



PRIME

DRIVING
GROWTH,
ENHANCING
VALUE



SEASIDE CITY
CEBU



PRIME

VISION



To build and manage innovative integrated property developments that are catalysts for a better quality of life.

MISSION



We will serve the ever changing needs and aspirations of our customers, provide opportunities for the professional growth of our employees, foster social responsibility in the communities we serve, enhance shareholder value for our investors and ensure that everything we do safeguards a healthy environment for future generations.

Contents

02



At a Glance

- 04 Financial Highlights
- 06 Message to Shareholders
- 08 President's Report

28



Feature Stories

- 28 The World Focuses on the Philippines
- 30 The Emergence of the Mall of Asia Complex

46



Our Company

- 46 Board of Directors
- 49 Corporate Executives
- 50 Awards and Accolades
- 52 Corporate Information



10

Our Businesses

- Malls 10
- Residences 17
- Offices 22
- Hotels and Convention Centers 24



32

Environmental, Social and Governance

- Framework 32
- Roadmap 34
- Corporate Governance 38



53

Financial Reports

- Management's Discussion and Analysis 54
- Audit and Risk 58
- Management Report
- Auditor's Report 59
- Consolidated Financials 60

At a Glance

GRO

Malls

Residences

FAST FACTS

- 56 Malls in the Philippines
- 6 Malls in China
- 8.3 million sqm total Gross Floor Area

OPERATING HIGHLIGHTS

- Total Revenues of PHP42.7 billion grew by 10.5% from 2014
- Net Income of PHP15.0 billion grew by 13.1% from 2014
- Total Investment Properties amounted to PHP190.4 billion

FAST FACTS

- 27 Condominium Projects
- 82,841 Condominium Units (since 2003)

OPERATING HIGHLIGHTS

- Total Real Estate Revenues of PHP22.9 billion grew by 0.9% from 2014
- Net Income of PHP5.1 billion grew by 7.9% from 2014
- Total Assets amounted to PHP108.8 billion

W T H

Offices

FAST FACTS

- 5 Office Buildings
- 317,568 sqm total Gross Floor Area

OPERATING HIGHLIGHTS

- Total Revenues of PHP3.4 billion increased by 19.5% from 2014
- Net Income amounted to PHP1.3 billion grew by 67.3% from 2014
- Total Investment Properties amounted to PHP26.6 billion

Hotels and Convention Centers

FAST FACTS

- 5 Hotels
- 1,167 Hotel Rooms
- 4 Convention Centers and 2 Trade Halls

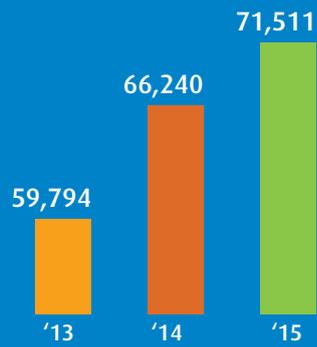
OPERATING HIGHLIGHTS

- Total Revenues of PHP2.4 billion grew by 21.9% from 2014
- Net Income amounted to PHP0.4 billion grew by 57.9%
- Total Investment Properties amounted to PHP9.5 billion

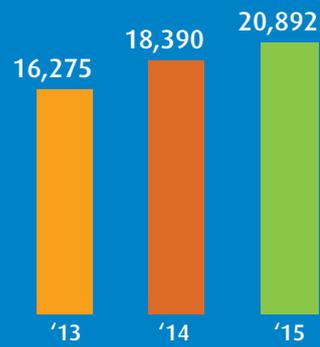
Financial Highlights

	2015	2014	2013
Balance Sheet Highlights (in PHP millions)			
Total Assets	433,828	388,840	335,584
Investment Properties	230,340	192,639	166,850
Total Debt	155,668	129,283	106,313
Net Debt	128,955	93,070	77,132
Total Stockholders' Equity	212,489	199,088	163,267
Income Statement Highlights (in PHP millions)			
Revenues	71,511	66,240	59,794
Cost and Expenses	40,072	38,554	35,659
Operating Income	31,439	27,687	24,136
Net Income	20,892	18,390	16,275
EBITDA	37,815	33,760	29,927
Financial Ratios			
Debt to Equity	42.58	39:61	39:61
Net Debt to Equity	38:62	32:68	32:68
Return on Equity	10%	10%	10%
Debt to EBITDA	4.12	3.83	3.55
EBITDA to Interest Expense	11.19	8.24	8.12
Operating Income to Revenues	0.44	0.42	0.40
EBITDA Margin	0.53	0.51	0.50
Net Income to Revenues	0.29	0.28	0.27
Revenue Profile			
Malls	60%	59%	57%
Residences	32%	34%	35%
Offices	5%	4%	5%
Hotels and Conventions	3%	3%	3%
Asset Profile			
Malls	65%	63%	61%
Residences	25%	27%	29%
Offices	7%	8%	8%
Hotels and Conventions	3%	2%	2%

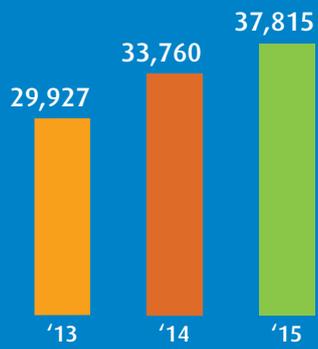
*Above financial data reflects core operating income and excludes one-time gain on sale of marketable securities amounting to PHP7.41 billion.



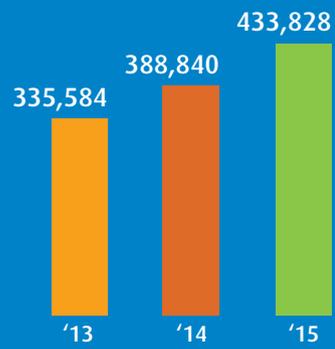
Revenues



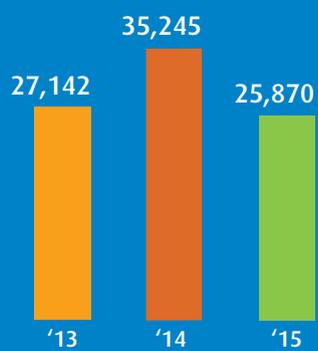
Net Income



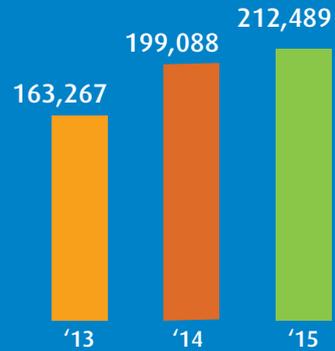
EBITDA



Assets



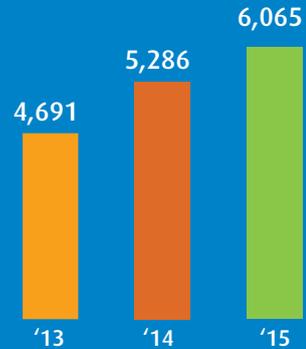
Cash and Cash Equivalents



Equity



Market Capitalization



Dividends Paid

Message to Shareholders



Henry Sy, Sr.
CHAIRMAN EMERITUS

Henry T. Sy, Jr.
CHAIRMAN

To Our Valued Shareholders,

On behalf of the Board of Directors and management, we would like to thank you for your continued support in 2015. Throughout the course of the year, we accomplished most of the goals that were set in 2014, post our transformation as a fully integrated property developer.

Your company posted a record core income and revenue level of PHP20.9 billion and PHP71.5 billion, respectively, the highest since we became a public company in 1994. Our growth was reflective of the sustained economic performance achieved by the Philippines. The Philippines real GDP growth of 5.8% in 2015 is still one of the highest in Southeast Asia.

Because of your continued trust, SM Prime is now one of the largest public companies in the Philippines as measured in terms of market value amounting to PHP626.7 billion as of 31 December 2015.

As a fully integrated property developer, we are in the planning stage in replicating the success of our flagship lifestyle city development, the Mall of Asia Complex, to our other big scale properties. In the medium term, we intend to roll out this kind of integrated development in our properties in Cebu, Pampanga, and Davao. We believe by pursuing large scale developments supported by a strong balance sheet, it would further drive the growth and enhance the value of SM Prime.

One of the key highlights achieved by your company in 2015 was the opening of one of our premier malls, SM Seaside City Cebu in South Road Property (SRP) in Cebu City, with a total GFA of 430,000 square meters. Our mall is the first of many developments in the 30-hectare SM Seaside City Complex. As the anchor development, the mall together with upcoming developments in the complex, will transform the landscape and enrich the way people live, work, and play, not just in Cebu and nearby provinces,

but also in the southern provinces of the Philippines. SM Prime intends to build residential towers, offices, an arena, a five-star hotel, and convention centers in this grand urban development in the coming years. We are investing heavily in the province as we see Metro Cebu as one of our important growth drivers moving forward.

We express our deep gratitude to you, our shareholders, for your unwavering trust and continued confidence. We thank our partners and our customers for their loyal support. We extend our appreciation to our Board of Directors for their wisdom and guidance. We commend the inspiring leadership of the management as they relentlessly steer the company to be one of the most competitive and diversified property developers in the region. And we thank our employees for their sincere and collective team contribution to our growth. As prospects remain optimistic, we look forward to a more fruitful partnership in 2016.



Henry Sy, Sr.
Chairman Emeritus



Henry T. Sy, Jr.
Chairman

President's Report



“Looking ahead, we are harnessing the strong synergies between our property businesses, in line with our vision to create community development by building and operating integrated lifestyle cities across the country.”

Hans T. Sy
PRESIDENT

2015 was a remarkable year for SM Prime Holdings, Inc. as we delivered good financial results with strong recurring income growth.

The economic environment supported our performance after gross domestic product grew 5.8%, buoyed by strong overseas remittances and the Business Process Outsourcing (BPO) sector.

Our performance the past year shows that we are on track to deliver our five-year goals and are enjoying the benefits of our transformation into a large-scale, integrated property developer.

In 2015, we reported recurring net income at PHP20.9 billion, an increase of 14% from last year on the back of consolidated revenue growth of 8% to PHP71.5 billion. These were the highest income and revenue levels recorded since the company went public in 1994. Consolidated net income increased 54% to PHP28.3 billion including a one-time gain on the sale of marketable securities.

Rental revenues from malls and commercial spaces, which contributed 57% to consolidated revenues, surged 12% to PHP40.7 billion from PHP36.5 billion in the previous year.

In October, we celebrated the 30th anniversary of mall development since building SM North EDSA in 1985. Today our company has grown to a total of 62 malls—56 in the Philippines and six in China with a total floor area of 8.3 million square meters, an increase of 13% in 2015. Of this total, our Philippine mall footprint in Gross Floor Area (GFA) ended the year with 7.3 million sqm, up by 12% from the previous year.

SM Prime opened the 430,000 sqm SM Seaside City Cebu, one of the premier malls in our portfolio and the first of its kind in urban development. This will not only revolutionize the shopping experience but the total lifestyle living in Cebu, its neighboring cities, and the entire Southern Philippines.

The growth of new malls and expansions under two years of operation also contributed to the same-store rental growth of 7% increase. These malls are: SM Aura Premier, SM City BF Parañaque, Mega Fashion Hall in SM Megamall, SM City Cauayan in Isabela, SM Center Angono in Rizal, and SM City San Mateo in Rizal. Together with the expansion of SM City Bacolod, there was additional total GFA of 728,000 sqm last year. In China, our company increased GFA to 0.9 million sqm after the opening of SM City Zibo.

Our residential business also continues to provide a steady revenue stream as SM Prime's real estate sales contributed 31% to consolidated revenues at PHP22.2 billion in 2015. The housing group delivered a net income growth of 8% to PHP5.1 billion. High-rise condominium projects continued to enjoy brisk reservation sales recording a 14% increase in value worth PHP39.4 billion. In 2015, we delivered a total of 14,227 units. The growth in the residential business is driven by the underlying domestic need for housing where there is a notable backlog especially in the affordable segment. In order to address this, we are leveraging synergies with our retail business to address growth opportunities in Metro Manila and nearby provinces.

With the solid performance of the BPO sector, rental growth in the commercial office space was also complemented by the opening of our new office buildings SM Cyberwest in Quezon City and FiveE-comCenter in Pasay City, which are both almost 100% lease-awarded. Combined, these office spaces added GFA of 171,000 sqm. With these, Commercial Properties Group contributed 5% of consolidated revenue, grew by 19% from PHP2.9 billion to PHP3.5 billion.

