

SM PRIME HOLDINGS, INC
2013 ANNUAL CORPORATE GOVERNANCE REPORT

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A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	8
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Actual number of Directors for the year	8
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(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID) ¹	Elected when (Annual /Special Meeting)	No. of years served as director
Henry Sy, Sr.	NED		Atty. Corazon I. Morando	1994	April 16, 2013	Annual	19
Jose L. Cuisia, Jr.	ID		Atty. Corazon I. Morando	1994	April 16, 2013	Annual	19
Gregorio U. Kilayko	ID		Atty. Corazon I. Morando	2008	April 16, 2013	Annual	5
Joselito H. Sibayan	ID		Atty. Corazon I. Morando	2011	April 16, 2013	Annual	2
Hans T. Sy	ED		Atty. Corazon I. Morando	1994	April 16, 2013	Annual	19
Henry T. Sy, Jr.	NED		Atty. Corazon I. Morando	1994	April 16, 2013	Annual	19
Herbert T. Sy	NED		Atty. Corazon I. Morando	1994	April 16, 2013	Annual	19
Jorge T. Mendiola	NED		Atty. Corazon I. Morando	2012	April 16, 2013	Annual	1

Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Company's corporate governance framework and policies are embodied in its Revised Manual on Corporate Governance [February 18, 2010] which sets out the compliance system and plan of compliance. Complementing the framework are a number of related policies which deal with specific implementation areas such as, but not limited to, the following:

- a. Code of Ethics that stresses integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the rights of shareholders, the protection of company information assets, and promotion of corporate social responsibility. It further provides guidelines on the expected manner by which directors, officers, and employees should perform their duties and responsibilities and while dealing with creditors, customers, contractors, suppliers, regulators, and the public.
- b. Insider Trading Policy which restricts the disclosure of privileged information and participation in trading activities by directors, officers, and employees within a defined period before and after the disclosure of quarterly and annual financial results and any other material information.
- c. Guidelines on Acceptance of Gifts which governs solicitation and acceptance of gifts by directors, officers, and employees from any business partner to avoid conflict of interest scenarios.
- d. Guidelines on Travel Sponsored by Business Partners which explicitly prohibits acceptance of travel sponsorships from any business partner.

¹ Reckoned from the election immediately following January 2, 2012.

- e. **Related Party Transactions** which reiterates the Company's commitment to transparency by practicing full disclosure of the details, 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.
- f. **Policy on Accountability, Integrity, and Vigilance (PAIV)** which tackles procedures for raising concerns, and issues through filing of an incident report by any director, officer, or employee on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any applicable law or regulation. The policy further states the responsibility of Management for conducting investigations and reporting findings

Further, the Revised Manual of Corporate Governance [February 18, 2010] asserts the rights of the investors/minority interests in respect of the following:

- a. **Voting right**
- b. **Power of inspection**
- c. **Right to information**
- d. **Right to dividend; and**
- e. **Appraisal right**

Moreover, the Company's Code of Ethics provide the following to protect the rights of shareholders:

- a. **Adoption of strategies and plans with the end in view of increasing shareholder value.**
- b. **Maintaining complete and accurate books of accounts and records in accordance with applicable laws and standards, and implementing a system of internal controls to ensure that financial reports present fairly the Company's financial position and operating results.**
- c. **Ensuring an independent audit of its financial statements by external auditors.**
- d. **Providing shareholders with complete, accurate, material and timely information regarding their investment and the Company's operations.**

- (b) How often does the Board review and approve the vision and mission?

The Board undertakes the review and approval of the Company's vision and mission at least once every three (3) years or more frequently if necessary.

- (c) Directorship in Other Companies

- (i) Directorship in the Company's Group²

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Henry Sy, Sr.	SM Prime Holdings, Inc. SM Investments Corporation Highlands Prime, Inc. BDO Unibank, Inc. China Banking Corporation SM Development Corporation	NED (Chairman Emeritus) NED (Chairman) NED (Chairman) NED (Chairman Emeritus) NED (Honorary Chairman) NED (Chairman)
Gregorio U. Kilayko	SM Prime Holdings, Inc. Belle Corporation Highlands Prime, Inc.	Independent Independent Independent
Hans T. Sy	SM Prime Holdings, Inc. China Banking Corporation Highlands Prime, Inc.	ED NED (Chairman) NED
Henry T. Sy, Jr.	SM Prime Holdings, Inc. SM Investments Corporation	NED NED

² The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

	BDO Unibank, Inc. Highlands Prime, Inc. SM Development Corporation	NED ED ED
Herbert T. Sy	SM Prime Holdings, Inc. China Banking Corporation	NED NED

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Jose L. Cuisia, Jr.	PHINMA Corporation	NED
	Holcim Philippines, Inc.	NED
	Manila Water Company, Inc.	NED
Gregorio U. Kilayko	Vantage Equities, Inc.	NED

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
None.		

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

The Company did not set a specific limit on the number of board seats in other companies that can be held concurrently by an individual director or CEO but prescribes only a low indicative limit that will apply to the CEO, other executive directors, and to independent, non-executive directors who serve as full-time executives in other companies

(d) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through PCD Nominee Corp.	% of Capital Stock
Henry Sy Sr.	659,392,771	234,002,808	3.21%
Jose L. Cuisia Jr.	408,553	89,128	0.00%
Gregorio U. Kilayko	12,500	190,080	0.00%
Henry Sy Jr.	680,198,440	–	2.45%
Jorge T. Mendiola	1,000	1,364,167	0.00%
Herbert T. Sy	661,472,045	4,917,477	2.40%
Hans T. Sy	661,002,569	23,759,066	2.46%
Joselito H. Sibayan	1,875	–	0.00%
TOTAL	2,662,489,753	264,322,726	10.52%

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes

No

Identify the Chair and CEO:

Chairman of the Board	Mr. Henry T. Sy, Jr.
CEO/President	Mr. Hans Sy

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman	Chief Executive Officer
Role/Accountabilities	<p><i>(Art. 4 Sec. 2 of By-Laws, as amended on March 8, 1994)</i></p> <p>The Chairman of the Board of Directors shall be the Chief Executive Officer with the following powers and duties:</p> <ol style="list-style-type: none"> To preside at all meetings of stockholders and directors; To sign all certificates, contracts, and other instruments on behalf of the Corporation, except as otherwise provided by law; To have general supervision and administration of the affairs of the Corporation; To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors; To carry out the resolutions of the Board of Directors and to represent the corporation at all functions and proceedings; To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors <p><i>[Art. 2 Sec. 2, Amended By-Laws, 23 April 2007]</i></p>	<p><i>(Art. 2 Sec. 4 of By-Laws, as amended on March 8, 1994)</i></p> <p>The President, shall be the Chief Operating Officer, with the following powers and duties:</p> <ol style="list-style-type: none"> To ensure that the administrative and operational policies of the Corporation are carried out under the direction and control of the Chairman of the Board and Chief Executive Officer; To supervise and direct the day to day business affairs of the Corporation; To recommend to the Chairman of the Board and the Board of Directors specific projects for the attainment of corporate objectives and policies; To exercise such powers and duties and perform such duties commonly incident to and vested in the President of a Corporation and which the Chairman of the Board and Chief Executive Officer may, from time to time assign to him. To sign or cause the signatures of Certificates of Stock. <p>The President may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.</p> <p><i>[Art. 2 Sec. 4, Amended By-Laws, 23 April 2007]</i></p>
Deliverables	<ol style="list-style-type: none"> With the support from all the directors in the Board, we will continue to strive to enhance shareholder value. We will continue to strengthen the SM brand and build the business on the back of very positive economic outlook of the country. Study and pursue further improvement in corporate governance structures and practices following the guidelines in the ASEAN 	<ol style="list-style-type: none"> Ensure that the goals and objectives of the Group which were agreed upon during the Annual Strategic Planning are met. Stress further on our core values of innovation, hard work, efficient cost management, integrity across all business units. Update and align our Corporate Governance Manual towards

	Chairman	Chief Executive Officer
	CG scorecard.	best practice. d. Implementation of matters approved by the Board of Directors and shareholders.

