes 22 and 26)	**₱13,008,905**	₱12,033,212	₱10,942,505
Depreciation and amortization (see Notes 14 and 15)	**10,907,625**	9,513,584	8,057,871
Utilities	**9,308,009**	7,792,591	6,295,496
Rent (see Note 28)	**5,467,674**	5,252,339	4,876,327
Taxes and licenses	**5,036,077**	4,531,029	3,964,767
Marketing and selling	**3,374,252**	3,318,896	3,528,501
Outside services	**4,008,367**	3,163,822	2,802,479
Repairs and maintenance	**1,827,867**	1,172,705	1,062,124
Supplies	**1,313,288**	1,066,982	838,943
Management fees (see Note 22)	**1,195,192**	1,063,859	910,614
Insurance	**665,379**	552,183	470,633
Transportation and travel	**657,849**	502,028	436,156
Pension expense (benefit) (see Note 26)	**376,568**	(92,085)	235,499
Entertainment, representation and amusement	**325,712**	241,857	196,185
Professional fees	**319,384**	322,637	460,268
Data processing	**311,932**	206,183	98,472
Reversal of impairment loss and others (see Notes 10, 13 and 15)	**(288,547)**	(1,018,156)	(2,635,569)
Communications	**173,781**	163,989	122,666
Donations	**138,283**	115,605	297,629
Others	**1,953,710**	1,140,537	2,017,256
	₱60,081,307	₱51,043,797	₱44,978,822

25. INTEREST INCOME AND INTEREST EXPENSE

The sources of interest income and interest expense follow:

	2014	2013	2012
		(In Thousands)	
Interest income on:			
Time deposits and short-term investments (see Note 8)	**₱2,059,817**	₱2,245,719	₱2,080,949
Cash in banks and temporary investments (see Note 7)	**484,169**	912,152	1,439,218
AFS investments (see Notes 9 and 17)	**380,399**	414,427	853,249
Investments held for trading (see Note 9)	**25,790**	28,310	43,330
Others	**82,460**	108,876	–
	₱3,032,635	₱3,709,484	₱4,416,746
Interest expense on:			
Long-term debt (see Note 20)	**₱10,801,337**	₱6,806,602	₱7,325,871
Bank loans (see Note 18)	**641,023**	3,960,390	3,253,656
Others (see Note 30)	**185,169**	176,409	232,209
	₱11,627,529	₱10,943,401	₱10,811,736

26. PENSION BENEFITS

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense recognized under "Personnel cost" (see Note 24)

	2014	2013	2012
		(In Thousands)	
Net benefit expense:			
Current service cost	**₱405,822**	₱350,898	₱263,106
Net interest cost (income)	**(28,952)**	(39,409)	192,132
Expected return on plan assets	**–**	–	(198,954)
Others	**(302)**	(403,574)	(20,785)
	₱376,568	(₱92,085)	₱235,499

Changes in the net defined benefit liability and asset

a. Net Defined Benefit Liability
The movements in the subsidiaries' pension plan which resulted in a defined benefit liability as at December 31, 2014, 2013 and 2012 follow:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not recognized due to asset limit/ Unrecognized actuarial loss	Defined benefit liability (asset)
		(In Thousands)		
At December 31, 2012	₱276,936	₱302,376	₱53,750	₱28,310
Net benefit expense (see Note 24):				
Current service cost	110,200	–	–	110,200
Net interest cost	72,057	71,822	–	235
Others	–	–	(75,238)	(75,238)
	182,257	71,822	(75,238)	35,197
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	8,036	–	(8,036)
Actuarial changes arising from:				
Changes in financial assumptions	(54,605)	–	–	(54,605)
Changes in demographic assumptions	9,926	–	–	9,926
Experience adjustment	157,713	–	–	157,713
Others	–	–	181,189	181,189
	113,034	8,036	181,189	286,187
Reclassifications from defined benefit assets	898,493	878,655	–	19,838
Actual contributions	–	55,510	–	(55,510)
Benefits paid	(84,477)	(84,477)	–	–
Transfer from related parties	9,021	9,021	–	–
Other adjustments	–	–	(159,701)	(159,701)
At December 31, 2013	**1,395,264**	**1,240,943**	**–**	**154,321**
Net benefit expense(see Note 24):				
Current service cost	**103,343**	**–**	**–**	**103,343**
Net interest cost	**58,595**	**55,857**	**27**	**2,765**
Past service cost - curtailment	**(302)**	**–**	**–**	**(302)**
	161,636	**55,857**	**27**	**105,806**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**25,866**	**–**	**(25,866)**
Actuarial changes arising from:				
Changes in financial assumptions	**89,724**	**–**	**–**	**89,724**
Changes in demographic assumptions	**(19,707)**	**–**	**–**	**(19,707)**
Experience adjustment	**79,270**	**–**	**–**	**79,270**
Others	**–**	**–**	**(13,772)**	**(13,772)**
	149,287	**25,866**	**(13,772)**	**109,649**
Reclassifications from defined benefit assets	**(462,424)**	**(389,293)**	**–**	**(73,131)**
Actual contributions	**–**	**114,978**	**–**	**(114,978)**
Benefits paid	**(29,424)**	**(29,424)**	**–**	**–**
Transfer from (to) related parties	**8,158**	**8,158**	**–**	**–**
Other adjustments	**17,155**	**3,320**	**13,745**	**27,580**
At December 31, 2014	**₱1,239,652**	**₱1,030,405**	**₱–**	**₱209,247**