In Hotel operations, we opened the 154-room Park Inn Clark in Pampanga last year which is just across our mall in that area. We are also excited to open the Conrad Manila in the latter half of 2016. This 347-room hotel will further enhance the value of the properties within the whole Mall of Asia Complex.

We are increasingly focused on growth opportunities outside of Metro Manila even as we expand our existing assets such as the Mall of Asia Complex and SM North EDSA in the next few years.

As a group, we continue to maintain a strong balance sheet and deliver strong recurring revenue which give us high confidence in our growth plans.

Overall, we are committed to earmark PHP60 billion annually over the next three years to achieve our development roadmap and income targets by 2018. We are confident that, with your support, we are on our way to realizing our vision.

Looking ahead, we are harnessing the strong synergies between our property businesses, in line with our vision to create community development by building and operating more integrated and sustainable lifestyle cities across the country.

Allow me to express my gratitude to you, our shareholders, for your trust and confidence and our Board for their support and guidance. We thank our customers and partners for your loyalty and we express our full appreciation to our employees for faithfully performing their invaluable efforts for the organization.

Together, we are well-positioned to pursue higher growth in 2016.



Hans T. Sy
President

MALLS



SM Prime's mall development and operations business continues to drive robust growth in the integrated property development.

PHP **42.7B**
Revenue



PHP **15.0B**
Net Income



8.3M sqm
Gross Floor Area



Fast Facts

MALLS

56 Malls Philippines
6 Malls China

TOTAL GFA

7.3M sqm Philippines
0.9M sqm China

AVERAGE DAILY PEDESTRIAN COUNT

3.5M Visitors Philippines
0.2M Visitors China

PARKING SLOTS

78,455 Slots Philippines
7,134 Slots China

MALL TENANTS

16,842 Tenants Philippines
1,539 Tenants China

CINEMA SEATS

139,889 Seats Philippines
6,456 Seats China

Raising Shopping Standards

SM Supermalls, SM Prime's mall development and operations group, has become the Philippines' largest chain of malls in just over three decades. It has grown from one store to 56 malls throughout the country, three of which are among the biggest in the world.

SM Supermalls' success is firmly rooted in catering to the needs and aspirations of its patrons: well-curated brands in partnership with the world's best retailers, the best dining tenants in the local and global scene, a wide array of entertainment options, awe-inspiring architecture combined with eco-friendly designs, and a warm ambience that allows shoppers from all walks of life to feel safe, comfortable, and happy.

In the first half of 2015, SM Prime launched two new malls. The 51st mall, SM Megacentre Cabanatuan is the first SM mall in Cabanatuan City, Nueva Ecija. The 52nd mall, SM City San Mateo is the first SM mall with a cinema in San Mateo, Rizal. Spurred on by the success of SM Megacentre Cabanatuan, SM Supermalls

opened its 2nd mall in Cabanatuan City in less than six months. The bigger SM City Cabanatuan showcases two parks: The Garden Park, an outdoor elevated garden with canopied walkways, and the Roof Park, a fully air-conditioned indoor park surrounded by restaurants on the topmost floor.

In October 2015, SM Supermalls gained a foothold in the populous city of Caloocan with the opening of SM Center Sangandaan. The new mall is strategically located along the busy intersection of Samson Road and M.H. Del Pilar Street, bringing the SM brand of shopping closer to the highly dense cities of Malabon, Navotas, and Caloocan. In the same month, SM Prime acquired and relaunched the popular local brand Cherry Shaw, a pioneer in the grocery business.

SM Prime earmarked PHP1.5 billion to redevelop SM Mall of Asia, which will expand its selling area by about a third and become the country's first shopping mall with a football field on its roof deck. Once completed, the mall will have almost



SM Seaside City Cebu



SM City Cabanatuan; Mall Opening (inset)

700,000 sqm of retail area, surpassing Megamall’s 474,000 sqm. SM Mall of Asia will then evolve into SM Supermalls’ largest shopping mall.

To cap off 2015, SM Seaside City Cebu opened its doors to Cebu and nearby cities. The 3rd SM mall in the Queen City of the South is also the third largest in the Philippines. SM Seaside City Cebu is one of the first developments in the master plan of SM Prime for their 30-hectare complex at the South Road Properties, a lifestyle city project located a few meters from Cebu’s central business district. The SM Seaside City Cebu Complex is planned to have office and residential buildings, a conference and convention center, a five-star hotel, an arena, and other community facilities.

For the year 2016, SM Prime will open five new malls in the Philippines—SM City Trece Martires in Cavite, SM City San Jose Del Monte in Bulacan, Cherry Congressional, Cherry Antipolo, and SM City East Ortigas. Also in the pipeline is the expansion of SM City Clark, 1 of 3 SM malls in Pampanga. The project, expected to be completed by the third quarter of 2016, entails the construction of office buildings catering to BPO industry locators.

Events

SM Supermalls



Sinulog Festival Queen Runway Competition 2015

Sinulog Festival Queen Runway is a pre-pageant event for the annual Search for Festival Queen in Cebu. The competition held last January at SM City Cebu presented different queen representatives from provinces nationwide, where they showcased their colorful costumes.



Panagbenga Flower Festival Float Parade

SM City Baguio was awarded as the "Hall of Famer for Best in Float" in the well-loved Panagbenga Flower Festival. They joined the parade as a support to the city, where its float entry symbolized gratitude to the land.



Castaway 2.0 Music Festival

SM City Pampanga and SM City Clark rocked the most spectacular and intensely awesome music party event, by creating a more fun and thrilling summer experience with top notch DJs, music icons, and more!



Masskara Pintas

Pintas Figuras 2015, held at SM City Bacolod, showcased the impressive talents of the contestants, where their creativity and resourcefulness were put to the test. The participants displayed unique body art designs that embodied the colorful Masskara Festival in Bacolod City.



SM Partners Summit

The SM Partners Summit is a two-day event held last October 21 to 22 at the SMX Convention Center in celebration of SM Supermalls' 30th anniversary. It has strengthened the tenant synergy through a Retail Summit forum and SM Partners Awards Night.



Biggest Lantern of Hope

The Pampanga Eye at Sky Ranch Pampanga stands 65 meters above ground and was launched as the Biggest Lantern of Hope during the recent Holiday season. It also served as the backdrop for the Grand Pyro Musical Show. The fireworks display was accompanied with the Yuletide song "Kumukutikutitap" by Ryan Cayabyab.

Mall Of Asia Arena



Ed Sheeran Concert

British singer-songwriter Ed Sheeran performed in front of a large crowd last March 12. Ed played his recent album X (Multiply) but also sang old hits like Lego House and The A Team.



Monster Jam

One of America's biggest family entertainment show "Monster Jam" was held last June 20-21 that entertained over 22,000 Filipino fans of all ages with its action-packed monster truck racing, freestyle competition, ATV racing, and motocross exhibition.



The Ultimate Show

Four of the country's biggest names in the music industry: Martin Nievera, Regine Velasquez-Alcasid, Gary Valenciano, and Lani Misalucha held a two-night concert Ultimate Valentine show last February. A huge crowd of 17,000 was serenaded in celebration of life and love.



International Premier Tennis League

Mall of Asia Arena hosted the successful three-day tennis match event that brought legends and rising stars like Rafael Nadal, Serena Williams, Jo-Wilfried Tsonga, Ana Ivanovic, Gael Monfils, and over 30 other tennis superstars to the country for the second season of the International Premier Tennis League in December 2015.



SM Spells Magic

SM Prime President Mr. Hans T. Sy joined Walt Disney Company Asia President, Paul Candland last September to formalize their partnership to bring the Disney brand of stories closer to Filipinos through mall and cinema activities.



UFC Fight Night Manila

The Ultimate Fighting Championship's first event in the country happened last May 16 with energetic UFC fans. The UFC Fight Night 66 had 12 bouts including Mark Muñoz vs Luke Barnatt and Frankie Edgar vs Urijah Faber.

Mall Listings

PHILIPPINES

(In order of development)

Metro Manila

North EDSA	Mall of Asia
Sta Mesa	Pasig
Megamall	Muntinlupa
Southmall	Marikina
Fairview	Las Piñas
Manila	Novaliches
Sucab	Ara
Bicutan	BF Parañaque
San Lazaro	Cherry Shaw
Valenzuela	Sangandaan

Luzon

Bacoor	Rosales	Megacenter Cabanatuan
Pampanga	Baliwag	San Mateo
Lucena	Naga	Cabanatuan
Baguio	Rosario	
Marilao	Tarlac	
Dasmariñas	San Pablo	
Batangas	Calamba	
Molino	Masinag	
Sta Rosa	Olongapo	
Clark	San Fernando	
Lipa	Cauayan	
Taytay	Angono	

Visayas

Cebu
Iloilo
Bacolod
Consolacion
Seaside Cebu

Mindanao

Davao
Cagayan de Oro
General Santos
Lanang



CHINA

(In order of development)

Xiamen
Jinjiang
Chengdu
Suzhou
Chongqing
Zibo

RESIDENCES



The residential groups SM Development Corporation, Costa Del Hamilo, Inc., and Highlands Prime, Inc. continue to deliver aspirational homes in the lifestyle districts of the metro, as well as upscale leisure homes amid nature's embrace.

PHP **22.9B**
Revenue



PHP **5.1B**
Net Income



82,841
Condo Units



Delivering the Five-star Life

SM Prime's primary residential group SM Development Corporation (SMDC), continues to fulfill its promise to deliver the "five-star life", offering homeowners luxurious yet affordable homes set in prime locations.

Several projects were launched in 2015, most notable is the Shore 2 Residences in the Mall of Asia (MOA) Complex. This new development boasts of a vast amenity deck that spans the entire 2.5-hectare property, taking resort living a step further.

South Residences in the Southmall Complex pioneered a new concept in lifestyle living. Its proximity to a premier mall gives its residents more than just SMDC's five-star amenities by providing easy access to an IMAX Theater, bowling alleys, an ice skating rink, doors to the latest trends in fashion, and world-class dining options.

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



Shore 2 Residences; amenities (inset)



Lobby of South Residences



Groundbreaking of SMDC Residential Project in Chengdu

Overall in 2015, SMDC delivered more than 10,000 units to excited new homeowners.

In celebration of its 10th year this 2016, SMDC will add 10 developments into its current portfolio, translating to more than 15,000 residential units. Developments in the metro will now expand nationwide by creating vertical living spaces perfectly integrated within SM Malls in various locations outside the metro. Building well-planned horizontal communities in key provincial areas such as Bulacan, Pampanga, and Cavite will elevate the lifestyle of more Filipinos.

Events

SMDC



Truefaith

SM Development Corporation (SMDC) organized a Date Night last January at the Prism Plaza, TwoE-comCenter in Mall of Asia Complex. Prospective home buyers were treated to a night of music with the remarkable performance of the '90s alternative band Truefaith.



Billy Crawford

An exciting concert by singer, dancer, and TV host Billy Crawford left potential SMDC unit buyers in awe as they witnessed his stunning dance moves for the SMDC Date Night at the Sky Dome in SM City North EDSA last March.



Regine Velasquez

Unit buyers were serenaded by Asia's Songbird Regine Velasquez at the SMDC Date Night held last April at the SMDC Grand Showroom in Mall of Asia Complex.



Angeline Quinto and Erik Santos

Premier ballad singers Angeline Quinto and Erik Santos returned to the SMDC Grand Showroom for a special night last May to perform their hit songs for SMDC home buyers.



Martin Nievera

Martin Nievera proved to be a crowd favorite as he performed before the SMDC unit buyers. After staging a successful performance last July, he was requested to come back for the SMDC Date Night in November at the SMDC Grand Showroom.



James Reid and Nadine Lustre

James Reid and Nadine Lustre performed in front of a record high crowd at the SMDC Grand Showroom last October for the SMDC Date Night.

Promoting Sustainable Developments

Building a Sustainable Beach Resort Town

Hamilo Coast, SM Prime's maiden foray into the seaside resort leisure residences category, stays true to its vision of redefining beach resort living in the Philippines.

Its first community, Pico de Loro Cove, unveiled several enhancements in 2015. A restored boardwalk and additional prime

beachfront cabanas were introduced in the beach area for a more comprehensive list of beach activity offerings. Homeowners enjoyed immediate turnover of their beach homes with the roll out of a purchase-to-unit turnover assistance program to cut process lead time. And with the growing community, water sources were augmented to meet community needs.