3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

Under the Company’s Amended By-Laws (Article VI. Officers, Section 9. Executive and Senior Vice Presidents), in the absence or disability of the President, the most senior Executive or Senior Vice President who is also a Director, shall perform all the duties of the President, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Nomination Committee adheres to the principle of “fit and proper” in succession planning. In evaluating candidates, a high level of competency, experience and stature are used as standards. Furthermore, the maturity of character and ability to effectively assimilate into the SM culture are critical. Once evaluated, the recommendation is presented to the Board for discussion and consideration.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. Under the Company’s Corporate Governance Manual (CGM 2.2.2.1.2 Specific Duties and Functions), the Board shall install a process of selection to ensure a mix of competent directors and officers.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. Under the Company’s Corporate Governance Manual (CGM 2.2.2.1.1 Qualifications), in addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the company’s business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	As provided for in the Company’s By-Laws and Manual on Corporate Governance, it is an Executive Director’s general role to ensure that aside from his responsibilities as a director, that the day-to-day management of the company is sound and in line with the Company’s objectives. He is also expected to serve as the medium between the Board and Management.	As provided for in the Company’s By-Laws and Manual on Corporate Governance that a Non-Executive Director, uphold his duties and responsibilities as a member of the Board of Directors.	As provided for in the Company’s By-Laws and Manual on Corporate Governance, it is an Independent Director’s general role to ensure that aside from his responsibilities as a director, that he provides the Board with engaging discussions through independent thinking, ideas and judgment.
Accountabilities	Under the Company’s By-Laws, it is the Board of Directors’ general responsibility to:		

	<ul style="list-style-type: none"> • Protect the interests of the Company’s various stakeholders; • Ensure the financial success of the business; • Effectively monitor management’s performance; • Ensure that the principles of good corporate governance are observed throughout the organization; • Formulate policies for the accomplishment of corporate objectives. <p>In line with the Company’s By-Laws, the Manual on Corporate Governance also provides that a director shall also:</p> <ul style="list-style-type: none"> • Conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions; • Devote time and attention necessary to properly discharge his duties and responsibilities; • Act judiciously; • Exercise independent judgment; • Have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies; • Observe confidentiality; • Ensure the continuing soundness, effectiveness and adequacy of the Corporation’s control environment. 		
Deliverables	<ul style="list-style-type: none"> • Further strengthen and streamline the support infrastructure of the organization to be more efficient and responsive to the needs of our growing business. • Promote the corporate governance and compliance culture in the Company. • Institutionalize the risk management and corporate social responsibility programs across the Group. 	<ul style="list-style-type: none"> • Take lead in the review of the performance of Board Committees vis a vis their respective charters, and introduce refinements. • Pursue continuing education programs for directors. 	<ul style="list-style-type: none"> • Oversee the updating of the Corporate Governance Manual. • Meet once a year, without the Executive Directors and Senior Management. • Meet the Auditor and External Auditors. • Pursue continuing education programs for directors.

Provide the company’s definition of "independence" and describe the company’s compliance to the definition.

The Company has adopted the definition of independence from Section 38 of the Securities Regulation Code. To ensure that the term “independence” fittingly applies, the Company tailored the SRC definition to define independence as *“independence from Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment”*. The Company adopts this definition as a requisite and one of the qualifications for its independent directors. The Company anchors its definition of “independence” on the commitment to a principles-based and responsible

decision-making that respects and promotes the rights of shareholders, especially of the minority shareholders. Furthermore, compliance towards this commitment is assessed through the Annual Board Evaluation Process where INDEPENDENCE is a standard performance norm.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company complies with SEC MC No. 9 – Term Limits for Independent Directors, which states that an independent director may serve the Board for a period of five (5) consecutive years, which should be followed by a “cooling off” period of two (2) years, should the Company wish to bring back the independent director for another five (5) years.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

There were no resignations, deaths or removal.

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	<p>Members of the Board of Directors are nominated by the Nomination Committee and elected at the annual meeting of the stockholders to serve for a term of one (1) year until their successors are duly elected and qualified.</p> <p>The Nomination Committee reviews and evaluates all candidates nominated to Officer positions in the Company that, under the Company’s By-Laws, require Board approval prior to effectivity of such Officer appointments or promotions.</p>	<p>Per the Company’s Manual on Corporate Governance, each director shall possess all of the following qualifications:</p> <ul style="list-style-type: none"> • a holder of at least one (1) share of stock of the Company; • at least be a college graduate or have sufficient experience in managing the business to substitute for such formal education; • at least be twenty one (21) years old; • shall have proven to possess integrity and probity; and • shall be assiduous.
(ii) Non-Executive Directors		
(iii) Independent Directors		

		<ul style="list-style-type: none"> • He is not a director or officer of the Company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing. • He does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders. • He is not a relative to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister. • He is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. • He has not been employed in any executive capacity by the Company, any of its related
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		<p>companies, and/or any of its substantial shareholders within the last five (5) years.</p> <ul style="list-style-type: none"> • He is not retained as professional adviser by the Company, and/or any of its related companies and/or any of its substantial shareholders within the last five (5) years. • He is not retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, either personally or through his firm. • He has not engaged and does not engage in any transaction with the Company and /or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.
b. Re-appointment		
(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their re-appointment.	
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		

(i) Executive Directors		
(ii) Non-Executive Directors		
(iii) Independent Directors	<p>The Nomination Committee shortlists, assesses and evaluates all candidates nominated to become a member of the Board in accordance with the qualification and disqualification criteria set out in the Company's Manual on Corporate Governance and other relevant laws.</p>	<p>The grounds for permanent disqualification are as follows:</p> <p>a) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;</p> <p>b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in the sub-paragraphs (a) and (b) above, or willfully</p>

		<p>violating the laws that govern securities and banking activities.</p> <p>c) The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking, or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member participant of the organization;</p> <p>d) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>e) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to</p>
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		<p>have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;</p> <p>f) Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;</p> <p>g) Any person judicially declared to be insolvent;</p> <p>h) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in subparagraphs (i) to (v) above;</p> <p>i) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation code committed within five (5) years prior to the date of his election or appointment.</p>
d. Temporary Disqualification		
(i) Executive Directors	<p>The Nomination Committee shortlists, assesses and evaluates all candidates nominated to become a member of the Board in accordance with the qualification and disqualification criteria set out in the Revised Manual on Corporate Governance.</p>	<p>The grounds for temporary disqualification are as follows:</p> <p>a) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and</p>
(ii) Non-Executive Directors		
(iii) Independent Directors		

	<p>A temporary disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>Regulations. This disqualification shall be in effect as long as his refusal persists.</p> <p>b) Absence in more than fifty (50) percent of all regular and special meeting of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.</p> <p>c) Dismissal or termination for cause as director of any corporation covered by the SEC's Code of Corporate Governance. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.</p> <p>e) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p>
e. Removal		
(i) Executive Directors	<p>The Company applies the same process and criteria used in the permanent disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their removal.</p>	
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		

(i) Executive Directors	The Company applies the same process and criteria used in the selection/appointment of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their reinstatement.
(ii) Non-Executive Directors	
(iii) Independent Directors	
g. Suspension	
(i) Executive Directors	The Company applies the same process and criteria used in the temporary disqualification of Executive Directors, Non-Executive Directors and Independent Directors, respectively, for their suspension.
(ii) Non-Executive Directors	
(iii) Independent Directors	

Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Henry Sy Sr.	100%
Jose L. Cuisia Jr.	100%
Gregorio U. Kilayko	100%
Henry Sy Jr.	100%
Jorge T. Mendiola	100%
Herbert T. Sy	100%
Hans T. Sy	100%
Joselito H. Sibayan	100%

6) Orientation and Education Program

- (a) Disclose details of the company's orientation program for new directors, if any.

Under the Company's Corporate Governance Manual (CGM 2.2.1.2 Specific Duties and Functions) "each elected director shall, before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or government institute." Furthermore, the Company's Orientation for New Employees of SM (ONE SM) provides new directors, officers and employees with a video orientation on the history, growth, direction, business units and core values of SM's Founder, Mr. Henry Sy, Sr.

- (b) State any in-house training and external courses attended by Directors and Senior Management³ for the past three (3) years:

In 2011 and 2012, directors underwent accredited in-house training and orientation programs in compliance with the Company's Manual on Corporate Governance.

In July 2011, Mr. Gil L. Gonzales, Vice President for Corporate Governance and Risk Management attended the International Finance Corporation-Institute of Corporate Directors (IFC-ICD) Workshop on Risk Governance and the Board of Directors held at the Peninsula Manila. The seminar focused on practical ways to develop a risk management system.