b. Net Defined Benefit Asset

The movements in the subsidiaries' pension plan which resulted in a defined benefit asset as at December 31, 2014, 2013 and 2012 follow:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not recognized due to asset limit/ Unrecognized actuarial loss	Defined benefit liability (asset)
			(In Thousands)	
At December 31, 2012	₱3,234,528	₱3,967,810	₱280,372	(₱452,910)
Net benefit expense (see Note 24):				
Current service cost	240,698	–	–	240,698
Net interest income	145,294	189,689	4,751	(39,644)
Effect of asset limit	–	–	445	445
Others	–	–	(328,781)	(328,781)
	385,992	189,689	(323,585)	(127,282)
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	55,722	–	(55,722)
Actuarial changes arising from:				
Changes in financial assumptions	(154,212)	–	–	(154,212)
Changes in demographic assumptions	54,555	–	–	54,555
Experience adjustment	105,933	–	–	105,933
Others	–	–	(35,437)	(35,437)
	6,276	55,722	(35,437)	(84,883)
Reclassifications to defined benefit assets	(898,493)	(878,655)	–	(19,838)
Actual contributions	–	71,661	–	(71,661)
Benefits paid	(166,950)	(166,950)	–	–
Transfer to the plan	(4,855)	(4,855)	–	–
Amount not recognized due to asset limit	–	–	86,531	86,531
Other adjustments	84,395	108,984	78,650	54,061
At December 31, 2013	**2,640,893**	**3,343,406**	**86,531**	**(615,982)**
Net benefit expense (see Note 24):				
Current service cost	**302,479**	**–**	**–**	**302,479**
Net interest income	**195,115**	**232,299**	**5,467**	**(31,717)**
	497,594	**232,299**	**5,467**	**270,762**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**124,890**	**–**	**(124,890)**
Actuarial changes arising from:				
Changes in financial assumptions	**(130,985)**	**–**	**–**	**(130,985)**
Changes in demographic assumptions	**214**	**–**	**–**	**214**
Experience adjustment	**54,138**	**–**	**–**	**54,138**
Others	**–**	**–**	**(38,009)**	**(38,009)**
	(76,633)	**124,890**	**(38,009)**	**(239,532)**
Reclassifications from defined benefit liabilities	**462,426**	**389,294**	**–**	**73,132**
Actual contributions	**–**	**48,199**	**–**	**(48,199)**
Benefits paid	**(123,046)**	**(123,046)**	**–**	**–**
Transfer to the plan	**(6,455)**	**(6,455)**	**–**	**–**
Amount not recognized due to asset limit	**–**	**–**	**52,647**	**52,647**
Other adjustments	**(1,749)**	**(1,749)**	**(53,988)**	**(53,988)**
At December 31, 2014	**₱3,393,030**	**₱4,006,838**	**₱52,648**	**(₱561,160)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2014	2013
Discount rate	**4%-6%**	4%-6%
Future salary increases	**3%-10%**	10%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts and estimated fair values of the Plan assets follow:

	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱251,447**	**₱251,447**	₱117,834	₱117,834
Investment in debt and other securities	**948,725**	**948,725**	714,898	714,898
Investment in common trust funds	**1,968,692**	**1,968,692**	1,723,165	1,723,165
Investment in equity securities	**181,087**	**181,087**	123,443	123,443
Investment in government securities	**1,651,825**	**1,651,825**	1,865,037	1,865,037
Others	**35,467**	**35,467**	39,972	39,972
	₱5,037,243	**₱5,037,243**	₱4,584,349	₱4,584,349

- Cash and cash equivalents include regular savings and time deposits;
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.38% to 6.80% and 5.45% to 8.46% have maturities from June 2019 to April 2025 and April 2014 to September 2022 in 2014 and 2013, 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 that bear interest ranging from 3.50% to 10.69% and 5.00% to 11.14% have maturities from February 2015 to October 2037 and July 2013 to October 2037 in 2014 and 2013, respectively; and
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank, as at and for the years ended December 31, 2014 and 2013, follow:

	2014	2013
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱160,743**	₱110,392
Investment in common trust funds	**1,968,692**	1,723,165
Transactions:		
Interest income from cash and cash equivalents	**2,209**	3,456
Gains from investment in common trust funds	**1,341,211**	54,711

The Group expects to contribute about ₱156.5 million to its Pension Plan in 2015.

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, 2014, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱317,143)
	(50)	351,951
Future salary increases	100	663,825
	(100)	(556,521)
No attrition of rates	–	3,904,889

The average duration of the Group's defined benefit obligation is 7 to 32 years and 8 to 32 years as at December 31, 2014 and 2013, respectively.

The maturity analysis of the undiscounted benefit payments, as at December 31, 2014 and 2013, follows:

	2014	2013
	(In Thousands)	
Less than 1 year to 5 years	**₱1,026,703**	₱728,485
More than 5 years to 10 years	**1,860,607**	1,850,314
More than 10 years to 15 years	**3,327,144**	3,028,577
More than 15 years to 20 years	**8,085,777**	8,217,238
More than 20 years	**174,975,720**	257,521,853

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:

	2014	2013
	(In Thousands)	
Deferred tax assets - net:		
Unrealized gain on intercompany sale of investment property	**₱1,186,890**	₱1,201,479
NOLCO	**324,460**	122,118
Unrealized mark-to-market loss on investments	**240,224**	–
Deferred rent expense	**192,274**	504,342
Unamortized past service cost and defined benefit liability	**149,160**	201,080
Unrealized foreign exchange loss (gain) and others	**110,027**	(6,865)
Accrued leases	**64,062**	44,071
MCIT	**26,847**	106,574
	2,293,944	2,172,799
Deferred tax liabilities - net:		
Appraisal increment on investment property	**2,417,479**	2,276,990
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,217,246**	1,614,650
Unrealized gross profit on sale of real estate	**877,069**	310,878
Accrued/deferred rent income	**165,333**	313,461
Unamortized past service cost and defined benefit asset	**147,970**	189,650
Others	**163,828**	385,898
	₱6,867,925	₱6,970,527

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertain to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, follow:

	2014	2013
	(In Thousands)	
NOLCO	**₱3,506,043**	₱–
Net unrealized foreign exchange loss	**798,763**	381,078
Allowance for impairment losses	**288,975**	488,683
Past service cost	**89,424**	54,917
MCIT	**78,596**	–
Defined benefit liability	**68,669**	65,597
Non-refundable advance rentals	**25,886**	24,920
	₱4,856,356	₱1,015,195

NOLCO and MCIT amounting to ₱86.4 million and ₱1,752.9 million were applied in 2014 and 2013, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax follow:

	2014	2013	2012
Statutory income tax rate	**30%**	30%	30%
Deduct income tax effects of reconciling items:			
Equity in net earnings of associates	**(9)**	(9)	(7)
Interest income subjected to final tax	**(2)**	(3)	(3)
Change in unrecognized deferred tax assets	**(2)**	(3)	–
Dividend income exempt from tax	**–**	(1)	(1)
Others	**(1)**	(2)	(3)
Effective income tax rates	**16%**	12%	16%

28. LEASE AGREEMENTS

The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for a few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits (see Notes 29 and 30).