In an important milestone, Hamilo Coast was granted the Bronze Benchmarked status by EarthCheck, the world's leading scientific benchmarking certification and advisory group for travel and tourism. The sustainable operation standards met by Hamilo Coast made it the first residential resort development in the country to be given such award, proving that development and preservation can co-exist.

Hamilo Coast consistently aims to become the Philippines' premier beach resort town. With sustainability in mind, future generations can continue to enjoy everything it has to offer—the leisurely ideals and active pursuits at the heart of the grandness of nature.



Pico de Loro Cove Condominium Projects

The Prestige of Living at Tagaytay Highlands

Tagaytay Highlands continues to be the country's premier mountain resort town through its relentless growth and innovation, enhancing the value and quality of life of its homeowners.

The year 2015 marked the completion of two of its prime developments—Aspenhills and Woodridge Place. The mountain ranch-inspired residential lot development Aspenhills completed the construction of its amenities such as the Village Hall, Little Ranch Playground, and the Sunshine Picnic Grove.

Contributing to the increase of this year's total revenue sales, the Colorado-inspired condominium development Woodridge Place recorded a sales growth of 159% compared to the previous year with the completion and turnover of Mahogany Tower units. The Linden Tower topping off was another construction

milestone, completing the lock-up and leave Woodridge condominium development.

With its world-class recreational amenities, full service facilities and sustained development, Tagaytay Highlands continues to provide its homeowners a luxurious and dynamic lifestyle tailored for one's utmost comfort and relaxation.



Woodridge Place Living Room

OFFICES



SM Prime's Commercial Properties Group continues to provide cutting-edge architecture and buildings with state-of-the-art features that cater to international requirements of outsourcing companies and business headquarters.

PHP **3.4B**
Revenue



PHP **1.3B**
Net Income



0.3M sqm
Gross Floor Area



Elevating Offices to New Heights



FiveE-ComCenter

SM Prime's Commercial Properties Group (CPG) remains a game changer in the commercial office space industry as it delivers more modern and iconic office buildings in prime locations.

Recently launched is the iconic 15-story FiveE-ComCenter, a 129,000-sqm office building designed by Miami-based architectural firm Arquitectonica. The building has an open-air fourth floor podium called the FiveE-Com Prism Plaza that offers a relaxing, scenic view of the historical Manila Bay from the busy atmosphere of the workplace. Aside from the podium, establishments are readily available within the building such as banks, shops, gyms, restaurants, and the supermarket in Mall of Asia which is just adjacent to the building. Following the success of the TwoE-ComCenter, FiveE-ComCenter is close to 100% lease-awarded, with internationally-recognized companies such as Telstra | TeleTech, Visa, Royal Caribbean, and Vestas, among others.

As a game changer, CPG is working on the ThreeE-ComCenter project to be the first LEED Gold Certified office under its portfolio. LEED or Leadership in Energy and Environmental Design is the most recognized



ThreeE-ComCenter; Groundbreaking (inset)

and widely used standard which certifies how buildings and communities are planned, constructed, maintained, and operated using environmentally responsible and sustainable practices.

SM Prime is ready to reinforce its presence in the industry through the upcoming FourE-ComCenter scheduled to be completed in 2019, and SixE-ComCenter already in the pipeline. Building more iconic and sustainable structures, SM Prime has elevated the bar in commercial property development.

HOTELS AND CONVENTION CENTERS



SM Hotels and Conventions Corp. emerges as the country's leading provider of a wide range of trusted hotels and convention facilities.

PHP 2.4B
Revenue



PHP 0.4B
Net Income



1,167
Hotel Rooms





Megatrade Hall: Diving Resort Travel Philippines 2015

The Diving Resort Travel (DRT) Philippines is considered to be the largest diving resort travel expo in Asia. The gathering brought together diving enthusiasts, resort owners, underwater photographers, marine conservationists, and anyone with a passion for the underwater world. The event featured exhibitors such as, diving and water sports equipment manufacturers, dive resorts, and national tourism organizations (NTOs). The show, organized by the Hong Kong and Shanghai based LX Development Group (LXDG), was held last September 11-13 at the Megatrade Hall and is the first DRT expo staged in the Philippines.



SMX Manila: Opening of Madrid Fusion

Madrid Fusion marked its first Asian edition in Manila last April at the SMX Convention Center Manila. Celebrated annually, it is the most significant international gastronomy congress where most of the distinguished and acclaimed chefs around the globe convene. The first Madrid Fusion Manila carried the theme "The Philippines and Spain: A 300-year Gastronomic Journey."



SMX Aura: ManilArt

The seventh ManilArt, the largest and most comprehensive visual arts fair in the Philippines, was staged last October at the SMX Convention Center Aura. Presented by the Bonafide Art Galleries Organization (BAGO) and the National Commission for Culture and the Arts (NCCA), the event is an international venue to showcase Philippine contemporary art.



SMX Bacolod: APEC

The Bacolod leg of the Asia-Pacific Economic Cooperation (APEC) meetings for 2015 was held last April at SMX Convention Center Bacolod. With the theme "Disaster Risk Finance - APEC Roadmap for Resilient Economies", the summit was attended by senior finance officials and hundreds of Filipino and foreign delegates from the 21-member countries.



SMX Davao: Davao Trade Expo

Organized by the Davao City Chamber of Commerce, the 17th Davao Trade Expo 2015 was held last September at SMX Convention Center Davao. The three-day event carried the theme "Building Local Products for the Global Community" showcasing the livestock, poultry, game fowl, and aquaculture industries. Experts convened to provide the best practices and developments on industry standards and emerging markets.

Events

Radisson Blu Cebu

Radisson Blu Cebu marked its 5th anniversary with a classical gala concert dubbed as Blu Sapphire last November. Directed by Nestor Jardin, the concert showcased performances by the country's brightest talents. Entertainment numbers were provided by multi-awarded opera singer Rachele Gerodias, South Korean baritone Byeong-in Park, Cebu Philharmonic orchestra, Mandaue Children's Choir, Regina Magbitang, Peter Lloyd San Juan of Philippine Ballet Theater, and saxophonist Joshua Espinosa. Cebu's top designers Jun Escario, Philipp Rodriguez, Philip Tampus, Ixa Escario, and Joyce Maw also featured their creations.



Taal Vista Hotel

Taal Vista Hotel welcomed Asia-Pacific Economic Cooperation (APEC) delegates for an initial APEC Forum last March. The Department of Finance spearheaded the meeting which was aimed to promote discussion of financial policies and programs among member economies. This event was a prelude to the APEC Leaders' Meeting set last November, where heads of states and other top representatives from 21 member economies-countries gathered.

Conrad Manila

Opening its doors this 2016, Conrad Manila is the latest luxury hotel born out of a partnership between SM Hotels and Conventions Corp. (SMHCC) and Hilton Worldwide. Conrad Manila features a distinctive architectural design inspired by international cruise liners. The hotel consists of 350 rooms with two floors of entertainment and retail shops. Conrad Manila is preparing to serve the discriminating taste of both international and domestic leisure and business travelers. This will be the main gateway to other tourist destinations in the country.



Hotels

Park Inn by Radisson Clark

Designed for the millennials, the 154-room Park Inn by Radisson Clark opened last December. The hotel offers its friendly, fresh, vibrant, and uncomplicated brand that focuses on delivering the modern essentials of a great hotel experience. Through its signature “Adding Color to Life” service concept, Park Inn by Radisson Clark is the best venue for meetings and social events. Park Inn by Radisson Clark is situated next to SM City Clark and is 10 minutes away from Clark International Airport.



Park Inn by Radisson Davao

Park Inn by Radisson Davao and World Wide Fund collaborated on a program that allows the Hotel guests to donate their loose change to the projects of WWF around the country through a donation drop box at the lobby of the hotel. The placement of the donation box started last November. WWF Philippines and Park Inn by Radisson Davao will jointly promote this program and its ideals to existing and potential hotel guests and is enjoining corporations to mitigate their carbon emissions, reduce their ecological footprint, and to incorporate sustainability into their core business through the different WWF corporate engagement programs.

Pico Sands Hotel

Last November, Pico de Loro Cove Beach and Country Club (PDLBCC) proudly announced the launch of the Pico de Loro Cove Beach and Country Club and Philippine Airlines’ (PAL) Mabuhay Miles partnership. Philippine Airlines, Asia’s first airline, is the national flag carrier of the Republic of the Philippines. This partnership allows guests to earn Mabuhay Miles points whenever they stay at Pico Sands Hotel at qualifying rates.



Feature Story



South Open Parking in MOA Complex during the Papal Visit

The World Focuses on the Philippines

In 2015, all eyes were on the Philippines as SM Prime raised the bar higher by hosting two historic global events—the Papal Visit of Pope Francis and the APEC Summit.

As early as October 2014, leaders from the Vatican selected the Mall of Asia (MOA) Arena in MOA Complex, as one of the venues for the Apostolic Visit of the Holy Father, Pope Francis. MOA Arena is a state-of-the-art facility already known for hosting topnotch sports and entertainment icons, but SM Prime knew that hosting the Papal Visit requires special preparation.

SM Prime’s recreational arm SM Lifestyle Entertainment, Inc. (SMLEI), spearheaded the planning sessions, in coordination with other SM business units, the Catholic Bishops’ Conference of the Philippines (CBCP), religious organizations, and National Government Agencies (NGAs). The group focused on the safety of the Holy Father and the welfare of all devotees, to ensure a peaceful and meaningful event.

On January 16, 2015, thousands of Catholic devotees gathered at the MOA Complex for “The Meeting of Families” held at the MOA Arena. The Holy Father met with families chosen by their respective parishes to bring his Apostolic message



The Papal Motorcade in MOA Complex

of “Mercy and Compassion”. The South Open Parking beside the MOA Arena was converted into a venue similar to St. Peter’s Square to accommodate also the families outside. Live streaming of the event was broadcasted through selected SM Cinemas and LED screens strategically located on the official route of the Papal Motorcade, from the Papal Nuncio to the MOA Arena. The Papal Motorcade got close to the 25,000 crowd anxiously waiting to feel the presence of the Holy Father.

After showcasing the capacity to host and comply with the strictest security protocol for the Pope, MOA Arena was viewed yet again as a venue of choice for the “APEC Economic Leaders Meeting Welcome Reception” for various heads of state. This selection process was done by the National Government and the Asia-Pacific Economic Cooperation–National Organizing Committee (APEC–NOC).



APEC Leaders Summit 2015



President Barack Obama and President Benigno Aquino Jr.

When the final venue selection was made in July 2015, the APEC–NOC discussed with top executives of SM Prime the requirements for hosting an international interest event. The SM groups organized a committee that would ensure the best possible scenario and see that meticulous preparation is undertaken.

From the numerous table top scenario planning, to countless walkthroughs, to venue setups, to dress rehearsals, to the security and routing plans—no detail was left to chance by the APEC–NOC for the Philippine hosting of this historic event. MOA Arena welcomed 21 heads of state and 800 of the Philippines’ top government and business leaders last November 18. Aesthetic improvements and facility-related adjustments were made at the MOA Arena to conform to the over-all theme of “Building Inclusive Economies, Building a Better World”.

The welcome dinner took place at the Coral Way Lobby, which was transformed into a paradise of tropical greenery. Lush green foliage

contributed to a garden-like atmosphere. Hand-crafted comfortable lounges made of bamboo, rattan, and wood setting using local Filipino materials were distributed at the spacious concourses of the MOA Arena. The main dinner venue featured giant *anahaw*-inspired lamps that were hanged using an elaborate grid system. At the centerpiece of the dinner hall was a table set for the 33 esteemed guests seating in Yoda chairs specially designed by renowned Filipino furniture designer Kenneth Cobonpue. Top government and business leaders of the country enjoyed modern Filipino gastronomic delights prepared by Via Mare Founder Glenda Barretto and Chef Margarita Fores. To keep the esteemed guests entertained, a multitude of stage set-ups around the dinner hall were used by the Philippines’ finest talents El Gamma Penumbra, Makiling Ensemble, Buganda, Powerdance, Madrigal Singers, Cecil Licad, apl de ap, Arnel Pineda, Jessica Sanchez, Charice, Jed Madela, Reynan, Martin Nievera, and Gary Valenciano. The entire show was directed by Paolo Valenciano who utilized the best of technologies available to showcase the Filipino talent and various Filipino destinations interspersed in a multi-media production.