On December 7, 2011, the Good Governance Advocates and Practitioners of the Philippines held a corporate governance symposium titled "Tips and Traps: A Discussion on the Experience of US and Global Companies in Ethics, Compliance and Corporate Governance" at the Lopez Building, MERALCO in Pasig City. Mr. Steve Priest of the Ethical Leadership Group/Global Compliance Services discussed the key points in the evolving global regulatory environment, innovative practices on governance evaluation and monitoring,

³ Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

whistleblowing systems and other practical and effective methods to promote good governance and right conduct. SM was one of the sponsors of the event.

Furthermore, in the past three (3) years, the Company has provided its Directors and Senior Management with orientations on the following:

- Risk Management (conducted by KPMG)
- Impact of New Tax Legislation (regularly conducted by SGV)
- ASEAN Corporate Governance Scorecard (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for Officers, Executives and Middle Management (conducted by the Company's Corporate Governance Department)
- Basic Corporate Governance for New Employees (conducted by the Company's Corporate Governance Department)

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Hans T. Sy (ED)	October 18-19, 2002	Orientation Course on Corporate Governance for Bank Directors	Institute of Corporate Directors (ICD)
	November 4, 2009	Anti-Money Laundering Act of 2001 Seminar	Atty. Vicente S. Aquino Executive Director, Anti-Money Laundering Council, and Assistant Governor, Bangko Sentral ng Pilipinas (BSP)
Joselito H. Sibayan (ID)	April 23, 2008	Special Course on Corporate Governance	Center for Training and Development
Herbert T. Sy (NED)	October 18-19, 2002	Orientation Course on Corporate Governance for Bank Directors	Institute of Corporate Directors (ICD)
	November 4, 2009	Anti-Money Laundering Act of 2001 Seminar	Atty. Vicente S. Aquino Executive Director, Anti-Money Laundering Council, and Assistant Governor, Bangko Sentral ng Pilipinas (BSP)

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>Under the Company Conflict of Interest Policy, any director, officer or employee involved in an actual or potential conflict of interest is required to:</p> <ul style="list-style-type: none"> • immediately disclose to the Board of Directors (for directors) or to his immediate supervisor (for officers and employees) all material information regarding the conflict; • inhibit himself/herself from any direct or indirect participation or involvement at any stage of the transaction; • refrain from seeking to influence any official action by the company 		

	<p>regarding the transaction; and</p> <ul style="list-style-type: none"> comply with other requirements as may be imposed by the company in relation to the conflict of interest.
(b) Conduct of Business and Fair Dealings	All directors, officers and employees are required to act with utmost integrity and prohibited from engaging in any unfair dealing practices. The Company prohibits any conflict of interest, unfair competition, breach of trust, insider trading, or any other act inimical to the Company's interest.
(c) Receipt of gifts from third parties	SMPH prohibits the solicitation or acceptance of gifts in any form from any business partner. However, a director, officer or employee may accept corporate give-aways, tokens or promotional items, provided that the gift is voluntarily given and is of nominal value.
(d) Compliance with Laws & Regulations	SMPH aims to conduct business in accordance with the highest standards of business ethics. To this end, all business dealings are required to be compliant with all applicable laws and regulations and must not in any way compromise the good name and reputation of the Company.
(e) Respect for Trade Secrets/Use of Non-public Information	Under the Company's Code of Ethics, directors, officers and employees are prohibited from disclosing vital business information, unless authorized by the Company or required by law.
(f) Use of Company Funds, Assets and Information	All directors, officers and employees are required to maintain and safeguard the confidentiality of information relating to the Company.
(g) Employment & Labor Laws & Policies	Under the Company's Code of Ethics, all employees are selected, engaged and compensated based on qualification, merit and performance and are treated fairly and accorded respect and dignity. The Company adheres to all labor laws and policies and fosters its employee welfare program.
(h) Disciplinary action	Directors, officers and employees of the Company commit to comply with both the letter and spirit of the Code of Ethics to preserve the goodwill and reputation of the Company. The Human Resources and Corporate Governance departments are responsible for monitoring compliance with the Code of Ethics. Disciplinary actions against violators include dismissal and/or filing of appropriate civil and criminal actions.
(i) Whistle Blower	The Company'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 of the Company's directors, officers or employees 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.
(j) Conflict Resolution	

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

In 2008, a formal cascade, covering broad to detailed aspects of the code of ethics, was sponsored and conducted by the Corporate Governance office of parent company SM Investments, Inc. (SMIC) for SM Prime directors, senior management, and employees. On continuing basis, the code of ethics is cascaded through the Human Resources Department's enhanced Corporate Orientation Program for New Employees. The program, referred to as ONE SM (Orientation for New Employees of SM), gives employees an overview of the Company's corporate governance framework, policies, and its various components. It also covers the importance of ethics in the

business, informs employees of their rights and obligations, as well as the principles and best practices in the promotion of good work ethics.

- 3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company has established the Policy on Accountability, Integrity and Vigilance 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/Conduct and other Company rules and regulations.

Under the policy, any director, officer or employee of SM Prime 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 is tasked to conduct an investigation on its merit, subject to due process an applicable penalties and sanctions thereafter. A compilation of concluded report is periodically presented to the Audit and Risk Management Committee.

- 4) Related Party Transactions

- (a) Policies and Procedures

Describe the company’s policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	<p>The terms and conditions on related party transactions are maintained at arms-length and are properly documented. Such transactions are extended at terms no less than favourable than could have been obtained if the transactions were with unrelated parties.</p> <p>All related party transactions are reviewed by senior management and are properly disclosed in the financial statements.</p>
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	
(8) Interlocking director relationship of Board of Directors	

- (b) Conflict of Interest

- (i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

There are no actual or perceived conflicts of interest which may involve directors, officers, or shareholders holding 5% or more of outstanding common shares.

Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

Directors/Officers/Significant Shareholders	
Company	<ul style="list-style-type: none"> • Voluntary disclosure of relationship • Required disclosure during hiring • Inhibiting oneself in the processing, approval of the transaction
Group	<ul style="list-style-type: none"> • Adherence to the principle of “arms-length” and “market-based” treatment and pricing of the transaction • Enforcement of the whistle blower policy, Code of Conduct and Code of Ethics

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,⁴ commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
None.		

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
None.		

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

No shareholder agreements that may impact on the control, ownership, and strategic direction of the company were noted in year 2013.

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

Alternative Dispute Resolution System	
Corporation & Stockholders	A neutral third party participates to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative dispute resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the

⁴ Family relationship up to the fourth civil degree either by consanguinity or affinity.

Corporation & Third Parties	circumstances sees fit.
Corporation & Regulatory Authorities	<p>Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties, and the policy that the decision-making authority in the process rests with the parties.</p> <p>There were no conflicts between the corporation and its stockholders, the corporation and third parties, and the corporation and regulatory authorities, for the last three years.</p>

C. BOARD MEETINGS & ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Yes, regular meetings of the Board of Directors are held at least once every quarter of the year on such dates and at such times and places as the Chairman of the Board, or in his absence, the President, shall designate or upon the request of a majority of the directors.

- 2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during last year	No. of Meetings Attended	%
Chairman	Henry Sy Sr.	16 April 2013	7	7	100
Independent	Jose L. Cuisia Jr.	16 April 2013	7	7	100
Independent	Gregorio U. Kilayko	16 April 2013	7	7	100
Independent	Joselito H. Sibayan	16 April 2013	7	7	100
Member	Hans T. Sy	16 April 2013	7	7	100
Member	Henry T. Sy Jr.	16 April 2013	7	7	100
Member	Herbert T. Sy	16 April 2013	7	7	100
Member	Jorge T. Mendiola	16 April 2013	7	7	100

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

Yes. Non-executive directors meet at least once annually, without the presence of executive directors.

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

The Company's By-Laws state that a majority of the number of directors specified in the Articles of Incorporation shall constitute a quorum for the transaction of business at any meeting, and the act of majority of directors present at any meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers. In practice, the quorum requirement is more than two-third vote.

- 5) Access to Information

- (a) How many days in advance are board papers⁵ for board of directors meetings provided to the board?

Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board meetings.