The future minimum lease receivables under the noncancellable operating leases of the Group as at December 31 follow:

	2014	2013
	(In Millions)	
Within one year	**₱3,385**	₱2,068
After one year but not more than five years	**8,616**	7,330
After five years	**1,939**	3,159
	₱13,940	₱12,557

The Group also leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

The future minimum lease payables under the noncancellable operating leases of the Group as at December 31 follow:

	2014	2013
	(In Millions)	
Within one year	**₱744**	₱735
After one year but not more than five years	**3,138**	3,261
More than five years	**25,867**	27,330
	₱29,749	₱31,326

Tenant's deposits amounted to ₱14,032.0 million and ₱10,527.6 million as at December 31, 2014 and 2013, respectively.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits, short-term investments, cash and cash equivalents, non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are as follows:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. dollars.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting (see Note 30).

As at December 31, 2014 and 2013, after taking into account the effect of the swaps, approximately 68% and 63% of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2014	**100**	**(₱727.2)**	**(₱220.4)**
	50	**(363.1)**	**(117.6)**
	(100)	**727.2**	**204.5**
	(50)	**363.1**	**94.8**
2013	100	(836.4)	(129.8)
	50	(418.2)	(65.3)
	(100)	836.4	135.9
	(50)	418.2	67.5

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment.

Foreign Currency Risk
To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options (see Note 30) with the aim of reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2014 and 2013 follow:

	2014		2013	
	US$	**Ph₱**	US$	Ph₱
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$8,913**	**₱398,607**	$5,999	₱266,316
Time deposits and short-term investments	**201,000**	**8,988,720**	705,501	31,320,708
AFS investments	**22,065**	**986,742**	5,250	233,074
Receivables	**579,887**	**25,932,552**	448,365	19,905,182
Noncurrent assets:				
AFS investments	**109,129**	**4,880,255**	124,785	5,539,822
Time deposits	**1,031,407**	**46,124,510**	585,000	25,971,075
Derivative assets	**19,582**	**875,721**	39,059	1,734,034
Total foreign currency-denominated financial assets	**1,971,983**	**88,187,107**	1,913,959	84,970,211
Current liabilities:				
Bank loans	**30,000**	**1,341,600**	50,000	2,219,750
Accounts payable and other current liabilities	**35,097**	**1,569,553**	34,985	1,553,191
Current portion of long-term debt	**50,000**	**2,236,000**	–	–
Noncurrent liabilities:				
Long-term debt - net of current portion	**2,315,949**	**103,569,232**	2,183,908	96,954,602
Derivative liabilities	**1,313**	**58,705**	3,603	159,974
Total foreign currency-denominated financial liabilities	**2,432,359**	**108,775,090**	2,272,496	100,887,517
Net foreign currency-denominated financial liabilities	**$460,376**	**₱20,587,983**	$358,537	₱15,917,306

As at December 31, 2014 and 2013, approximately 46.7% and 41.7% respectively, of the Group's total consolidated bank loans and long-term debt were denominated in U.S. dollars. Thus, appreciation of the Philippine peso against the U.S. dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱179.1 million, ₱59.4 million and ₱565.1 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2014, 2013 and 2012, respectively. This resulted from the 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, 2012	₱41.05
December 31, 2013	44.40
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)*
2014	**1.50**	**P690.6**
	1.00	**460.4**
	(1.50)	**(690.6)**
	(1.00)	**(460.4)**
2013	1.50	537.8
	1.00	358.5
	(1.50)	(537.8)
	(1.00)	(358.5)

Liquidity Risk

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets. The Group also has readily available credit facility with banks and related parties to meet its long-term financial liabilities.

As part of its liquidity risk management program, the Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

The Group's financial assets, which have maturities of less than 12 months, and used to meet its short-term liquidity needs, include the following:

	2014	2013
	(In Thousands)	
Cash and cash equivalents	**₱69,133,381**	₱50,209,657
Current portion of time deposits and short-term investments	**9,000,324**	29,800,550
Investments held for trading	**307,835**	459,754
Current portion of AFS investments -		
Bonds and corporate notes	**986,742**	–

The maturity profile of the Group's financial liabilities as at December 31, 2014 and 2013 follows:

	2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱13,892,641**	**₱–**	**₱–**	**₱13,892,641**
Accounts payable and other current liabilities*	**–**	**66,080,803**	**–**	**–**	**66,080,803**
Long-term debt (including current portion)	**–**	**15,266,474**	**168,584,633**	**120,127,455**	**303,978,562**
Derivative liabilities:**					
Interest rate swaps	**–**	**–**	**58,705**	**–**	**58,705**
Multiple derivatives on convertible bonds	**–**	**1,092,382**	**–**	**–**	**1,092,382**
Dividends payable	**–**	**264,882**	**–**	**–**	**264,882**
Tenants' deposits	**–**	**–**	**13,815,542**	**247,840**	**14,063,382**
Other noncurrent liabilities	**–**	**–**	**3,208,432**	**–**	**3,208,432**
	₱–	**₱96,597,182**	**₱185,667,312**	**₱120,375,295**	**₱402,639,789**

	2013				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱27,588,259	₱–	₱–	₱27,588,259
Accounts payable and other current liabilities*	–	63,571,297	–	–	63,571,297
Long-term debt (including current portion)	–	38,296,386	138,091,911	66,216,033	242,604,330
Derivative liabilities:**					
Interest rate swaps	–	–	159,974	–	159,974
Multiple derivatives on convertible bonds	–	845,429	–	–	845,429
Dividends payable	–	210,189	–	–	210,189
Tenants' deposits	–	–	10,336,453	201,543	10,537,996
Other noncurrent liabilities	–	–	2,786,666	–	2,786,666
	₱–	₱130,511,560	₱151,375,004	₱66,417,576	₱348,304,140

**Excluding payable to government agencies of ₱2,687.9 million and ₱3,671.6 million at December 31, 2014 and 2013, respectively, the amounts of which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱573.0 million and ₱469.0 million at December 31, 2014 and 2013, respectively.*

Credit Risk
The Group trades only with recognized and creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral. Since the Group trades only with recognized related and third parties, there is no requirement for collateral.

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by 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, 2014 and 2013, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.
The credit analysis of the Group's financial assets as at December 31, 2014 and 2013 follows:

	2014			2013		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱67,964,569**	**₱–**	**₱67,964,569**	₱48,999,592	₱–	₱48,999,592
Time deposits and short-term investments (including noncurrent portion)	**56,124,324**	**–**	**56,124,324**	55,993,600	–	55,993,600
Investments held for trading - Bonds	**307,835**	**–**	**307,835**	459,754	–	459,754
AFS investments	**23,083,740**	**3,918**	**23,087,658**	17,154,400	3,918	17,158,318
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**29,227,148**	**6,323,604**	**35,550,752**	30,313,594	5,802,860	36,116,454
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks and credit card, accrued interest receivable, and advances for project development under "Other current assets" account in the consolidated balance sheet)	**19,511,553**	**–**	**19,511,553**	13,649,588	–	13,649,588
Escrow fund (including noncurrent portion)	**800,238**	**–**	**800,238**	995,325	–	995,325
Long-term note (included under "Other noncurrent assets" account in the consolidated balance sheet)	**–**	**–**	**–**	218,124	–	218,124
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	**2,555,708**	**–**	**2,555,708**	2,643,487	–	2,643,487
	₱199,575,115	**₱6,327,522**	**₱205,902,637**	₱170,427,464	₱5,806,778	₱176,234,242

Equity Price Risk
Management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax of a possible change in equity indices with all other variables held constant is as follows:

	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
2014	**+9.0%**	**₱3,055.5**
	-9.0%	**(3,055.5)**
2013	+9.0%	1,815.7
	-9.0%	(1,815.7)

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 adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the following ratios and maintaining them at not lower than 50:50.
- Net interest-bearing debt divided by total capital plus net interest-bearing debt
- Interest-bearing debt divided by total capital plus interest-bearing debt.

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2014	2013
	(In Thousands)	
Bank loans	**₱13,892,641**	₱27,588,259
Long-term debt	**247,782,663**	210,156,037
Less:		
Cash and cash equivalents (excluding cash on hand)	**(67,964,569)**	(48,999,592)
Time deposits and short-term investments	**(56,124,324)**	(55,993,600)
AFS investments (bonds and corporate notes)	**(5,626,784)**	(5,539,822)
Investments held for trading - bonds	**(307,835)**	(459,754)
Long-term note included under "Other noncurrent assets" account	**–**	(218,124)
Total net interest-bearing debt (a)	**131,651,792**	126,533,404
Total equity attributable to owners of the Parent	**257,004,114**	219,433,817
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱388,655,906**	₱345,967,221
Gearing ratio - net (a/b)	**34%**	37%