Through the resounding success of these historic global events, the MOA Complex proves itself as a premier venue with top-notch facilities, not only in the Philippines, but throughout Asia, and the rest of the world.

Feature Story



Iconic Globe in Mall of Asia

The Emergence of the Mall of Asia Complex

In the 1990s, the economy was on an upward swing marked by a robust property sector and soaring financial and capital markets. The boom was however short-lived with the Asian Financial Crisis in 1997. Back then, retail pioneer and known visionary Henry Sy, Sr. dreamed of building more than just a shopping complex; he wanted a premier integrated leisure destination. That vision has turned into reality in 1999 with the Mall of Asia (MOA) Complex in Pasay.

The beginning of the MOA Complex

Mr. Sy envisioned an integrated business and entertainment complex on a much grander scale. It would feature world-class facilities such as a premier shopping mall, residences, hotels, offices, and other entertainment facilities that would be at par or even rival similar mixed-use developments in Asia.

Almost 100 hectares of land along the scenic Manila Bay was reclaimed and transformed to be the MOA Complex. The massive property was divided



Mall of Asia Complex Project Site



Mall of Asia Complex

into several zones which include the Retail Block, composed of the SM Mall of Asia, and SM by the Bay; the Residential Block, which consists of Sea, Shell, and Shore Residences; the Office Block, composed of the SM Corporate Offices as well as E-Com Centers; and the Entertainment/Civic Block, consisting of SM Mall of Asia Arena, SMX Convention Center, Conrad Hotel, and One Esplanade.

The integrated setup where retail, residential, commercial, and recreational spaces are one has transformed the once barren property into a thriving lifestyle city.

Duplication of success in Cebu

SM Seaside City Cebu complex is a recent 30-hectare development at the South Road Properties (SRP) in Cebu that mirrors the strategy and success of the MOA complex. The Chapel of San Pedro Calungsod was the first structure to open at SM Seaside, just as the Shrine of Jesus, the Way, the Truth, and the Life paved the way for development of the Mall of Asia Complex. The SM Seaside City Cebu mall soon after followed and was opened in the latter half of 2015.

This grand urban development at the SRP will be a landmark in the region, enriching the way people live, work, and play in this community. When completed, the complex will include residential towers, hotels, a convention and exhibition center, an arena, a school, and a hospital.

Henry Sy, Sr. saw many possibilities for growth and development. Against a wall of doubt, his dream and vision transformed the wilderness into a lifestyle destination that we now know as the Mall of Asia. With the same leap of faith and for many years to come, the SM Group will continue to build on this vision to give the country a new sense of pride, as well as enjoyment and convenience to the Filipino family.



SM Seaside City Cebu

Environmental, Social and Governance

SM Prime's Legacy and Sustainability

With the Company's history dating back to 1958, it holds a legacy in creating positive economic impact. SM Prime has successfully achieved dominance in mall operations and development all over the Philippines, reaching a total of 56 malls in 2015 with a total gross floor area of over 7 million square meters that have an average daily foot traffic of over 3.5 million people and have over 16,000 tenants. SM Prime has ventured into the China market as well, operating 6 shopping malls and pursuing more investments as part of its expansion.

Driven by its vision, passion for innovation, and commitment to serve its customer, SM Prime has enabled itself to transform the concept of malls from mere shopping locations to premier destinations. SM malls are more than just an avenue to showcase global and local brands and product assortments, they offer the best customer experience – from entertainment, recreation, dining choices, and a multitude of services.

Over the years, the Company has managed to demonstrate strength and stability through its chain of malls, diversification, and most importantly, commitment to sustainability. Long before sustainability became a mainstream concept, SM Prime has been upholding its heritage and success by building world-class malls to bring lifestyle experience to every community it serves, implementing sustainable designs for resiliency, and investing in innovative technologies for efficiency.

In a constantly evolving business landscape, SM Prime's continued prosperity hinges on its ability to scale up its sustainability initiatives. Guided by its mission, SM Prime is driving shared progress by delivering both shareholder value and stakeholder value.

The full Environmental, Social and Governance (ESG) report can be accessed from the SM Prime website (www.smprime.com)



ESG Framework

The ESG framework formed by SM Investments Corporation (SMIC) is integral to the long-term success of its entities, including SM Prime, as it aligns economic performance with the environmental, social, and governance priorities of the entire conglomerate.

SM Supermalls – a significant business for SM Prime – has been instrumental in fulfilling SMIC's vision to serve as a catalyst for development of the communities which it serves. In line with SMIC's framework, SM Supermalls is developing sustainable operating models, creating opportunities for social development to its host communities, observing the practice of good governance, engaging its business partners toward sustainability, and harnessing its human capital.

Following are the highlights of SM Supermalls' ESG initiatives in 2015.

Environmental

SM Supermalls considers resource efficiency when carrying out operations, which translates into substantial savings with diminished environmental stress.

To elaborate, the efficient management of air-conditioning systems in 2015 avoided the consumption of 192 million kWh within the year, equivalent to savings of PHP1.47 billion. This also prevented greenhouse gas (GHG) emissions of 110 thousand tonnes of CO₂e. Water treatment facilities installed within the malls, on the other hand, resulted in recycling 29% of water consumed from suppliers, equivalent to 4 million cubic meters of avoided purchase and further extraction from the environment.

In 2015, total GHG emissions from mall operations was about 870 thousand tonnes of CO₂e, mainly accounted for by electricity consumption. Lastly, from the 4.4 million kg of waste produced by the SM Supermalls, 38% was reused and recycled.



GHG



Water



Energy



Recycled Waste

Social



Gender Equality



Training



PWD



Senior Citizen

SM Supermalls is acutely cognizant of the internal and external aspects of its social initiatives. As one of the largest employers in the country, SM Supermalls puts special attention to the diversity, development, and welfare of its employees. In 2015, SM malls in the Philippines had a total of 6,997 employees (64% female), receiving an average of 21 training hours each, and entitled to vacation, sick, and parental leaves. Of those who availed of parental leave, 90% returned to work after the coverage period.

As a major shopping mall operator in the Philippines, SM Supermalls is in a unique position to put the needs of all types of customers at the core of its programs. Customers are the lifeblood of the Company's business – therefore, it creates an inclusive environment for customers through SM Cares' programs for persons with disabilities, individuals with autism and Down syndrome, and senior citizens, among others. SM Supermalls' efforts have earned various awards, including the Special Merit Award during the 7th Annual Global CSR Summit under Best Community Program category.

Governance

Adoption of corporate governance principles and adherence to best practices are paramount to the viability of the Company's business. The principles of fairness, accountability and transparency constitute the foundation of SM Prime's Corporate Governance Framework, and are embedded in every aspect of the Company's operations and its dealings with various stakeholders.

SM Prime's latest distinction, the ASEAN Corporate Governance Award – the most prestigious in the ASEAN region – is a testament to the Company's well-executed governance model and unwavering commitment to ethics and integrity. On November 14, 2015, SM Prime was recognized as one of the Top 50 Publicly Listed Companies in the ASEAN.



Board



Awards

ESG Roadmap: The Way Forward

SM Prime enjoyed a solid and positive 2015. While continuing with its consistent performance through the years, it remains rooted to its goal in shaping a sustainable future. In doing so, the Company is adopting a five-year roadmap that consolidates the ESG efforts of all its business units – mall development and operations, residential development, commercial properties, and hotels and convention centers – for the year 2016 and beyond. SM Prime's vision for this roadmap starts with instituting a process of working with its key stakeholders and re-identifying material issues for SM Prime as a group. After revisiting its priorities, SM Prime's aim is to implement measurable and time-bound goals to establish a robust system of evaluating and tracking its ESG progress.

SM Prime views this roadmap as a significant undertaking, and it presents a tremendous opportunity to forge collaboration among all business units in realizing the Company's aspirations. It has taken the Company years to build its legacy, and embarking now on a larger and equally important sustainability

journey requires dedication and incremental strides. While SM Prime takes pride in its accomplishments thus far, it realizes that much still needs to be done.

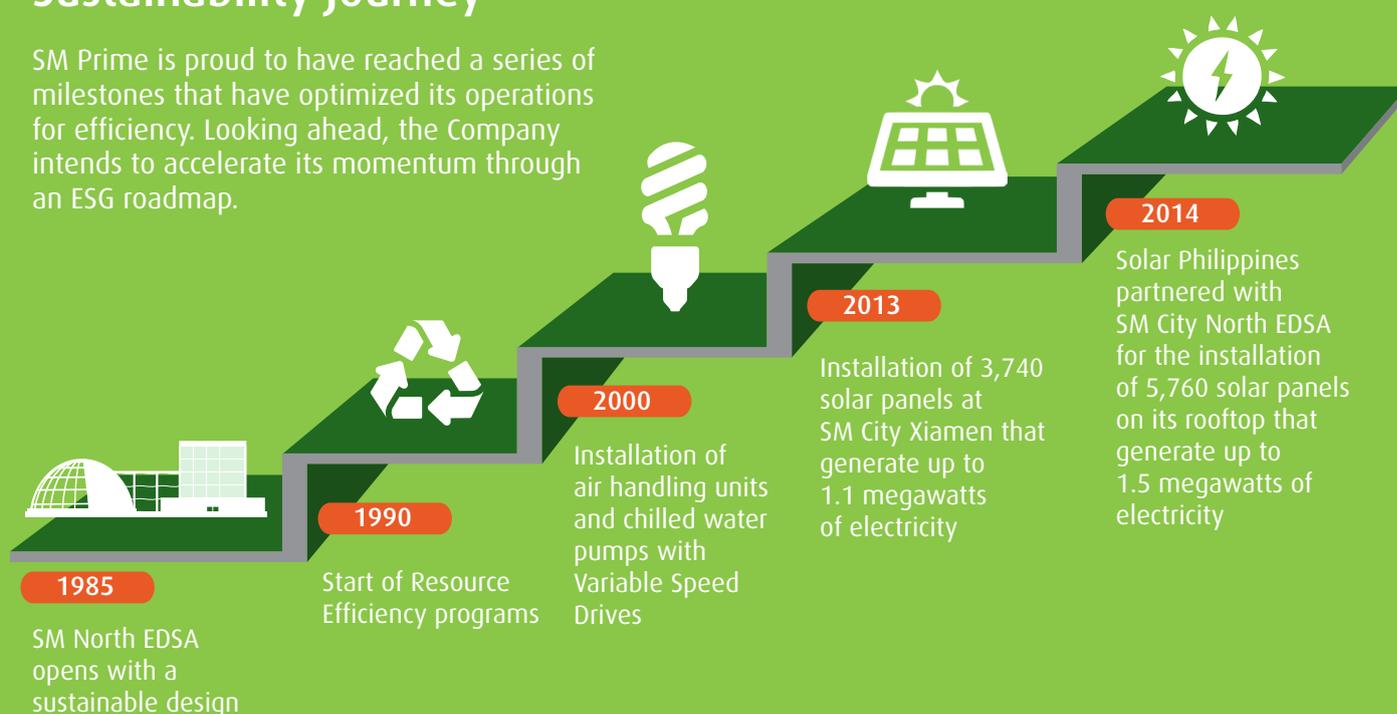
Nevertheless, every step of the way matters. Adherence to the Global Reporting Initiative (GRI) G4 guidelines and the United Nations Sustainable Development Goals (SDGs) signifies as landmark stepping stones in considering all ESG aspects across SM Prime's entire portfolio. Drawing on its business units' main strengths, SM Prime's collective contributions to the SDGs are outlined on the succeeding pages.



SM by the Bay Coastal Cleanup Drive 2015

SM Prime's Sustainability Journey

SM Prime is proud to have reached a series of milestones that have optimized its operations for efficiency. Looking ahead, the Company intends to accelerate its momentum through an ESG roadmap.





- SM Prime has significantly contributed to the Philippine market's economic growth through payment of wages and taxes and community investments.
- The Casual Employment for Senior Citizens program through SM Cares provides senior citizens a chance to work in SM Supermalls nationwide.
- In 2015, the entire group had a total of 10,172 employees, with wages and benefits amounting to approximately PHP2.89 billion.



- In October 2015, SM Cares participated in the Heroes for Children Run fundraising initiative of UNICEF to contribute to its "1,000 Days" campaign.
- One of UNICEF's priorities is to promote access to essential nutrition and health services during the first 1,000 days of human life – right from conception up until the first two years.