⁵ Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

(b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Under the Company’s Manual on Corporate Governance (CGM 2.2.1.4), to enable the Board to properly fulfill their duties and responsibilities, management should provide directors with complete and timely information about the matter in the agenda of the meetings. Directors should be given independent access to management and the Corporate Secretary, as well as to independent professional advice.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

Under the Company’s Manual on Corporate Governance (CGM 2.3.3 The Corporate Secretary), the Corporate Secretary is an officer of the Company whose duties and responsibilities are as follows:

- **Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation.**
- **As to agenda, get a complete schedule thereof at least for the current year and put the Board on notice before every meeting.**
- **Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.**
- **Attend all Board meetings and maintain record of the same.**
- **Submit to the Commission, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.**

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes. The Company’s Corporate Secretary is a legal professional, in the person of Atty. Emmanuel Paras. Under the Company’s Manual on Corporate Governance, the Corporate Secretary must possess administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have some financial and accounting skills and knowledge of the working operations of the Company.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes No

Committee	Details of the procedures
Executive	None.
Audit	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Audit and Risk Management Committee members may refer to the Company’s Internal Auditor, External Auditor, Corporate Secretary or any other business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Internal Auditor.

Nomination	Board papers and other relevant information are provided to the Board at least seven (7) calendar days before regular/special board committee meetings. Committee members may refer to the Corporate Secretary, Human Resources Department, Corporate Governance Department or any other relevant business unit for information pertaining to their duties, should the need arise. Should the Committee members need information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Remuneration	
Others (specify)	None.

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
	During the conduct of the Annual Board Evaluation, directors are asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and <i>Board Advisors</i> . The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body. Requests for Board advisors are studied.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
	None.	

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

The Compensation and Remuneration Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The Compensation and Remuneration Committee determines the amount of remuneration which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the Company successfully.	Executive compensation is composed of salaries, bonuses and, plus fixed per diem for every board meeting attended.	Benchmarks such as industry peer group, compensation studies, and level of responsibilities are used as basis.
Non-Executive Directors		Fixed per diem for every board meeting attended and allowances commensurate to the responsibilities given.	

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
Yes. Stockholders ratify all acts made by the Board and Management during the ASM.	16 April 2013
	24 April 2012
	19 April 2011

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

Total remuneration and bonus paid to Executive Director and four most highly compensated executive officers:

Year	Salary	Bonus
2013	P29,000,000	P6,000,000

The total per diem allowance paid to directors in 2013 amounted to P800,000.

There are no stock options and/or other financial instruments given to directors.

There are no advances, credit and car plan granted to directors.

The directors (except independent directors) are covered with the company's pension, life insurance and hospitalization plans.

1) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

The company does not grant stock rights, options or warrants over the company's shares.

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
None.				

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

There was no incentive program that was amended or discontinued.

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

2) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

The total remuneration of top five members of management for 2013 is Ps. 35,000,000.00.

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	None. Not applicable.						
Audit and Risk Management	0	3	3	Yes	<ul style="list-style-type: none"> - reviews the Company's financial reports and subsequent recommendation to the Board for approval - reviews SM Prime's internal control systems, its audit plans, auditing processes and related party transactions - reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks 		
Nomination	0	1	2	Yes	<ul style="list-style-type: none"> - reviews and evaluates 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 - ensures that those nominated to the 		

					Board meet the requirements set forth by the Manual on Corporate Governance facilitates the annual performance evaluation of the Board as a whole, its respective Board Committees, the individual directors and the President
Compensation and Remuneration	1	0	2	Yes	tasked with the oversight of policies pertaining to salaries and benefits, as well as promotions and other forms of career advancement

2) Committee Members

(a) Executive Committee – None. Not applicable.

(b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Jose L. Cuisia, Jr.	April 16, 2013	5	5	100%	11 yrs
Member (ID)	Gregorio U. Kilayko	April 16, 2013	5	5	100%	5 yrs
Member (ID)	Joselito H. Sibayan	April 16, 2013	5	5	100%	2 yrs
Member	Jose T. Sio	April 16, 2013	5	5	100%	9 yrs
Member	Serafin U. Salvador	April 16, 2013	5	5	100%	9 yrs
Member	Corazon I. Morando	April 16, 2013	5	5	100%	5 yrs
Member	Jorge T. Mendiola	April 16, 2013	5	5	100%	1 yrs

Disclose the profile or qualifications of the Audit Committee members.

Mr. Jose L. Cuisia Jr. (Chairman) – Mr. Jose L. Cuisia Jr. has served as Vice Chairman of the Board of Directors of SM Prime since 1994. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the Former President and Chief Executive Officer of the Philippine American Life and General Insurance Company and is currently the Vice Chairman of Philamlife since August 2009. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. In May 2011, he was awarded the “Joseph Wharton Award for Lifetime Achievement” by the prestigious Wharton School of the University of Pennsylvania for an outstanding career in the country’s banking and social security system.

Mr. Gregorio Kilayko (Member) - Mr. Gregorio U. Kilayko is the former Chairman of ABN Amro’s banking operations in the Philippines. He was the founding head of ING Barings’ stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. He was elected as Independent Director in 2008.

Mr. Joselito H. Sibayan (Member) - the past 25 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles (UCLA), he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Markets’ International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He put up CSFB’s Manila representative office in 1998, which he later migrated to branch status. He

was elected as an Independent Director in 2011.

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

Mr. Jorge T. Mendiola (Member) – Mr. Mendiola was elected as a Director in December 2012. He is currently the President of SM Department Store. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become President in 2011. He is also the Vice Chairman for Advocacy of the Philippine Retailers Association. He received his Masters in Business Management from the Asian Institute of Management and has an A.B. Economics degree from Ateneo de Manila University.

Ms. Corazon I. Morando (Member) – SMIC's Senior Vice President for Legal and Corporate Affairs and Compliance Officer. She holds a Bachelor of Laws Degree from the University of the Philippines and has taken graduate studies in the Ateneo de Manila University for a Masteral Degree in Business Administration, Senior Executive Program. She was formerly Director of the Corporate and Legal Department of the SEC. Atty. Morando monitors compliance with the provisions and requirements of the Manual on Corporate Governance. She likewise represents the company before the SEC on corporate governance matters, issues certifications of the company's compliance with the Manual and identifies, monitors and controls compliance risks.

Mr. Serafin U. Salvador (Member) – Mr. Salvador graduated with a Bachelor of Laws degree from the University of the Philippines in 1968. He also attended the Graduate Tax Program at the Graduate School of Law of the New York University. Atty. Salvador completed his Masters in Business Administration at the Ateneo de Manila University. He likewise attended the TOP Management Program at the Asian Institute of Management and the Managing Multinational Enterprises Program at the INSEAD, Fontainebleau, France. Atty. Salvador was the previous Head of the Tax Division and a Tax Principal of Sycip Gorres Velayo & Co. where he stayed for 30 years. He is also a professor of Taxation in the colleges of Law of the University of the Philippines and the Ateneo de Manila University.

Describe the Audit Committee's responsibility relative to the external auditor.

The Audit and Risk Management Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The BOD and the stockholders approve the Audit and Risk Management Committee's recommendation.

Under the Charter of the Audit and Risk Management Committee, part of the Committee's authority is to pre-approve all auditing and non-audit services, as well as to resolve any disagreements between management and the external auditors regarding financial reporting. The Committee reviews the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit. The Manual on Corporate Governance provides that the Committee shall pre-approve all audit plans, scope and frequency one month before the conduct of external audit.

The Committee also evaluates the performance of the external auditors and exercises final approval on the appointment or discharge of the auditors. The Committee further reviews the independence of the external auditors and meets with the latter separately to discuss any matters that either party believes should be discussed privately.

(c) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Herbert T. Sy	April 16, 2013	1	1	100	8 yrs
Member (ID)	Jose L. Cuisia, Jr.	April 16, 2013	1	1	100	11yrs
Member (ID)	Gregorio U. Kilayko	April 16, 2013	1	1	100	11yrs

(d) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Hans T. Sy	April 16, 2013	1	1	100	11 yrs
Member (ID)	Gregorio U. Kilayko	April 16, 2013	1	1	100	5 yrs
Member (ID)	Joselito H. Sibayan	April 16, 2013	1	1	100	2 yr

(e) Others (Specify)

Provide the same information on all other committees constituted by the Board of Directors:

None. Not applicable.

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	None. Not applicable.	
Audit	None.	
Nomination	None.	
Remuneration	None.	
Others (specify)	None.	