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2014	2013
	(In Thousands)	
Bank loans	**₱13,892,641**	₱27,588,259
Long-term debt	**247,782,663**	210,156,037
Total interest-bearing debt (a)	**261,675,304**	237,744,296
Total equity attributable to owners of the Parent	**257,004,114**	219,433,817
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱518,679,418**	₱457,178,113
Gearing ratio - gross (a/b)	**50%**	52%

30. FINANCIAL INSTRUMENTS

Fair Values
The carrying values and estimated fair values of the Group's financial assets and liabilities, by category and by class, except for those with carrying amounts that are reasonable approximations of fair value, as at December 31, 2014 and 2013 follow:

	2014				
	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	**₱2,555,708**	**₱2,555,708**	**₱–**	**₱2,555,708**	**₱–**
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits (including noncurrent portion)	**56,124,324**	**60,280,655**	**–**	**–**	**60,280,655**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**39,351,403**	**39,264,893**	**–**	**–**	**39,264,893**
	95,475,727	**99,545,548**	**–**	**–**	**99,545,548**
	₱98,031,435	**₱102,101,256**	**₱–**	**₱2,555,708**	**₱99,545,548**
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL -					
Derivative liabilities	**₱1,151,087**	**₱1,151,087**	**₱–**	**₱58,705**	**₱1,092,382**
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (including current portion and net of unamortized debt issue cost)	**247,782,663**	**258,583,840**	**–**	**–**	**258,583,840**
Tenants' deposits and others	**21,406,013**	**16,956,141**	**–**	**–**	**16,956,141**
	269,188,676	**275,539,981**	**–**	**–**	**275,539,981**
	₱270,339,763	**₱276,691,068**	**₱–**	**₱58,705**	**₱276,632,363**

	2013				
	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	₱2,643,487	₱2,643,487	₱–	₱2,643,487	₱–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits (including noncurrent portion)	55,993,600	58,549,481	–	–	58,549,481
Receivables - net (including noncurrent portion of receivables from real estate buyers)	37,274,237	37,274,237	–	–	37,274,237
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	218,124	264,656	–	–	264,656
	93,485,961	96,088,374	–	–	96,088,374
	₱96,129,448	₱98,731,861	₱–	₱2,643,487	₱96,088,374
Liabilities Measured at Fair Value					
Financial Liabilities at FVPL -					
Derivative liabilities	₱1,005,403	₱1,005,403	₱–	₱159,974	₱845,429
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (including current portion and net of unamortized debt issue cost)	210,156,037	224,775,629	–	–	224,775,629
Tenants' deposits and others	17,967,224	13,047,622	–		13,047,622
	228,123,261	237,823,251	–	–	237,823,251
	₱229,128,664	₱238,828,654	₱–	₱159,974	₱238,668,680

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements as at December 31, 2014 and 2013.

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 as at December 31 follow:

	2014	2013
Noncurrent portion of time deposits	**0.28%-2.25%**	0.18%-2.09%
Noncurrent portion of receivables from real estate buyers	**5.20%**	5.00%
Long-term note included under "Other noncurrent assets" account	**–**	0.01%-3.21%
Tenants' deposits	**2.44%-5.22%**	0.27%-4.51%

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.26% to 5.32% and 0.02% to 4.76% as at December 31, 2014 and 2013, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 1.70% to 4.00% and 0.50% to 3.80% as at December 31, 2014 and 2013, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps, cross-currency swaps, and non-deliverable forwards are based on quotes obtained from counterparties classified under Level 2 of the fair value hierarchy. The fair values of the embedded options relating to the Parent Company's convertible bonds were classified under Level 3 because the credit spread used as input to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values. The fair values of the embedded options were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Significant Unobservable Inputs to Valuation	Range
USD risk-free rate	0.057-0.796%
Credit spread	4.3540%

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option *(In Thousands)*
2014	**100 bps**	**(₱88,977)**
	(100) bps	**91,303**
2013	100 bps	(124,528)
	(100) bps	129,032

The rollforward analysis of the fair value changes of this financial instrument as at December 31, 2014 and 2013 follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**(₱845,429)**	(₱2,473,130)
Fair value changes	**(257,680)**	(1,335,209)
Conversions	**10,727**	2,962,910
Balance at end of year	**(₱1,092,382)**	(₱845,429)

Derivative Financial Instruments
To address the Group's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign exchange risks, the Group entered into various derivative transactions such as cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The Group also has embedded derivatives bifurcated from the Parent Company's convertible bonds.