- In 2015, SM Cares supported Avon's "Kiss Goodbye to Breast Cancer" Walk and Run.
- About 20,000 participants attended the annual event at the SM Mall of Asia Open Grounds which had the theme, "I Share the Fight Against Breast Cancer."



- SM Development Corporation (SMDC), through its subsidiary, SM Synergy Properties Holding Corporation (SMSY) participated in the Department of Education's Adopt-a-School Program and donated a two-storey, four-classroom building to Pasong Kawayan II Elementary.
- SM Cares holds the National Children's Book Reading Day on an annual basis to instill in the youth the value and importance of reading.

ESG Roadmap: The Way Forward



- SM Cares has partnered with UNICEF on various projects, including the "Drink for 2" campaign, which allocates a portion of the proceeds of SM bottled water to UNICEF for the installation of safe drinking water systems in urban poor areas and remote provinces in the Philippines. This partnership has already helped more than 113,000 children in various provinces and cities.
- SM Cares Housing Project for survivors of Typhoon Yolanda has a built-in provision for clean water.

- Costa del Hamilo, Inc. (CDHI) has installed solar powered LED lamp posts and solar absorption air-conditioning units.
- Commercial Properties Group has switched to LED lights and implemented energy-saving devices in its office buildings.
- Through its Solar Rooftop Project, SM Supermalls shows its commitment to reduce GHG.



Every year, SM Cares together with its partners holds two events to promote awareness and acceptance for all individuals with autism and Down syndrome.

- Angels Walk for Autism
- Happy Walk for Down syndrome

- SMDC's active role in the Subdivision and Housing Developers Association has led to engagement with stakeholders on the development of the Philippine Green Building Code. SMDC is now working on activities aimed at encouraging developers to secure green certifications such as BERDE.
- SM Cares is involved in a project to build 1,000 disaster-resilient homes for the survivors of Yolanda.
- SM Cares educates mall tenants on environmental practices and innovation through the Green Retail Agenda, and educates public school students on climate change through the Green Film Festival.



UN SDGs



- All SM Supermalls promote responsible solid waste management and recycling through “Trash to Cash”.
- This program has already paid out PHP47 million worth of recycled goods to the participating public.

The CDHI unit has spearheaded various ecological initiatives:

- Declaration of Hamilo Coast’s selected coves as marine protected areas
- Activation of Bantay Dagat units to monitor proper fishing methods
- Giant clam seedling to provide reef structures



- SM Cares supports the Department of Environment and Natural Resources and various local government units with their individual greening projects by participating and sponsoring tree planting activities.
- Other examples of contributions to this goal are: CDHI’s rehabilitation of trees affected by diseases and tracking of different bird species in Hamilo Coast.

- SM Prime’s corporate governance model is underpinned by the principles of fairness, accountability, and transparency.
- Paramount to its business performance, SM Prime’s corporate governance framework is the primary basis for ensuring integrity in its business transactions, compliance with the Company’s ethics and values, and alignment with best practices.



- In partnership with the World Wildlife Fund, CDHI develops programs on renewable energy sources, waste management, and ridge to reef management.
- CDHI also collaborates with EarthCheck to measure resource utilization and waste output, enhance design and operational efficiencies, and encourage corporate social responsibility.

Corporate Governance

SM Prime Holdings, Inc. believes that good governance is essential to the continued success of its business, and is dedicated to foster a culture of fairness, accountability and transparency at all levels within the organization. These principles constitute the foundation of SM Prime's Corporate Governance Framework, and are embedded in every aspect of the Company's operations and its dealings with various stakeholders.

The Board of Directors

SM Prime's Board of Directors is at the helm of its governance structure. It is the Board's responsibility to ensure the achievement of the Company's vision and mission in a manner that upholds the values of focus, hard work, innovation, integrity, teamwork and sustainability.

The Board of Directors has three (3) non-executive, independent members to provide balance and ensure impartial discussions during meetings. None of them has served the Company as a consultant, adviser, officer or employee. They are independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment.

In compliance with the Revised Manual on Corporate Governance, the Company provides general access to training courses to directors as a matter of continuous professional education and to maintain and enhance their skills as directors. In August 2015, the Company engaged the Institute of Corporate Directors to provide an exclusive training for the Company's Board of Directors and key executives covering such topics as strategic IT governance; fraud, whistleblowing, anti-bribery and anti-corruption; and financial reporting.

Director's Name	Directorship	Age	Date First Elected	Elected When (Annual/Special Meeting)	No. of Years as Director
Henry Sy, Sr.*	Non-Executive	91	April 1994	Annual	22
Jose L. Cuisia, Jr.	Independent	72	April 1994	Annual	22
Henry T. Sy, Jr.	Non-Executive	62	April 1994	Annual	22
Hans T. Sy	Executive	60	April 1994	Annual	22
Herbert T. Sy	Non-Executive	59	April 1994	Annual	22
Jorge T. Mendiola	Non-Executive	56	December 2012	Annual	3
Gregorio U. Kilayko	Independent	61	April 2008	Annual	8
Joselito H. Sibayan	Independent	57	April 2011	Annual	5

*In a meeting held last February 22, 2016, the Board of Directors appointed Mr. Henry Sy, Sr. as Chairman Emeritus, following SEC's approval of the amended By-Laws, making the Chairman Emeritus a non-voting position.

Board Duties and Responsibilities

SM Prime's Revised Manual on Corporate Governance specifies the duties and responsibilities of the Board of Directors, and delineates the roles of the Chairman of the Board and the President. This separation of roles ensures appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. In full adherence to the principles of corporate governance, the Board has the duty to:

- Install a process of selection to ensure a mix of competent directors and officers;
- Determine and review annually the Company's purpose, vision, mission and strategies to carry out its objectives;
- Oversee the implementation of corporate strategies by reviewing periodically Management Reports on results of operations;
- Ensure that the Company complies with all relevant laws, regulations and codes of best business practices;
- Review periodically SM Prime's succession plan for the Board of Directors and key officers;
- Formulate a clear policy of accurate, timely and effective communications with the Company's stakeholders in the community in which it operates;
- Adopt a system of internal checks and balances;
- Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- Formulate and implement policies to ensure the integrity of related party transactions between and among the Company and its related companies, business associates, major stockholders, officers, directors and their spouses, children, dependent siblings and parents, and of interlocking director relationships;
- Keep Board authority within the powers of the Corporation as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
- Establish and maintain an alternative dispute resolution system to settle conflicts between the Corporation and its stockholders or other third parties, including regulatory authorities; and
- Properly discharge the above functions, among others, by meeting regularly and ensuring that such meetings are duly minuted.

The Board is assisted by a Corporate Secretary to ensure the effective discharge of its duties and responsibilities. The Corporate Secretary assists the Chairman of the Board in the preparation of agenda for Board meetings, puts the Board on notice before every meeting and assists the Board in making business judgments in good faith. The Corporate Secretary gathers and analyzes documents, records and other information, including updates and changes to relevant rules, laws and regulations, and keeps the Board abreast on matters essential to the conduct of their duties and responsibilities.

Board Committees

The Board has established four (4) committees to aid in the performance of its duties. Each committee has adopted a Charter, which defines its composition, roles and responsibilities based on the provisions found in the Revised Manual on Corporate Governance. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings, reporting to the Board and committee advisors.

BOARD COMMITTEES					
COMPENSATION COMMITTEE			AUDIT AND RISK MANAGEMENT COMMITTEE*		
MEMBERS Gregorio U. Kilayko Hans T. Sy Joselito H. Sibayan	DESIGNATION Chairman Member Member	DIRECTORSHIP Independent Executive Independent	MEMBERS Jose L. Cuisia, Jr. Gregorio U. Kilayko Joselito H. Sibayan Jorge T. Mendiola	DESIGNATION Chairman Member Member Member	DIRECTORSHIP Independent Independent Independent Non-Executive
NOMINATION COMMITTEE			EXECUTIVE COMMITTEE		
MEMBERS Joselito H. Sibayan Jose L. Cuisia, Jr. Gregorio U. Kilayko	DESIGNATION Chairman Member Member	DIRECTORSHIP Independent Independent Independent	MEMBERS Henry T. Sy, Jr. Hans T. Sy Herbert T. Sy Elizabeth T. Sy Jeffrey C. Lim John Nai Peng C. Ong	DESIGNATION Chairman Member Member Member Member Member	DIRECTORSHIP Non-Executive Executive Non-Executive Non-Director Non-Director Non-Director

*The Board of Directors approved the creation of separate committees for Audit, Risk Oversight and Related Party Transactions in a meeting on February 22, 2016.

A. The Compensation Committee

The Compensation Committee provides oversight on the compensation and benefits of the Company's officers and directors. It ensures that the compensation structure is aligned with the Company's culture, strategy and control environment, and the amount of compensation is in a sufficient level to attract and retain directors and officers, who are needed to run the Company successfully.

The Compensation Committee is chaired by independent director Mr. Gregorio U. Kilayko, and is composed of members Mr. Joselito H. Sibayan (independent director) and Mr. Hans T. Sy (executive director). The committee had two meetings in 2015. Both meetings were attended by all three directors.

B. The Nomination Committee

The Nomination Committee pre-screens and shortlists candidates nominated by stockholders for election to the Company's Board of Directors in accordance with the qualifications and disqualifications provided in the Revised Manual on Corporate Governance. Such qualifications include ownership of at least one share of stock of the Company, age of at least 21 years and a college degree. The Nomination Committee also assesses relevant experiences, competencies and track record of candidates in light of the strategic goals and objectives of the Company.

The Revised Manual on Corporate Governance provides that the Company may use external search firms/sources in finding candidates to the Board of Directors. The Manual also mandates the conduct of an orientation program for new directors, which focuses on the contributions that a director is expected to make, the roles and responsibilities of the Board and its committees, an overview of the Company's business, including its Corporate Governance Framework, and other matters that will assist them in discharging their duties.

The Nomination Committee is entirely composed of independent directors, with Mr. Joselito H. Sibayan as chairman, and Mr. Jose L. Cuisia, Jr. and Mr. Gregorio U. Kilayko as members. The committee met twice in 2015. All meetings were attended by all members of the committee.

C. The Audit and Risk Management Committee

The mandate for the Audit and Risk Management Committee includes the review of the Company's financial reports and subsequent recommendation to the Board for approval, as well as its risk management and internal control systems, audit plans, auditing processes and related party transactions. This committee directly interfaces with internal and external auditors in the conduct of their duties and responsibilities.

The Audit and Risk Management Committee, which has four (4) members, is chaired by independent director Mr. Jose L. Cuisia, Jr. Other members are independent directors Mr. Gregorio U. Kilayko and Mr. Joselito H. Sibayan, and non-executive director Mr. Jorge T. Mendiola. The committee met four (4) times in 2015, with 100% attendance in all meetings. (Please see the Report of the Audit and Risk Management Committee for the profiles of committee members and for more information on the Committee's roles and activities.)

D. The Executive Committee

The Executive Committee functions when the Board of Directors is not in session. Generally, the committee is responsible for assisting the Board in overseeing the implementation of strategies and long-term goals, reviewing major issues facing the organization, monitoring the operating activities of each business group, and defining and monitoring the Company's performance improvement goals.

Regular committee meetings are scheduled twice a month. In accordance with the Revised Manual on Corporate Governance, actions of the Executive Committee are reported to the Board of Directors at the Board meeting immediately following such action, and are subject to revision or alteration by the Board, as necessary.

Board Meetings

Regular board meetings are held quarterly and scheduled in advance during the previous year. Special meetings may also be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors.

As provided in the Revised Manual on Corporate Governance, the Chairman of the Board supervises the preparation of the agenda for the Board meetings, in coordination with the Corporate Secretary, while taking into consideration the advice and suggestions of the Board and Management. Board papers are made available to all directors at least seven (7) calendar days before the regular/special board meeting to give ample time to all Board members to study items for discussion and decision-making.

The Board of Directors had six (6) regular meetings in 2015 on the following dates: February 23, April 14, May 4, August 3, November 2 and December 7. All six meetings registered 100% attendance of members of the Board of Directors. Apart from these meetings, non-executive and independent directors met separately during the year without the presence of Management.

Board Compensation

Members of the Board of Directors receive a per diem of PHP10,000 (PHP20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. The amount of the per diem is openly discussed during the Annual Stockholders' Meeting and approved by SM Prime's stockholders. Total compensation paid to directors is disclosed annually in the annual report filed with the Securities and Exchange Commission.