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	None. Not applicable.	
Audit and Risk	<ul style="list-style-type: none"> - Reviewed and approved the following with regard to external and internal auditors: <ul style="list-style-type: none"> o Audit plan, scope and timetable; o Result of audit and management action plan; o Assessment of internal controls and financial reporting. - Reviewed external auditor's report on significant accounting issues, changes in accounting principles, relevant pending tax legislation which would impact SMPHI - Reviewed and approved all audit services provided by external auditor and related audit fees - Reviewed and ensured the Company's related party 	<p>Implement the action plans made based on the results of the self-assessment conducted following the guideline set forth by SEC Memorandum Circular No. 4. Assessment of Audit Committee.</p>

	<p>transactions are conducted at arm's length basis</p> <ul style="list-style-type: none"> - Discussed the results of enterprise-wide risk assessment and Management's action plan to address identified risks 	
Nomination	<p>The Nomination Committee is chiefly responsible for the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. The Committee ensures that those nominated to the Board meet the requirements set forth by the Manual on Corporate Governance, such as but not limited to the mandatory attendance of accredited training or orientation programs on corporate governance. Furthermore, the Committee facilitates the annual performance evaluation of the Board as a whole, its respective Board Committees, the individual directors and the President.</p>	
Remuneration	<p>The Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement.</p>	
Others (specify)	<p>None. Not applicable.</p>	

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	None. Not applicable	
Audit and Risk Management	<ul style="list-style-type: none"> - Business Continuity Management - Reputational Risk Management - Insurance Management - Quality Assurance of Internal Audit Department 	<ul style="list-style-type: none"> - Business interruption risks - Risks that would have an adverse effect on the Company's image - Adequacy of insurance coverage and dependability of insurers/reinsurers - Continuous quality improvement of Internal Audit Department -
Nomination	<ul style="list-style-type: none"> • Enhance the process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, and appoint competent, professional, honest and highly-motivated management officers • Formulate succession plans for top key management positions and review such plan on a regular basis • Identify areas for improvement of the members of the Board, such as training/continuing education programs or any other form of assistance that directors may need in the performance of their duties 	
Remuneration	<ul style="list-style-type: none"> • Periodically review the compensation method for directors, officers and employees so that they are equitable and appropriately corresponds to the respective assigned duties and responsibilities, current business environment and performance results of the Company 	

	<ul style="list-style-type: none"> Define goals and evaluate the performance of top management to set reasonable compensation
Others (specify)	None. Not applicable.

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

SMPHI is committed to protect and preserve its ability to continue its operation by ensuring that its assets, both tangible and intangible, are protected against damage and loss. As such, it has implemented a program of risk management through the identification, analysis and financial controls of risks which can most impact on the Company's ability to pursue its approved strategy.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Board of Directors, through the Audit and Risk Management Committee, reviewed the Company's risk management system and found the same to be effective and adequate.

(c) Period covered by the review;

Year 2013

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The risk management system is reviewed on an annual basis. Effectiveness of the system is evaluated based on number of risks identified, risks mitigated and risks monitored.

(e) Where no review was conducted during the year, an explanation why not.

None.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

SM Prime is covered by SM Group's Risk Management Policy set out in the next section.

Risk Exposure	Risk Management Policy	Objective
Safety and Security Risk	The safety and security risk management policy requires the identification of all company assets and assessment of threats and risks thereto in order to implement appropriate actions.	Promote and protect the safety and security of SM's employees, tenants, customers and associates.
Financial Risks	The financial risk management policy sets out the principles and acceptable techniques for	Mitigate or manage risks arising from (a) exposure to changes in interest rates and foreign

	mitigating or managing identified financial risks.	exchange rates, (b) actions of and transactions with tenants, and (c) internal actions of the Company.
Information Security Risk	The information security risk management policy requires a process to deploy suitable countermeasures to reduce information security risks and protect the information assets.	Ensure the confidentiality, integrity and availability of the Company's information systems and its infrastructure.
Regulatory Compliance Risk	The Code of Ethics provides that the company shall comply with all applicable laws and regulations and must not in any way compromise the good name and reputation of the Company.	Ensure that all malls are complying with required regulatory permits and licenses.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p>The following mother risk management policy applies to all the subsidiaries of the Group:</p> <p>(i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives.</p> <p>(ii) To protect and preserve:</p> <ul style="list-style-type: none"> • our employees' and clients' safety and welfare • the value and condition of properties and assets • our local and global reputation <p>(iii) To align risk appetite and strategy.</p> <p>The Enterprise Risk Management Committee (ERM) has been set up to execute the risk mitigation strategies and programs that have been approved at the Audit and Risk Management Committee of the Board. The ERM has been established in each of the subsidiaries including the holding company. The Risk Management Department at the holding company coordinates the launch and roll-out program of the ERM and in standardizing the program across companies.</p> <p><u>Please note that the Group basically follow the risk prioritization listed in the given table.</u></p>		

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
<p>Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines:</p> <ul style="list-style-type: none"> • Majority shareholders may dominate major Company decisions • Lack of transparency on the actions and decisions of majority shareholders • Abusive and inequitable conduct on the part of majority shareholders • Rights of minority shareholders may not be upheld and protected

The Company adopts certain measures that ensure that the aforementioned risks are mitigated, such as cumulative voting.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Safety and Security	Annual audit by third parties (one for safety and another for security)	The Customer Relations Service Department is responsible for maintaining the safety and security of all SM Malls through implementation of access control system. Department personnel are also trained to respond to safety and security incidents.
Financial Risks	Regular monitoring of interest and forex rates, financial ratios and ageing of accounts receivables.	For interest rate risks: Use of both fixed and floating rate debts; interest rate swaps; NDFs, refinancing or prepayment of high-interest loans. Foreign currency risk: Cross-currency swaps; foreign currency call options Credit Risk: Tenant Screening AR Management (collection agency). Capital Management Risk: Maintain approved debt to equity ratio.
Information Security Risk	The Information Security Department monitors compliance with Information Security Policy and incidents of information security breaches.	Implementation of mandatory clauses of ISO 27001 standards.
Regulatory Compliance Risk	The Enterprise Risk Management Department monitors status of compliance with regulatory requirements thru reports submitted by the Operations units of the Company.	Structures and processes are in place to ensure regulatory compliance from construction to operation. Checklist of regulatory requirements are being used to track compliance.

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
The holding company provides down-line policy support and coordination to the subsidiaries and affiliates with regard to Corporate Governance, Risk Management, Finance, Internal Audit, Investor Relations, Human Resources, Compliance, Legal matters.		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit and Risk Management Committee	<p>The following functionally reports to the ARMC:</p> <ul style="list-style-type: none"> • Chief Internal Auditor • Head of Corporate Governance and Risk Management 	<p>The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans, auditing processes and related party transactions. Under its amended Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.</p>
Management Committee	Has over-all management control over departments and instrumentalities of the Company.	Ensures the achievement of goals and strategies set by the Board.
PAIV Committee	A management committee that handles whistle blower policy cases.	Upon receipt of an incident report, the Committee 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.
Enterprise Risk Management Committee	Composed of all the Risk Owners (department heads) and chaired by the CFO.	Updates the Risk Logs and monitors execution of action plans to mitigate exposures.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

The internal control system of the company is defined as the set of processes implemented by the Board of

Directors, Management and all employees to provide reasonable assurance that the company's objectives will be achieved.

- (b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board of Directors, through the Audit and Risk Management Committee, has reviewed the internal control system of the Company based upon the assessments completed and reported by the internal and external auditors. The Board found the internal control system to be effective.

- (c) Period covered by the review;

Year 2013

- (d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Internal controls are reviewed on annual basis for high risk processes of key business units based on the Internal Audit Plan submitted by the Chief Audit Executive to senior management and the Board for review and approval. The Board relies upon the assurances provided by the Internal Audit Department, through the Audit and Risk Management Committee, through the latter's conduct of audit engagements to evaluate, among other things, the following:

- **reliability and integrity of information and the means used to identify, measure, classify, and report such information;**
- **design of established systems to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on the organization;**
- **the means of safeguarding assets, and as appropriate, verifying the existence of such assets;**
- **effectiveness and efficiency with which resources are employed; and**
- **operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.**

- (e) Where no review was conducted during the year, an explanation why not.

Not applicable, reviews of priority high risk areas were carried out in 2013.

2) Internal Audit

- (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Independent Reviewer	Internal Controls	In-house	Christopher S. Bautista (up to August 2013) Davee M. Zuniga (from September 2013 onwards)	Quarterly reporting of significant observations to the Audit and Risk Management Committee
Coordinator	Enterprise Risk Management	In-house	Christopher S. Bautista	Quarterly reporting on result of risk

				assessment and monitored risks to the Audit and Risk Management Committee
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- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes, as stated in the Internal Audit Charter.