			Parent
	Cross-currency Swaps	Options arising from Convertible Bonds	Foreign Currency Swap
Balance as at December 31, 2012	₱–	(₱2,473,130)	₱–
Fair value changes:			
Interest income (expense)	–	–	–
Foreign currency exchange loss	–	(229,552)	–
Cumulative translation adjustments	864,677	–	–
Gain (loss) on fair value changes of derivatives	–	(1,105,657)	28,578
Transferred to additional paid-in capital	–	2,962,910	–
Fair value of settled derivatives	–	–	(28,578)
Balance as at December 31, 2013	864,677	(845,429)	–
Fair value changes:			
Interest income (expense)	–	–	–
Foreign currency exchange loss	–	(12,597)	–
Cumulative translation adjustments	58,217	–	–
Gain (loss) on fair value changes of derivatives	–	(245,083)	32,190
Transferred to additional paid-in capital	–	10,727	–
Fair value of settled derivatives	–	–	(32,190)
Balance as at December 31, 2014	**₱922,894**	**(₱1,092,382)**	**₱–**
Derivative assets	₱922,894	₱–	₱–
Derivative liabilities	–	(1,092,382)	–
	₱922,894	**(₱1,092,382)**	**₱–**

Derivative Instruments Accounted for as Cash Flow Hedges
Cross-currency Swaps. In 2013, the Parent Company and SM Prime entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) (see Note 20).

Under the floating-to-fixed cross-currency swaps, the hedged U.S. dollar-denominated loans have been converted into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents with the counterparty banks and exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receive floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with interest payments on the hedged loans.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the years ended December 31, 2014 and 2013.

Details of the hedged loans follow:

	Outstanding Principal Balance *(In Thousands)*		Interest Rate	Maturity Date
	(In US$)	*(In Ph₱)*		
Parent -				
Unsecured loans	US$180,000	₱8,049,600	6-month US LIBOR + 1.70%	May 15, 2018
SM Prime:				
Unsecured loan	US$200,000	₱8,944,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,708,000	6-month US LIBOR + 1.70%	March 25, 2018

	SM Prime			Total
Non-deliverable Forwards	Cross-currency Swaps	Interest Rate Swaps	Non-deliverable Forwards	
(In Thousands)				
₱–	₱–	(₱134,351)	₱–	(₱2,607,481)
–	(176,090)	51,209	–	(124,881)
–	–	–	–	(229,552)
–	1,668,399	–	–	2,533,076
21,234	–	72,844	31,782	(951,219)
–	–	–	–	2,962,910
(21,234)	176,090	(39,264)	(31,782)	55,232
–	1,668,399	(49,562)	–	1,638,085
–	(225,249)	(37,423)	–	(262,672)
–	–	–	–	(12,597)
–	(66,067)	–	–	(7,850)
2,000	–	21,340	13,612	(175,941)
–	–	–	–	10,727
(2,000)	225,249	37,422	(13,612)	214,869
₱–	**₱1,602,332**	**(₱28,223)**	**₱–**	**₱1,404,621**
₱–	₱1,602,332	₱30,482	₱–	₱2,555,708
	–	(58,705)	–	(1,151,087)
₱–	**₱1,602,332**	**(₱28,223)**	**₱–**	**₱1,404,621**

The Group's outstanding cross-currency swaps as at December 31, 2014 follow:

	Notional Amounts *(In Thousands)*		Receive	Pay	US$:₱ Rate	Maturity	Fair Value Gain *(In Thousands)*
	(In US$)	*(In Ph₱)*					
Parent:							
Floating-to-Fixed	US$50,000	₱2,059,250	6M US LIBOR + 170 bps	4.05%	₱41.19	May 15, 2018	₱257,547
Floating-to-Fixed	60,000	2,478,000	6M US LIBOR + 170 bps	4.03%	41.30	May 15, 2018	303,580
Floating-to-Fixed	70,000	2,888,200	6M US LIBOR + 170 bps	3.98%	41.26	May 15, 2018	361,767
SM Prime:							
Floating-to-Fixed	150,000	6,100,500	6M US LIBOR + 170 bps	3.70%	40.67	January 29, 2018	711,066
Floating-to-Fixed	50,000	2,033,500	6M US LIBOR + 170 bps	3.70%	40.67	January 29, 2018	243,897
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	210,575
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	219,438
Floating-to-Fixed	50,000	2,055,000	6M US LIBOR + 170 bps	3.90%	41.10	March 25, 2018	217,356