Board Evaluation

Annually, the Nomination Committee facilitates the evaluation of the performance of the Board as a whole, its respective Board Committees, the individual directors and the President, based on duties and responsibilities provided in SM Prime's Revised Manual on Corporate Governance and By-Laws. Specifically, the evaluation focuses on the following:

Board Composition	<ul style="list-style-type: none"> Diversity of competencies Adequate knowledge of different risks 	<ul style="list-style-type: none"> Industrial background Academic qualifications
Board Activities	<ul style="list-style-type: none"> Work in general Decision making Discussions on short/long term development Discussion on business strategies and plans Discussion on risks and regulations Follow-up of business plans, strategies, objectives and budget 	<ul style="list-style-type: none"> Setting the tone in promoting good governance principles and policies Promotion of continuing education or director's training Board committee performance
Board Meetings	<ul style="list-style-type: none"> Frequency and length of meetings sufficient to accomplish goals Full and positive participation during meetings 	<ul style="list-style-type: none"> Quality of materials and sufficient time to study such Easy and timely access to information and inputs
Individual Directors	<ul style="list-style-type: none"> Independence Participation 	<ul style="list-style-type: none"> Expertise
President	<ul style="list-style-type: none"> Leadership Integrity Diligence 	<ul style="list-style-type: none"> Adherence to Corporate Governance

The annual evaluation also serves as a venue for identifying areas for improvement in terms of trainings, continuing education programs or any other forms of assistance that the directors may need in the performance of their duties. The evaluation forms also include 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 reviews and evaluates the results of the evaluation, and discusses possible changes that will enhance the performance of the individual directors and the Board as a collective body. The results are then considered by the Nomination Committee in the assessment of potential candidates for the next election of the Board of Directors.

Risk Management, Control and Audit Systems

SM Prime follows an 8-step Risk Management Approach, which starts from the identification and prioritization of risks, to the assessment of risk interrelationship and analysis of the sources of risks, then to the development of risk management strategies and action plans, and ultimately, to the monitoring and continuous improvement of the risk management process.

The Executive Committee provides oversight on the assessment of the impact of risks on the strategic and long-term goals of the Company. The business unit heads are responsible for managing operational risks by implementing internal controls within their respective units. On a quarterly basis, the Audit and Risk Management Committee is updated on status of risk management and improvement plans of the Company.

In 2015, SM Prime successfully completed the implementation and ISO-certification of Business Continuity Management System for its Malls Business Unit, specifically in SM Megamall and Mall of Asia Arena Annex

building. The Company plans to roll out the same system across all malls in the next two years. This further enhances the malls' existing processes to address business continuity risks and facilitates alignment with international standards and leading practices. As part of its overall business continuity strategy, SM Prime invests in disaster-resiliency of its company assets and maintains a comprehensive property insurance program to reduce impact of damages to its properties.

SM Prime prioritizes safety and security in all its properties and requires all its business units to have Emergency Response Procedures in place. The safety and security system implemented in its properties is audited annually by third parties. This gives the Company assurance that risks and impact related thereto are minimized, and necessary improvements in the system are identified and addressed. In terms of information security, SM Prime regularly implements systems vulnerability assessment to proactively detect and address threats and vulnerabilities. In 2015, the Company also initiated the improvement of its security incident and events management by automating the process.

The consolidation of the SM Group's property companies and real estate assets under SM Prime in 2013 provided an opportunity for sharing best practices across different business units to improve processes and controls effectiveness and efficiency. In line with this, the Company continues to implement enterprise-wide alignment of key business processes and internal controls.

The Company's governance, risk management, and control systems are subject to the independent, objective, reasonable, systematic and disciplined evaluation by its Internal Audit function. To maintain its independence, Internal Audit reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. As such, the appointment and removal of the Internal Auditor requires the approval of the Audit and Risk Management Committee, as provided in the committee's Charter.

The Company also engages the services of an external auditor to perform an independent audit and provide an objective assurance on the fairness and presentation of the Company's financial statements. As required by the Revised Manual on Corporate Governance, the external auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the external auditor. Considering this and other relevant matters, the Audit and Risk Management Committee has the responsibility to make a well-informed recommendation regarding the appointment, re-appointment or removal of the external auditor.

Corporate Governance Policies

Manual on Corporate Governance

SM Prime's Revised Manual on Corporate Governance embodies the Company's Corporate Governance Framework. It institutionalizes the principles of good corporate governance by clearly identifying the roles and responsibilities of the Board of Directors and Management, mandating the conduct of communication and training programs on corporate governance and defining the compliance system.

The Revised Manual on Corporate Governance also asserts the rights of stockholders and protection of minority interests. It is the duty of directors to promote stockholder rights, remove impediments to the exercise of these rights and allow possibilities for stockholders to seek redress for violation of their rights.

Voting Right - All stockholders are entitled to vote following the one-share-one-vote system. Stockholders, whether individual or institutional, are encouraged to personally attend the Annual Stockholders' Meeting to exercise their voting right, thereby allowing them to individually elect candidates to the Board of Directors and vote on matters requiring stockholder approval. Nevertheless, proxy voting is permitted and is facilitated through proxy forms available in the Company's website and distributed to stockholders along with the Notice of Meeting.

Inspection Right and Access to Information - All stockholders are given the right to inspect corporate books and records in accordance with the Corporation Code of the Philippines and be furnished with copies of the Company's Annual Report and financial statements. Stockholders may also request the Company to provide periodic reports about its directors and officers, as well as matters for which management is accountable.

Right to Dividend - Stockholders are entitled to receive dividends subject to the discretion of the Board. Dividends shall be declared when the Company's retained earnings are in excess of 100% of its paid-in capital stock, except when justified under certain circumstances, as described in the Revised Manual on Corporate Governance. The Company targets a dividend payout of 30 to 35 percent of the previous year's net income.

Appraisal Right - Stockholders may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares pursuant to Section 81 of Corporation Code of the Philippines. Procedures for the exercise of this right are provided in Notice of Meeting.

All directors, officers and employees are expected to comply with all the provisions of the Revised Manual on Corporate Governance. The Company's Compliance Officer is tasked to monitor compliance with the manual and impose corresponding penalties for noncompliance. There have been no deviations from the manual since it was adopted.

Code of Ethics

The Code of Ethics states the principles that guide the Company's directors, officers and employees in the performance of their duties and responsibilities, and in their transactions with investors, creditors, customers, contractors, suppliers, regulators and the general public. The Code requires full compliance with all applicable laws and regulations.

In line with SM Prime's mission, the Code of Ethics underscores the Company's commitment to promote and protect the welfare of its employees, customers and the communities where its businesses operate. The Code likewise emphasizes the need to protect, sustain and enhance the environmental, social and economic resources needed to deliver long-term growth.

Related Policies and Programs

To complement the principles provided by the Manual on Corporate Governance and Code of Ethics, the Company developed several policies and programs that deal with specific implementation areas:

Creditors' Rights - The Company shall respect agreements with creditors, manage loans according to lending objectives, ensure timely repayment of loans and interests, thoroughly honor loan conditions as agreed, and competently operate the business to assure creditors about the Company's healthy financial standing and loan repayment capabilities.

Supplier Selection - The Company adheres to the principles of healthy competition, equal opportunity and fair treatment of business partners. As such, selection of suppliers follows an open, competitive and non-discriminatory process. SM Prime implements a vendor enrolment process that screens qualifications of vendors or suppliers the Company will deal with. Such qualifications include legality of entity or business, adequacy of financial strength, compliance with SM Prime policies such as conflict of interest disclosure requirements and ethical standards, and support to SM Prime's environmental missions, health and safety culture.

Conflict of Interest - All directors and employees are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts and loans from the Company or its suppliers. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.

Acceptance of Gifts - The Company prohibits the solicitation or acceptance of gifts in any form from a business partner, directly or indirectly, by any director, officer or employee of the Company. The policy is intended to ensure integrity in procurement practices and the selection of the most appropriate business partner in each instance.

Insider Trading - Directors and employees are restricted from disclosing privileged information and participating in trading activities five (5) trading days before and two (2) trading days after the release of quarterly and annual financial results or any other material information. All directors and beneficial owners of the Company are also required to report to the SEC and the PSE any changes in the stock ownership within three (3) business days.

Related Party Transactions - 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 shall be observed at all times. Details of transactions entered into by the Company with related parties are required to be reviewed by independent directors to ensure these are conducted at arms' length.

Communication and Compliance

SM Prime understands that the continuous growth and development of its corporate governance culture rests on the promotion and awareness of the principles of good governance. As such, the Company continues to strengthen its training and orientation programs. Through the Human Resource Department's orientation program, new employees are given an overview of the various components of SM Prime's Corporate Governance Framework, the Code of Ethics and related policies. Copies of these policies, as well as several e-learning modules on corporate governance, are likewise made available to all employees via an internal portal for easy access and reference.

Further, the Company implements a Policy on Accountability, Integrity and Vigilance (PAIV) to create an environment where concerns and issues regarding violation of policies, law or regulation may be raised freely within the organization. Under the policy, a director or employee may file an Incident Report on suspected or actual violations. The filer is assured of the confidential handling of the incident and protected from a possible retaliation based on the provisions of the PAIV. Upon receipt of the Incident Report, Management conducts an investigation on its merit, subject to due process, and impose applicable penalties and sanctions thereafter. A compilation of concluded incidents is periodically presented to the Audit and Risk Management Committee.

Disclosure and Transparency

SM Prime is committed to providing its stockholders and the public, timely and accurate information about the Company and its business. In accordance with this, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate Corporate Governance section that features, among others, the Revised Manual on Corporate Governance, Code of Ethics and other relevant policies, programs and important information. SM Prime also publishes a separate Environmental, Social and Corporate Governance Report, which highlights its policies and programs on corporate governance, social responsibility and environmental sustainability, among others. Likewise, the Company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on the Company's various projects, as well as its financial and operational results. The presentation materials used in these briefings, as well as the Company's SEC and PSE reports and annual reports, may be viewed and downloaded from its website.

Please visit SM Prime's website at www.smprime.com for access to disclosures, write-ups and other company information.

For more information:

John Nai Peng C. Ong
Compliance Officer

10th Floor, Mall of Asia Arena Annex Building, Coral Way, Mall of Asia Complex, Pasay City, Philippines

E: corpgovernance@smprime.com

BOARD OF DIRECTORS

SM Prime incorporates social and environmental value into its core strategies and operations – a commitment that not only improves management of business risks and opportunities, but also enhances long-term social and environmental sustainability.



MR. JOSE L. CUISIA, JR.
Vice Chairman and
Independent Director

MR. JORGE T. MENDIOLA
Director

MR. HERBERT T. SY
Director

MR. HENRY SY, SR.
Chairman Emeritus



MR. JOSELITO H. SIBAYAN
Independent Director

MR. GREGORIO U. KILAYKO
Independent Director

MR. HANS T. SY
Director and President

MR. HENRY T. SY, JR.
Chairman

BOARD OF DIRECTORS

MR. HENRY SY, SR. – Chairman Emeritus

Mr. Henry Sy, Sr. is the Chairman Emeritus of the Board of Directors of SM Prime (SMPH). He was the Chairman of the Board of Directors of SMPH since 1994 until April 2014. He is the founder of the SM Group and is currently, Chairman of SM Investments Corporation (SMIC) and Highlands Prime, Inc. (HPI). He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses. Mr. Sy earned his Associate of Arts Degree in Commerce Studies at Far Eastern University and was conferred an Honorary Doctorate in Business Management by De La Salle University.

MR. HENRY T. SY, JR. – Chairman

Mr. Henry T. Sy, Jr. has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group, which include the identification, evaluation and negotiation for potential sites, as well as the input of design ideas. At present, he is Vice Chairman of SMIC, Chairman and Chief Executive Officer of SM Development Corporation (SMDC), Vice Chairman and President of HPI, Chairman of Pico de Loro Cove Beach and Country Club Inc. and President of The National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

MR. JOSE L. CUISIA, JR. – Vice Chairman and Independent Director

Mr. Jose L. Cuisia, Jr. has served as Vice Chairman of the Board of Directors of SMPH 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. 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. He graduated with a Bachelor's Degree in Commerce from De La Salle University and took his Master in Business Administration (MBA) at the prestigious Wharton School of the University of Pennsylvania. He was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, D.C. in May 2011, and was conferred the Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015 and the Order of the Sikatuna rank of Grand Cross by President Benigno Aquino III in 2016.