- (c) Discuss the internal auditor’s reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Chief Audit Executive, representative of the Internal Audit Department, reports functionally to the Board through the Audit and Risk Management Committee.

The Internal Audit Charter provides the Internal Audit Department direct and unfettered access to the board and audit committee and to all records, properties and personnel.

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Christopher S. Bautista	Transfer to SMPHI Finance
Eunice M. Sotto	Transfer to SMPHI Finance
Perjelyn Joy G. Episcope	Career growth opportunity
Ma. Lenie Rose A. Celajes	Transfer to SM Calamba Accounting
Kristopher D. Marasigan	Career growth opportunity
Steve S. Bagbagen	Career growth opportunity
Jasmin Rose E. Austria	Career growth opportunity
Carlo S. Tabadero	Transfer to SMPHI Finance
Ria Jeannie C. Gatoc	Transfer to SMPHI Finance

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit’s progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	100% completion of 2013 Audit Plan
Issues⁶	- Non-compliance with internal policies and procedures - Process and/or system design issues
Findings⁷	- Unbilled and/or uncollected rental fees
Examination Trends	All noted issues and findings are discussed with concerned Management for appropriate action. Internal Audit monitors implementation of committed action plans.

⁶ “Issues” are compliance matters that arise from adopting different interpretations.

⁷ “Findings” are those with concrete basis under the company’s policies and rules.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

Policies & Procedures	Implementation
Guidelines on Planning an Engagement	Implemented
Guidelines on Compliance Audit Planning for Mall-Wide Sale	Implemented
Policies and Guidelines on Sampling Selection	Implemented
Policies and Guidelines on Communicating Engagement Results	Implemented
Guidelines on Integrating IT Audit with Operating and Financial Audit	Implemented
Implementing Guidelines of Process Flowcharting	Implemented
Tenant Audit Manual	Implemented
Reimbursement of Travel Expenses	Implemented
Guidelines on Company-Sponsored Professional Certifications	Implemented

(g) Mechanism and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company’s shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Internal Audit - Dual reporting line of Internal Audit Department – functional reporting to the Board through Audit and Risk Management Committee and administrative reporting to Management	Conflict of Interest Policy	Conflict of Interest Policy	Not applicable.
Internal Audit - Duly approved Audit Committee Charter and Internal Audit Charter			
External Audit – Non-audit services and fees are subject to review			

and approval by the Audit and Risk Management Committee.			
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(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company’s full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

Henry T. Sy, Jr. – Chairman of the Board of Directors
Hans T. Sy – President

H. ROLE OF STAKEHOLDERS

1) Disclose the company’s policy and activities relative to the following:

	Policy	Activities
Customers' welfare	Code of Ethics: All directors, officers and employees shall be guided by fairness, professionalism, courtesy and respect when dealing with customers and shall endeavor at all times to provide excellent and diligent service.	The Company engages in various activities which focus on the different segments of its customer-base – youth, women and breastfeeding mothers, elderly, Overseas Filipino Workers and their families and persons with disability.
Supplier/contractor selection practice	Code of Ethics: All directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with SMPHI. They must adhere to the Company’s principles of healthy competition, equal opportunity and fair treatment of business partners.	Securing proposal from at least three (3) reputable contractors/service providers and selecting best offer consistent with identified business solution.
Environmentally friendly value-chain	Code of Ethics: The Company is committed to the protection of the environment and shall comply with all applicable environmental laws and regulations.	<ul style="list-style-type: none"> - Construction and renovation of malls with core focus on efficiency and sustainable design. - Audit of resource consumption pattern and pursuing highest attainable levels of resource efficiency. - Solid waste management.
Community interaction	Code of Ethics: The Company shall initiate and participate in charitable causes and community organizations to improve the quality of life of the community where it operates,	<ul style="list-style-type: none"> - Granting of college scholarships - Donating school buildings - Conducting medical missions - Refurbishing rundown public health centers

	through education, health care and livelihood programs.	- Kabalikat sa Kabuhayan Program which provides farmers training on effective ways of producing high yielding fruits and vegetables
Anti-corruption programmes and procedures	The Company's whistle blower policy 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 stakeholder may submit an incident report on suspected or actual violations of the Code of Ethics and Discipline or any other applicable law or regulation. Upon receipt of an incident report, management is tasked to conduct an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Anyone who in good faith reports a violation of the Code or policies or law shall not be retaliated upon or suffer harassment or adverse employment consequence.	
Safeguarding creditors' rights	Code of Ethics: All directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with SMPHI. They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.	<p>The Company observes propriety and acts with fairness and transparency in dealing with business partners (i.e., contractors, suppliers, creditors and other entities that engage in business with the Company). The Company adheres to its principles of healthy competition, equal opportunity and fair treatment of business partners.</p> <p>The Company strictly respects agreements with creditors, manages loans according to lending objectives, ensures timely repayment of loans and interests, thoroughly honors loan conditions as agreed and competently operates the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.</p>

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

The Company devotes separate sections in the Annual Report to discuss its corporate responsibility and sustainability initiatives.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Code of Ethics provides that the Company shall maintain a safe, productive and conducive workplace and environment and comply with all applicable health, safety and environmental laws.

(b) Show data relating to health, safety and welfare of its employees.

The Company 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, the Company facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and has recently employed the services of a 24 hour roving ambulance service. The Company has also adopted holiday themed activities, to foster camaraderie and provide balance in a fast paced work atmosphere.

(c) State the company’s training and development programmes for its employees. Show the data.

The Company has Curriculum-Based Training Program with customized trainings for the various levels in the organization. The courses are designed to develop or enhance competencies:

Basic Training Program – A curriculum for Rank and File employees designed to develop basic professional skills to enhance productivity.

Supervisory Development Program – A curriculum for Officer and Supervisor levels designed to develop administrative, leadership, and decision-making skills. The focus is on supervising direct reports and managing specific work responsibilities.

Managerial Development Program – A curriculum for Department-level Managers designed to develop operations level management and implementation skills. The focus is on the management of specific workgroup.

Senior Managerial Development Program – A curriculum for Senior-level Managers designed to develop strategic management and implementation skills at the strategic business unit level.

Executive Development Program – A curriculum for executives designed to develop strategic –level management, implementation and control of multiple strategic business units or entire enterprise.

(d) State the company’s reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

The Company offers Long Term Incentive Plan designed to improve retention of employees and enhance their performance by providing rewards that are tied to the Company’s long-term goals.

4) What are the company’s procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

Upon receipt of complaint from an employee, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanction thereafter. Further, policy provides that anyone who in good faith reports an incident shall not be retaliated upon or suffer harassment or adverse employment consequence.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
SM Investment Corporation	14,197,128,987	51.03%	Henry Sy, Sr.-04% Felicidad T. Sy-5.12% Henry T. Sy, Jr.-7.34% Hans T. Sy-8.28% Herbert T. Sy-8.28% Harley T. Sy-7.35% Teresita T. Sy-7.17% Elizabeth Sy-5.87%

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Jeffrey C. Lim	50,000	-	0.00
TOTAL	50,000	-	0.00

2) Does the Annual Report disclose the following:

Key risks	√
Corporate objectives	√
Financial performance indicators	√
Non-financial performance indicators	X
Dividend policy	X
Details of whistle-blowing policy	√
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	√
Training and/or continuing education programme attended by each director/commissioner	X
Number of board of directors/commissioners meetings held during the year	√
Attendance details of each director/commissioner in respect of meetings held	√
Details of remuneration of the CEO and each member of the board of directors/commissioners	√

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

Items not disclosed in the Annual Report may be found in the Company's information statement and websites.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
Sycip Gorres Velayo & Co.	Php5,000,000	Nil

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

- **Website**
- **Briefings**
- **Press Releases**
- **Annual Reports**

5) Date of release of audited financial report:

March 21, 2013 attached to 2012 Definitive Information Statement (SEC 20-IS)

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	√
Financial statements/reports (current and prior years)	√

Materials provided in briefings to analysts and media	√
Shareholding structure	√
Group corporate structure	√
Downloadable annual report	√
Notice of AGM and/or EGM	√
Company's constitution (company's by-laws, memorandum and articles of association)	√

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

None. Not applicable.