Other Derivative Instruments Not Designated as Accounting Hedges
The Group's interest rate swaps presented by maturity profile follow:

Year Obtained	Maturity	Interest Payment	<1 Year	Outstanding Notional Amount Receive	Pay	Aggregate Fair Value 2014	2013
			(In Thousands)			*(In Thousands)*	
Floating-to-Fixed							
2013	June 2015	Quarterly	₱349,440	3MPDST-F	3.65%-4.95%	(₱1,882)	(₱9,023)
2011	March 2015	Semi-annual	$145,000	6 months LIBOR+margin%	2.91%-3.28%	(37,535)	(113,601)
2011	November 2014	Semi-annual	$20,000	6 months LIBOR+margin%	3.53%	–	(10,431)
2010	November 2015	Semi-annual	$30,000	6 months LIBOR+margin%	3.18%	(19,288)	(35,941)
Fixed-to-Floating							
2010	June 2015	Quarterly	₱1,570,560	5.44%-7.36%	3MPDST-F	₱30,482	₱119,433

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 in 2010 to reflect SM Prime's partial prepayment of the underlying Philippine peso loan (see Note 20). As at December 31, 2014 and 2013, these swaps have negative fair values of ₱2.0 million and ₱9.0 million, respectively.

In 2011, SM Prime entered into floating to fixed US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into a fixed rate loan with semi-annual payment intervals up to March 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swaps have aggregate negative fair values of ₱38.0 million and ₱114.0 million, respectively.

SM Prime also entered into a US$ interest rate swap agreement with a notional amount of US$20.0 million in 2011. 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 intervals up to November 2014 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to a ₱10.0 million loss in 2014.

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 intervals up to November 2015 (see Note 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swap has a negative fair value of ₱19.0 million and ₱36.0 million, respectively.

- 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 flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at December 31, 2014 and 2013, the interest rate swaps have positive fair values of ₱31.0 million and ₱119.0 million, respectively.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$25.0 million. Under these agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral loan into a fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to a ₱10.0 million gain in 2013.

US$250.0 million Convertible Bonds. The Parent Company's convertible bonds contain multiple embedded derivatives which were bifurcated and accounted for as a single compound derivative (see Note 20).

31. EPS COMPUTATION

	2014	2013	2012
	(In Thousands, Except for Per Share Data)		
Net income attributable to common owners of the Parent for basic earnings (a)	**₱28,398,584**	₱27,445,682	₱24,674,381
Effect on net income of convertible bonds, net of tax	**–**	–	–
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱28,398,584**	₱27,445,682	₱24,674,381
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period, after retroactive effect of stock dividends declared in 2013 (c)	**796,317**	787,457	776,823
Dilutive effect of convertible bonds	**–**	–	–
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**796,317**	787,457	776,823
Basic EPS (a/c)	**₱35.66**	₱34.85	₱31.76
Diluted EPS (b/d)	**₱35.66**	₱34.85	₱31.76

The effect of the convertible bonds on net income and on the number of shares in 2014 and 2013 were not considered due to its antidilutive effect, which if included, will result to an EPS of ₱35.77 and ₱36.34 in 2014 and 2013, respectively.

32. NON-CASH TRANSACTIONS

The Group's principal non-cash transaction under financing activities pertains to the conversion of the Parent Company's convertible bonds into common shares. Details of the conversion option of the convertible bonds and the conversions are in Note 20.

The Group's principal non-cash transaction under investing activities pertains to the acquisition of controlling interest in HPI in exchange for SM Prime common shares. Details of the corporate restructuring are in Note 5.

33. EVENTS AFTER THE REPORTING PERIOD

On various dates from January 1 to March 4, 2015, the bondholders of US$55.2 million (₱2,468.5 million) opted to convert their holdings into 3,774,489 common shares. This resulted to an increase in capital stock and additional paid-in capital amounting to ₱37.7 million and ₱2,979.2 million, respectively, and a decrease in long-term debt and derivative liability of ₱2,055.1 million and ₱961.8 million, respectively.

On February 15, 2015, none of the bondholders of US$98.2 million exercised their put option.

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