MR. HANS T. SY – Director and President

Mr. Hans T. Sy has served as Director since 1994 and as President since 2004. He has held key positions in businesses related to banking, real estate development, mall operations, as well as leisure and entertainment. In the SM Group, his other current positions include Adviser to the Board of SM Investments Corporation, Chairman of China Banking Corporation, and Chairman of National University. Mr. Sy is a B.S. Mechanical Engineering Graduate of De La Salle University.

MR. GREGORIO U. KILAYKO – Independent Director

Mr. Gregorio U. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's 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 took his MBA at the Wharton School of the University of Pennsylvania. He was elected as an Independent Director in 2008.

MR. JOSELITO H. SIBAYAN – Independent Director

Mr. Joselito H. Sibayan has spent the past 28 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles, he was 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 Market's 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 helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director of SMPH in 2011.

MR. HERBERT T. SY – Director

Mr. Herbert T. Sy has served as Director since 1994. He is an Adviser to the Board of SMIC and is currently the Vice Chairman of Supervalu Inc., Super Shopping Market Inc. and Sanford Marketing Corporation and Director of China Banking Corporation. He also holds board positions in several companies within the SM Group. He has worked with SM Group of Companies for more than 30 years, engaged in food retailing, rubber manufacturing, car service and accessories, and banking. He is actively involved in the SM Group's Supermarket operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor's degree in management from De La Salle University.

MR. JORGE T. MENDIOLA – Director

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

Advisers to the Board

MS. TERESITA SY-COSON

MS. ELIZABETH T. SY

HENRY T. SY, JR.
Chairman

HANS T. SY
President

JEFFREY C. LIM
Executive Vice President
and Corporate Information Officer



CORPORATE EXECUTIVES

HENRY SY, SR.
Chairman Emeritus

HENRY T. SY, JR.
Chairman

HANS T. SY
President

JEFFREY C. LIM
Executive Vice President and
Corporate Information Officer

JOHN NAI PENG C. ONG
Chief Finance Officer and
Compliance Officer

CHRISTOPHER S. BAUTISTA
Vice President – Internal Audit

ANNA MARIA S. GARCIA
Head, Malls

JOSE MARI H. BANZON
Head, Residential (Primary)

SHIRLEY C. ONG
Head, Residential (Leisure)

DAVE L. RAFAEL
Head, Commercial

MA. LUISA E. ANGELES
Head, Hotels and Convention Centers

ELMER B. SERRANO
Corporate Secretary

MARIANNE M. GUERRERO
Assistant Corporate Secretary

Awards and Accolades



**Highly Commended
Best Developer
Southeast Asia
Property Awards**

**Best Developer Award
Philippines Property
Awards 2015**

**Best Real Estate Developer
(Retail)
Euromoney Magazine**

**ASEAN Corporate
Governance Award
ASEAN Capital Markets Forum
(ACMF) and its partners**



**Outstanding
Specialized and Exclusive Services
for Global Filipinos
5th OFW Gawad Parangal**

SM Global Pinoy

**CSR Excellence Award
People Management Association
of the Philippines (PMAP)
Foundation**

SM Cares (Program on Persons
with Disabilities)

**Merit Award,
Best Community Program
7th Annual Global CSR Awards**

SM Cares

**Special Recognition Award
ASEAN Corporate Sustainability
Summit & Awards 2015**

SM Cares (Program on Persons
with Disabilities)

**Hall of Fame Award
Apolinario Mabini Award
Philippine Foundation for the
Rehabilitation of the Disabled**

SM Cares (Program on Persons
with Disabilities)



**Best Architectural Design
Southeast Asia Property Awards**

SM Mega Fashion Hall

**Best Retail Development
and Best Retail
Architectural Design
Philippine Retailers Association**

SM Mega Fashion Hall

**Reader's Digest Most Trusted in
the Philippines Brand Award 2015**

SM Supermalls

**2015 ASEAN Best Practices
for Energy Management
in Buildings and Industries**

SM Lanang Premier
SM Aura Premier
SM City Clark
SM City Fairview

2015 Don Emilio Abello Energy Efficiency Award

Hall of Fame

SM City Lipa
SM City Lucena
SM City Batangas
SM City Iloilo

Outstanding Awards

SM City Clark
SM City Baliwag
SM City Bacoor
SM City Lipa
SM City Lucena
SM City Batangas
SM City Iloilo
SM City Bacolod
SM City Consolacion

Special Awards

SM City Rosales
SM City Pampanga
SM City Valenzuela
SM City Novaliches
SM City Manila
SM City San Lazaro
SM City Marikina
SM City Taytay
SM City Bicutan
SM Center Las Piñas
SM City Molino
SM City Sta. Rosa
SM Center Muntinlupa
SM City Cagayan de Oro

Citation Award

SM North EDSA (Annex)
SM Mall of Asia
SM City Cebu

**Apolinario Mabini Award
Philippine Foundation for the
Rehabilitation of the Disabled**

SM Aura Premier (Silver)
SM City Clark (Bronze)
SM City Pampanga
(Special Award)



**2015 Winner Best Landscape
Architectural Design
Philippines Property Awards**

Shell Residences

**2015 Winner Best Affordable
Condo Development
Philippines Property Awards**

Mezza 2 Residences

**2015 Highly Commended Best
Mid-Range Development Resort
Philippines Property Awards**

Wind Residences

**2015 Highly Commended Best
Landscape Architectural Design
Philippines Property Awards**

Grace Residences

**2015 Highly Commended Best
Landscape Architectural Design
Philippines Property Awards**

Trees Residences

**2015 Highly Commended Best
Affordable Condo Development
Philippines Property Awards**

Green Residences

**2015-2016 Highly Commended
Residential High Rise
Development Philippines
Asia Pacific Property Awards
Development**

Breeze Residences

**Reader's Digest Trusted Brand
Award 2015**

SM Development Corp.

EarthCheck

Costa del Hamilo, Inc.
(Bronze Benchmark)



**2015 Don Emilio Abello Energy
Efficiency Award**

TwoE-comCenter
SM Cyber Makati One
SM Cyber Makati Two

**2015 ASEAN Best Practices
for Energy Management
in Buildings and Industries**

TwoE-ComCenter



2015 Agoda Gold Circle award

Pico Sands Hotel
Taal Vista Hotel

Award of Excellence by Tripadvisor

Park Inn by Radisson Davao

TripAdvisor 2015 Travelers Choice

Radisson Blu Cebu

**ISO 22000:2005 Food Safety
Management System (FSMS),
the first city hotel in Cebu Certified**

Radisson Blu Cebu

Expedia Best Review

Radisson Blu Cebu

Corporate Information

COMPANY HEADQUARTERS

SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Boulevard
Mall of Asia Complex
Pasay City 1300 Philippines

External Auditor

SyCip Gorres Velayo & Co.

Stockholder Inquiries

SM Prime Holdings, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "SMPH". Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Banco De Oro Unibank, Inc. – Trust And Investments Group

15th Floor BDO Corporate Center South Tower, 7899 Makati Avenue, Makati City
T: (632) 840-7000 loc. 36975; 36976; 36978; 878-4052 to 54

Investor Relations

T: (632) 831-1000
E: info@smprime.com
www.smprime.com



FINANCIAL REPORTS



2015

55

Management's
Discussion and Analysis
or Plan of Operation

59

Statement of
Management's
Responsibility for
Financial Statements

60

Report of the
Audit and Risk
Management
Committee

62

Independent
Auditors'
Report

63

Consolidated
Balance
Sheets

64

Consolidated
Statements
of Income

65

Consolidated
Statements of
Comprehensive
Income

66

Consolidated
Statements of
Changes in
Equity

68

Consolidated
Statements
of Cash Flows

69

Notes to
Consolidated
Financial
Statements

Management's Discussion and Analysis or Plan of Operation

2015

SM Prime's net income up by 54% to ₱28.3 billion from ₱18.4 billion last year; excluding one-time trading gain on sale of marketable securities, core net income up by 14% to ₱20.9 billion.

Financial and Operational Highlights

(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2015	% to Revenues	2014	% to Revenues	% Change
Profit and Loss Data					
Revenues	71,511	100%	66,240	100%	8%
Costs and Expenses	40,072	56%	38,554	58%	4%
Operating Income	31,439	44%	27,687	42%	14%
Core Net Income	20,892	29%	18,390	28%	14%
EBITDA	37,815	53%	33,760	51%	12%
Balance Sheet Data					
	Dec 31 2015	% to Total Assets	Dec 31 2014	% to Total Assets	% Change
Total Assets	433,828	100%	388,840	100%	12%
Investment Properties	230,340	53%	192,639	50%	20%
Total Debt	155,668	36%	129,283	33%	20%
Net Debt	128,955	30%	93,070	24%	39%
Total Equity	212,489	49%	199,088	51%	7%
Financial Ratios					
	2015	2014			
Debt to Equity	0.42 : 0.58	0.39 : 0.61			
Net Debt to Equity	0.38 : 0.62	0.32 : 0.68			
Return on Equity	0.10	0.10			
Debt to EBITDA	4.12	3.83			
Interest Coverage Ratio	11.19	8.24			
Operating Income to Revenues	0.44	0.42			
EBITDA Margin	0.53	0.51			
Core Net Income to Revenues	0.29	0.28			

* Above financial data reflects core operating income and excludes one-time trading gain on sale of marketable securities amounting to ₱7.41 billion.

Revenue

SM Prime recorded consolidated revenues of ₱71.51 billion in the year ended 2015, an increase of 8% from ₱66.24 billion in the year ended 2014, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱40.74 billion in 2015, an increase of 12% from ₱36.50 billion in 2014. The increase in rental revenue was primarily due to the new malls and expansions opened in 2013, 2014 and 2015, namely, SM Aura Premier, SM City BF Parañaque, Mega Fashion Hall in SM Megamall, SM City Cauayan, SM Center Angono, SM City Bacolod Expansion and SM City San Mateo, with a total gross floor area of 728,000 square meters. Out of the total rental revenues, 87% is contributed by the malls. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased due to the opening of SM Cyber West and Five E-Com Center which enjoy an average occupancy rate of 98%. Also, rentals from hotels and convention centers contributed to the increase due to improvement in average room rates and occupancy rates.

Real Estate Sales

SM Prime's real estate sales registered ₱22.19 billion almost the same level in 2014. The flat performance was attributed to lesser revenue recognition from the completed high-residential projects that were launched in 2010 and 2011. Gross profit of the real estate group slightly improved to 46% from 45% allowing an uptick on net income margin to 22% from 21% the previous year. This allowed the group to post a net income growth of 8% to ₱5.06 billion from ₱4.69 billion in 2014. Actual construction of the high-rise condominium projects usually starts twelve months to eighteen months from the launch date and management expect that projects that were successfully sold in 2013 and 2014 should start significantly contributing to overall sales and income beginning 2016 due to the percentage of completion method.

Management's Discussion and Analysis or Plan of Operation

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales increased by 12% to ₱4.80 billion in 2015 from ₱4.27 billion in 2014. The major blockbusters screened in 2015 were "Avengers – Age of Ultron", "Jurassic World", "A Second Chance", "Fast and Furious 7" and "Star Wars: The Force Awakens". The major blockbusters shown in 2014 were "Transformers: Age of Extinction", "The Amazing Spiderman 2", "Starting Over Again", "Maleficent" and "Bride for Rent".

Other Revenues

Other revenues increased by 14% to ₱3.79 billion in 2015 from ₱3.32 billion in 2014. The increase was due to the opening of Sky Ranch Pampanga, increase in hotels' food and beverages income as well as increase in sponsorship income. Other revenues include amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱40.07 billion in 2015, an increase of 4% from ₱38.55 billion in 2014, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate decreased by 2% to ₱12.04 billion in 2015 from ₱12.26 billion in 2014. The decrease is the result of improving cost efficiencies, tighter monitoring and control of construction costs.

Operating Expenses

SM Prime's consolidated operating expenses increased by 7% to ₱28.03 billion in 2015 compared to last year's ₱26.30 billion. Out of the total operating expenses, 70% is contributed by the malls where same-store mall growth in operating expenses is 3%. Contributors to the increase are administrative expenses, depreciation and amortization, business taxes and licenses and marketing and selling expenses, in line with related increase in revenues as well as the opening of new malls and expansions.

Other Income (Charges)

Gain on Sale of Available-for-Sale (AFS) Investments

In 2015, SM Prime recorded a ₱7.41 billion realized gain on sale of AFS investments.