7) Disclosure of RPT

RPT	Relationship	Nature	Value (in Thousands)																																		
SM Investments Corporation	Parent	The Company leases land, maintains certain investments held for trading, AFS investments and long-term debt and also has other receivables and payables related in the normal course of business.	<table> <tr> <td>Rent income</td> <td>Php115,048</td> </tr> <tr> <td>Rent receivable</td> <td>4,424</td> </tr> <tr> <td>Sponsorship income</td> <td>3,898</td> </tr> <tr> <td>Service income</td> <td>53,040</td> </tr> <tr> <td>Trade receivable</td> <td></td> </tr> <tr> <td>- others</td> <td>14,868</td> </tr> <tr> <td>Interest income</td> <td>3,339</td> </tr> <tr> <td>Due from related parties</td> <td>295</td> </tr> <tr> <td>Rent expense</td> <td>189,214</td> </tr> <tr> <td>Rent payable</td> <td>7,417</td> </tr> <tr> <td>Administrative expenses</td> <td>9,578</td> </tr> <tr> <td>Accounts payable</td> <td></td> </tr> <tr> <td>- others</td> <td>3,561</td> </tr> <tr> <td>Due to related parties</td> <td>9,538,271</td> </tr> <tr> <td>Trade payable</td> <td>55,550</td> </tr> <tr> <td>AFS Investments</td> <td>69,205</td> </tr> <tr> <td>Dividend income</td> <td>4,597</td> </tr> </table>	Rent income	Php115,048	Rent receivable	4,424	Sponsorship income	3,898	Service income	53,040	Trade receivable		- others	14,868	Interest income	3,339	Due from related parties	295	Rent expense	189,214	Rent payable	7,417	Administrative expenses	9,578	Accounts payable		- others	3,561	Due to related parties	9,538,271	Trade payable	55,550	AFS Investments	69,205	Dividend income	4,597
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Banking and Retail Group	Affiliates	The Company leases out its mall spaces and maintains certain bank accounts, short-term investments, investments held for trading and AFS investments.	<table> <tr> <td>Cash and cash equivalents</td> <td>Php21,912,510</td> </tr> <tr> <td>Rent income</td> <td>10,393,358</td> </tr> <tr> <td>Rent receivable</td> <td>2,670,556</td> </tr> <tr> <td>Deferred rent income</td> <td>103,567</td> </tr> <tr> <td>Sponsorship income</td> <td>3,508</td> </tr> <tr> <td>Interest income</td> <td>559,419</td> </tr> <tr> <td>Accrued interest receivable</td> <td>114,832</td> </tr> <tr> <td>Marketing fee income</td> <td>28,463</td> </tr> <tr> <td>Trade receivable</td> <td></td> </tr> <tr> <td>- others</td> <td>28,463</td> </tr> <tr> <td>Receivable financed</td> <td>48,307</td> </tr> <tr> <td>Interest expense on receivable financing</td> <td>147,094</td> </tr> <tr> <td>Loans payable and long-term debt</td> <td>2,130,000</td> </tr> <tr> <td>Interest expense</td> <td>216,644</td> </tr> <tr> <td>Accrued interest payable</td> <td>1,868</td> </tr> <tr> <td>AFS Investments</td> <td>8,904,881</td> </tr> <tr> <td>Investments in held for trading</td> <td>691,711</td> </tr> </table>	Cash and cash equivalents	Php21,912,510	Rent income	10,393,358	Rent receivable	2,670,556	Deferred rent income	103,567	Sponsorship income	3,508	Interest income	559,419	Accrued interest receivable	114,832	Marketing fee income	28,463	Trade receivable		- others	28,463	Receivable financed	48,307	Interest expense on receivable financing	147,094	Loans payable and long-term debt	2,130,000	Interest expense	216,644	Accrued interest payable	1,868	AFS Investments	8,904,881	Investments in held for trading	691,711
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			Escrow fund	862,865
			Acquisition of land	6,184
			Dividend income	240,037
Other Related Parties	Affiliate	The Company leases land where one of its malls is located for a period of 50 years, renewable upon mutual agreement of the parties. The Company also pays management fees to its affiliates, Shopping Center Management Corporation, West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. In 2012, SM City Xiamen entered into an offshore loan agreement with SM Laiya (SM Department Store in China). Also, SM China Companies provide noninterest-bearing cash advances to FHREC, an associate.	Service income	25,200
			Due from related parties	2,143,211
			Management fee receivable	4,723
			Trade receivable - others	11,716
			Due to related parties	14,707
			Accrued expenses	1,109,453
			Management fee expense	963,126
			Accrued management fee	105,209
			Administrative expenses	971
			Accounts payable - others	638
			Advances for project development	3,607,122
			AFS Investments	3,615,246
			Sponsorship income	7,406
			Interest income	21,972
			Gain on disposal of land	33,314

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks. Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

There are no other transactions undertaken or to be undertaken by the Company in which any former/current Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or will be involved or had or will have a direct or indirect material interest.

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Stockholders representing majority of the outstanding capital stock
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(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	Vote of stockholders
Description	Corporate acts are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
None. Not applicable.	

Dividends

Declaration Date	Record Date	Payment Date
April 16, 2013	May 16, 2013	June 11, 2013

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>Notice of the Annual Stockholders' Meeting was given to all stockholders at least 21 business days before the meeting to provide stockholders with enough time to examine the information. The Notice enclosed essential and adequate facts on all items on the agenda for consideration and approval of the stockholders.</p> <p>As provided for in the Company's Manual on Corporate Governance, minority stockholders have the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.</p>	<ul style="list-style-type: none"> • Notice of the Annual Stockholders' Meeting • Information Statement
<p>To facilitate stockholders who cannot attend the meeting, they are encouraged to fill out, date, sign and send a proxy. For corporate stockholders, the proxies should be accompanied by a Secretary's Certificate on the appointment of the corporation's authorized signatory.</p>	<ul style="list-style-type: none"> • Notice of the Annual Stockholders' Meeting • Proxy Forms • Information Statement
<p>To ensure that all stockholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee</p>	<ul style="list-style-type: none"> • Notice of the Annual Stockholders' Meeting • Information Statement

Chairmen and Members, Senior Management, Corporate Secretary and the Independent Auditors are always present during the Annual Stockholders' Meeting. The meeting agenda provides an opportunity for stockholders to freely express their views and raise their concerns at the meeting.	
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2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
 - a. Amendments to the company's constitution
 - b. Authorization of additional shares
 - c. Transfer of all or substantially all assets, which in effect results in the sale of the company

Corporate acts such as amendments to the Company's constitution, authorization of additional shares, and the transfer of all or substantially all assets, which in effect results in the sale of the Company, are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company. The agenda enclosed in the Notice of Annual Stockholders' Meeting would include such corporate acts for the consideration and approval of the stockholders.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?
 - a. Date of sending out notices: March 21, 2013 (Annual Stockholders' Meeting) / June 19, 2013 (Special Stockholders' Meeting)
 - b. Date of the Annual/Special Stockholders' Meeting: April 16, 2013 (Annual Stockholders' Meeting) / July 10, 2013 (Special Stockholders' Meeting)
4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

A stockholder noted that SM received bad publicity on the issue of cutting pine trees in Baguio and asked what steps the Board was doing to handle the issue. The Board answered that SM was able to obtain all the clearance required and explained that the bad publicity was coming from a group of people who did not understand the situation. The Board acknowledged that there has been failure of information campaign and reiterated its commitment to preserving the environment.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of Minutes of 2012 ASM	100%	0%	0%
Approval of 2012 Annual Report	100%	0%	0%
General Ratification of Act of BOD	100%	0%	0%
Appointment of External Auditors	100%	0%	0%
Approval of Minutes of 2013 ASM	100%	0%	0%
Merger with SM Land	100%	0%	0%
Amendment of Articles of Incorporation	100%	0%	0%
Issuance of Additional Common Shares	100%	0%	0%

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

April 16, 2013 (same day of meeting)

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None. Not applicable.	

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Henry Sy Sr. Henry T. Sy, Jr. Jose L. Cuisia Jr. Hans T. Sy Herbert T. Sy Gregorio U. Kilayko Joselito H. Sibayan Jorge T. Mendiola	4/16/13	Show of hands	0%	84.64%	84.64%
Special	Henry Sy Sr. Henry T. Sy, Jr. Jose L. Cuisia Jr. Hans T. Sy Herbert T. Sy Gregorio U. Kilayko Joselito H. Sibayan Jorge T. Mendiola	7/10/13	Show of hands	0%	87.43%	87.43%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

Yes. The Company's External Auditor serves as the independent party that counts/validates votes during the ASM.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. Per the Company's By-Laws, common shares carry one vote for one share.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.

Notary	Notarization of proxies is not required.
Submission of Proxy	Proxies must be filed with the Corporate Secretary at least five (5) days before the stockholders' meeting.
Several Proxies	Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation.
Validity of Proxy	In compliance with the Corporation Code, unless otherwise provided in the proxy, said proxy shall only be valid for the meeting for which it is intended. No proxy shall be valid or effective for a period longer than five (5) years.
Proxies executed abroad	Per the Company's By-Laws, at every meeting of the stockholders, each stockholder shall be entitled to vote in person or by proxy. Stockholders may vote the share or shares standing in his name on the stock transfer books of the Corporation, regardless if they are abroad.
Invalidated Proxy	Two inspectors may be appointed by the Board of Directors before or at each meeting of the stockholders of the corporation, at which an election of directors shall take place; the inspectors shall receive and take charge of all proxies and ballots and shall decide all questions touching upon the qualifications of voters, the validity of proxies and the acceptance and rejection of votes.
Validation of Proxy	
Violation of Proxy	

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
<p>Based on the Company's By-Laws, <i>except as otherwise provided by law, written or printed notice of all annual and special meetings by stockholders, stating the place and time of the meeting and, if necessary, the general nature of the business to be considered, shall be transmitted by personal delivery, mail, telegraph, facsimile or cable to each stockholder or record entitled to vote thereat at his last known address appearing on the corporate books of the Corporation at least fifteen (15) business days before the date of the meeting, unless a shorter period is or hereafter allowed under the law or the rules of the Securities and Exchange Commission. Except where expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. If any stockholder shall in person or by attorney-in-fact authorized in writing or by telegraph, cable or facsimile, waive notice of any meeting, whether before or after the holding of such meeting, notice need not be given to him. Notice of any adjourned meeting of the stockholders shall not be given, except when expressly required by law. No failure or irregularity of notices of any regular meeting shall invalidate such meeting at which all the stockholders are present or represented and voting without protest.</i></p>	<p>In practice, the Company sends out notice of annual or special stockholders' meeting at least twenty-one (21) calendar days before the actual meeting. Included with the notice are the documents required for proxy voting, copies of the annual report, information statement and other relevant materials pertaining, but not limited to information on nominated directors and external auditors (for appointment or re-appointment) and resolutions to be taken up during the meeting.</p>

(i) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	2,544
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	March 21, 2013 (Stockholders' Meeting) / June 19, 2013 (Special Stockholders' Meeting)
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	March 21, 2013 (Annual Stockholders' Meeting) / June 19, 2013 (Special Stockholders' Meeting)
State whether CD format or hard copies were distributed	CD
If yes, indicate whether requesting stockholders were provided hard copies	Not applicable

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	✓
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	✓
The auditors to be appointed or re-appointed.	✓
An explanation of the dividend policy, if any dividend is to be declared.	X
The amount payable for final dividends.	✓
Documents required for proxy vote.	✓

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Inclusion of the dividend policy and the amount payable in the Notice of the Annual Stockholders' Meeting is currently being studied by the Company. The Notice of the Annual Stockholders' Meeting includes the stock dividends in the agenda.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
Manual on Corporate Governance	<p>The Company's Manual on Corporate Governance provides for the rights of its minority stockholders. Rights include, but are not limited to the following:</p> <ul style="list-style-type: none"> • Voting Rights • Appraisal Right • Inspection Right • Right to Information • Right to Dividends

Code of Ethics	<p>The Company's Code of Ethics provide for the following:</p> <ul style="list-style-type: none"> • The Company respects and protects the rights of its shareholders. The Company shall adopt strategies and plans with the end view of increasing shareholder value. • The Company shall maintain complete and accurate books of accounts and records in accordance with applicable laws and standards. The Company shall also ensure an independent audit of its financial statements by external auditors. The Company shall maintain a system of internal controls to ensure that financial reports present fairly the financial position and operations results of the Company. • Shareholders shall be provided with complete, accurate, material and timely information regarding their investment and the Company's operations. To this end, the Company undertakes to publicly disclose all material information, including its results of operations and financial position.

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes. Under the Company's By-Laws and Corporate Governance Manual, it is a stockholders right to nominate candidates to the Board.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

For financial results, the disclosure is quarterly. All results have to be presented to the audit committee and the board for approval and eventually approved by the Chief Information Officer for distribution to the public. One off items such as material disclosures relating to capital expenditures, fund raisings, project launches, etc. are disclosed upon approval of the management committee and the chief information officer.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

SM Prime is committed to providing its stakeholders and the public timely and accurate information pertaining to its business operations. SM Prime consistently enhances its disclosures to provide greater transparency by regularly updating its website. The separate corporate governance section of the website is used to disclose to the public all of SM Prime's efforts to further develop its corporate governance culture and features subsections of the CG Working Group, policies, programs, and other relevant endeavors.

Also, SM Prime actively participates in non-deal roadshows/conferences hosted by various brokers to meet with

existing and prospective investors.

	Details
(1) Objectives	<ul style="list-style-type: none"> • Assist investors in making investment decisions with regard to shares of SM and its listed subsidiaries. • Guide analysts in formulating their forecasts and recommendations with regard to the valuation and prospects of SM and its listed subsidiaries. • Provide the regulators, the media and the general public with the most current information about SM Investments and all of its core businesses which will have a material impact on the company's overall growth and profitability. • Ensure that material disclosures are immediately disseminated without prejudice to any one group
(2) Principles	<ul style="list-style-type: none"> • Transparency and accountability to all existing and potential investors • Fairness and level playing field for all stakeholders
(3) Modes of Communications	<ul style="list-style-type: none"> • Direct: One-on-one meetings, roadshows, investor conferences, teleconference and video conference • Web based: Website, email services Analyst and media briefings, press conferences, TV/radio guestings • Social media: Twitter • Print: PSE/SEC filings, annual reports, powerpoint presentations, press releases, speeches
(4) Investors Relations Officer	Teresa Cecilia R. Agsalud

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Due diligence, benchmarking, market dynamics, long-term sustainability of the business, synergies with the whole group, cost implications, core competency, board approval, regulatory approvals. All these are done for both acquisition and sale of assets.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

The names of the independent parties vary and will depend on the type of transactions. SM deals with a host of investment banks, external auditors, third party appraisers, legal and tax consultants.

Manabat Sanagustin & Co. ("MS&Co.") – Independent financial advisor

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
SM Cares for Children: Nurturing the Filipinos of Tomorrow	Children
SM Cares for PWDs: Creating a World of Possibilities	Persons with disability
SM Cares for OFWs: Uniting Filipinos Worldwide	OFWs and their families
SM Cares for Women: Making Pinays Proud	Filipino women
SM Cares for the Elderly: Retirees Have Never Felt So Young	Senior Citizens
SM Cares for the Environment	Community

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	<p>Under the guidance of the Nomination Committee, the Board conducts an annual performance self-evaluation. The performance evaluation is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and President as provided for by the Manual on Corporate Governance and By-Laws. Directors are asked to rate the performance of the Board, the Board Committees, themselves as directors and the President, as the embodiment of Management.</p> <p>Directors are also asked to identify areas for improvement, such as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body.</p>	<ul style="list-style-type: none"> • Diversity of competencies • Adequate knowledge of different risks • Industrial background • Academic qualifications • Work in general • Decision making • Discussions on short & long term developments • Discussions on business strategies and plans • Discussions on risks and regulations • Promotion of good governance principles • Promotion of continuing education
Board Committees		
Individual Directors		<ul style="list-style-type: none"> • Independence • Participation • Expertise
CEO/President		<ul style="list-style-type: none"> • effective leadership • integrity • diligence • corporate governance

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
<p>Any violation of a provision found in the Manual on Corporate Governance.</p>	<ul style="list-style-type: none"> a) In case of first violation, the subject person shall be reprimanded. b) Suspension from the office shall be imposed in case of a second violation. The duration of the suspension shall depend on the gravity of the violation. This shall not be applicable to directors. c) For third violation, the maximum penalty of removal from office shall be imposed. With regards to directors, the provision of Section 28 of the Corporation Code shall be observed.