Interest Expense

SM Prime's consolidated interest expense decreased by 18% to ₱3.38 billion in 2015 compared to ₱4.10 billion in 2014 due to the ₱20.0 billion retail bond availed in September 2014 and new bank loans availed during 2015 for working capital and capital expenditure requirements offset by capitalized interest related to the construction of investment properties.

Interest and Dividend Income

Interest and dividend income increased by 60% to ₱1.17 billion in 2015 from ₱0.73 billion in 2014. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and AFS investments. The increase in interest income is due to higher average balance of cash and cash equivalents in 2015 as compared to last year. The increase in dividend income is due to higher dividends received in 2015 on AFS investments compared to last year.

Equity in net earnings of associates and joint ventures

SM Prime's equity in net earnings of associates and joint ventures increased by 78% to ₱543 million in 2015 from ₱304 million in 2014 due to increase in net income of associates and joint ventures and 2015 share in net income of OCLP Holdings, Inc. not present in 2014.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 26% to ₱6.02 billion in 2015 from ₱4.78 billion in 2014 due to the related increase in taxable income.

Net income

As a result of the foregoing, consolidated net income in the year ended 2015 increased by 54% to ₱28.30 billion from ₱18.39 billion in the year ended 2014. Excluding gain on sale of AFS, core net income increased by 14% to ₱20.89 billion.

Balance Sheet Accounts

Cash and cash equivalents significantly decreased by 27% from ₱35.25 billion to ₱25.87 billion as of December 31, 2014 and 2015, respectively, mainly due to payments for capital expenditure projects during the period net of proceeds from the retail bond issuance amounting to ₱20.0 billion last November 2015.

Investments held for trading decreased by 13% from ₱968 million to ₱843 million as of December 31, 2014 and 2015, respectively, mainly due to decrease in market prices of the listed shares and scheduled maturities of investments in bonds.

Receivables increased by 2% from ₱30.69 billion to ₱31.35 billion as of December 31, 2014 and 2015, respectively, due to increase in construction accomplishments of sold units and from tenants due to new malls and expansions in 2015. Out of the total receivables, 72% pertains to sale of real estate and 22% from leases of shopping mall and commercial spaces.

Condominium and residential units increased by 8% from ₱7.58 billion to ₱8.16 billion as of December 31, 2014 and 2015, respectively, mainly due to completion of condominium towers in M Place @ South Triangle, Jazz, Mezza II and Shell Residences.

Prepaid expenses and other current assets increased by 22% from ₱9.29 billion to ₱11.30 billion as of December 31, 2014 and 2015, respectively, mainly due to deposits and advances to contractors related to residential projects and various prepayments.

Investment properties increased by 20% from ₱192.64 billion to ₱230.34 billion as of December 31, 2014 and 2015, respectively, primarily because of ongoing new mall projects located in Cagayan de Oro, Cavite City and Bulacan in the Philippines and Tianjin in China and the ongoing expansions of SM Mall of Asia and SM Xiamen. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects of the commercial and hotel groups namely, Three E-Com Center and Conrad Manila.

AFS investments decreased by 31% from ₱29.67 billion to ₱20.33 billion as of December 31, 2014 and 2015, respectively, mainly due to sale of AFS shares to SM Investments Corporation and lower market prices of remaining listed shares held under this portfolio.

Derivative assets increased by 59% from ₱1.63 billion to ₱2.60 billion as of December 31, 2014 and 2015, respectively, mainly resulting from net fair value changes on a \$350 million cross currency swap transaction designated as a cash flow hedge. While derivative liabilities composed of various interest rate swaps amounting to ₱59 million as of December 31, 2014 matured in March, June and November 2015.

Deferred tax assets increased by 30% from ₱650 million to ₱846 million as of December 31, 2014 and 2015, respectively, mainly due to NOLCO. Deferred tax liabilities increased by 29% from ₱1.93 billion to ₱2.49 billion as of December 31, 2014 and 2015, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Investments in associates and joint ventures increased by 265% from ₱6.05 billion to ₱22.08 billion as of December 31, 2014 and 2015, respectively, mainly due to acquisition of an equity stake in OCLP Holdings, Inc. and increase in equity in net earnings of associates and joint ventures.

Other noncurrent assets increased by 19% from ₱29.71 billion to ₱35.49 billion as of December 31, 2014 and 2015, respectively, mainly due to additional bonds and deposits for real estate acquisitions.

Loans payable increased by 75% from ₱2.67 billion to ₱4.68 billion as of December 31, 2014 and 2015, respectively, due to availment of loans for general corporate purposes.

Accounts payable and other current liabilities increased by 7% from ₱36.38 billion to ₱38.82 billion as of December 31, 2014 and 2015, respectively, mainly due to increase in payable to contractors and customers' deposits from residential buyers.

Long-term debt increased by 19% from ₱126.61 billion to ₱150.99 billion as of December 31, 2014 and 2015, respectively, due to issuance of bonds in November 2015 and drawdown on an existing loan facility amounting to US\$90 million loan last January 2015 to fund capital expenditures and for working capital requirements.

Liability for purchased land increased by 78% from ₱1.17 billion to ₱2.08 billion as of December 31, 2014 and 2015, respectively, due to landbanking. Similarly, other noncurrent liabilities increased by 26% from ₱3.78 billion to ₱4.75 billion as of December 31, 2014 and 2015, respectively, due to increase in non-trade payable.

Management's Discussion and Analysis or Plan of Operation

The Company's key performance indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment held for trading to equity; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) earnings before interest expense, income taxes, depreciation and amortization (EBITDA); (5) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (6) interest coverage ratio which measures the ratio of EBITDA to interest expense; (7) operating income to revenues which basically measures the gross profit ratio; (8) EBITDA margin which measures the ratio of EBITDA to gross revenues and (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to equity increased to 0.42:0.58 as of December 31, 2015 from 0.39:0.61 as of December 31, 2014 due to additional borrowings. Likewise, net interest-bearing debt to equity increased to 0.38:0.62 as of December 31, 2015 from 0.32:0.68 as of December 31, 2014 due to additional borrowings net of payments for capital expenditure projects and working capital.

In terms of profitability, ROE is steady at 10% as of December 31, 2015 and 2014.

Debt to EBITDA increased to 4.12:1 as of December 31, 2015 from 3.83:1 as of December 31, 2014 due to issuance of bonds in November 2015. Interest coverage ratio also increased to 11.19:1 as of December 31, 2015 from 8.24:1 as of December 31, 2014 as a result of decrease in interest expense. EBITDA margin improved to 53% as of December 31, 2015 from 51% as of December 31, 2014.

Consolidated operating income to revenues improved to 44% as of December 31, 2015 from 42% as of December 31, 2014. Net income to revenues likewise improved to 29% as of December 31, 2015 from 28% as of December 31, 2014.

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

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

For the year 2016, the Company expects to incur capital expenditures of at least P60 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has fifty six shopping malls in the Philippines with 7.3 million square meters of gross floor area and six shopping malls in China with 0.9 million square meters of gross floor area. For 2016, SM Prime will open new five malls in the Philippines, as well as expansions of SM City Calamba and SM City Naga. By end 2016, the malls business unit will have 61 malls in the Philippines and six malls in China with an estimated combined gross floor area of 8.6 million square meters.

SM Prime currently has twenty seven residential projects in the market, twenty five of which are in Metro Manila and two in Tagaytay. For 2016, SM Prime's residential unit will launch between 11,000 to 14,000 residential condominium units in total in the cities of Quezon, Bicutan, Sucat, Las Piñas and Pasay. SM Prime is also set to launch new mixed-use developments in Bulacan, Pampanga and Cavite.

SM Prime's Commercial Properties Group has five office buildings with an estimated gross leasable area of 205,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2019, respectively.

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay City is expected to open by second half of 2016.

Statement of Management's Responsibility for Financial Statements

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

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

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



Henry T. Sy, Jr.
Chairman



Hans T. Sy
President



John Nai Peng C. Ong
Chief Finance Officer

Signed this 22nd of February, 2016

Report of the Audit and Risk Management Committee

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

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

- The Audit and Risk Management Committee is composed of four (4) members, namely, independent directors Mr. Gregorio U. Kilayko and Mr. Joselito H. Sibayan, non-executive director Mr. Jorge T. Mendiola, and Committee Chairman Mr. Jose L. Cuisia, Jr., who is also an independent director.
- We met four (4) times in 2015 on the following dates: February 23, May 4, August 3 and November 2. All meetings registered 100% attendance of all members.
- Each member of the Committee possesses adequate knowledge and competence in Finance and Accounting processes;

Profile/Qualifications of the Audit and Risk Management Committee members:

MR. JOSE L. CUISIA, JR. (Chairman, Independent Director) - Mr. Cuisia 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. 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. He graduated with a Bachelor's Degree in Commerce from De La Salle University and took his MBA at the prestigious Wharton School of the University of Pennsylvania. He was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011, and was conferred the Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015 and the Order of the Sikatuna rank of Grand Cross by President Benigno Aquino III in 2016.

MR. GREGORIO U. KILAYKO (Member, Independent Director) - Mr. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's 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 took his MBA at the Wharton School of the University of Pennsylvania. He was elected as an Independent Director in 2008.

MR. JOSELITO H. SIBAYAN (Member, Independent Director) - Mr. Sibayan has spent the past 28 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration (MBA) from University of California in Los Angeles, he was 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 Market's 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 helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director of SM Prime in 2011.

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

- We have reviewed and approved the following with regard to our independent auditor, SGV & Co., and our Internal Auditor:
 - o Their respective audit plans, scope, risk-based methods and timetables;
 - o Their assessment of internal controls, including controls over financial reporting; and
 - o The results of their examinations and Management's action plans to address pending audit issues;
- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles and relevant pending tax legislations, which could impact SM Prime;
- We have reviewed and approved the results of all audit services provided by SGV & Co. and related audit fees;

- We have reviewed and ensured that the Company's related party transactions were conducted at arms' length basis;
- We have reviewed the internal control system of the Company based on the assessments completed and reported by internal and external auditors and found that the system is adequate and effective;
- We have discussed the results of the enterprise-wide risk assessment and progress of Management's action plans to address identified risks;
- We have discussed with SGV & Co. matters required to be discussed by prevailing applicable Auditing Standards, received written disclosures and the letter from SGV & Co., as required by prevailing applicable Independence Standards, and discussed with SGV & Co. its independence;
- We have reviewed the financial statements of SM Prime Holdings, Inc. for the first quarter ended March 31, 2015, second quarter ended June 30, 2015, and third quarter ended September 30, 2015;
- After thorough review and discussion, and subject to the limitations on the Committee's roles and responsibilities, we recommended for Board approval, and the Board approved, the audited financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2015.
- We have reviewed and discussed the performance, independence and qualifications of the independent auditor, SGV & Co., in the conduct of its audit of the financial statements of SM Prime Holdings, Inc. for the year 2015. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2016.



Jose L. Cuisia, Jr.*
Chairman



Gregorio U. Kilayko*
Member



Joselito H. Sibayan*
Member



Jorge T. Mendiola
Member

Signed this 22nd of February, 2016

*Independent Director

Independent Auditors' Report

The Stockholders and the Board of Directors

SM Prime Holdings, Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

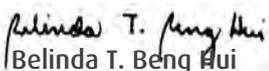
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

Opinion

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

SYCIP GORRES VELAYO & CO.


Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),

March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5321613, January 4, 2016, Makati City

February 22, 2016

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 27 and 28)	₱25,869,908	₱35,245,206
Investments held for trading (Notes 7, 21, 27 and 28)	843,256	967,511
Receivables (Notes 8, 15, 16, 21, 27 and 28)	31,354,286	30,686,968
Condominium and residential units for sale (Note 9)	8,164,981	7,578,885
Land and development (Note 10)	19,814,615	19,571,526
Available-for-sale investments (Notes 11, 21, 27 and 28)	642,274	676,755
Prepaid expenses and other current assets (Notes 12, 21, 27 and 28)	11,302,871	9,289,317
Total Current Assets	97,992,191	104,016,168
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	22,080,000	6,050,884
Available-for-sale investments - net of current portion (Notes 11, 21, 27 and 28)	19,689,781	28,994,983
Property and equipment - net (Note 13)	1,680,382	2,258,387
Investment properties - net (Notes 14 and 19)	230,340,399	192,639,379
Land and development - net of current portion (Note 10)	23,105,553	22,886,306
Derivative assets (Notes 27 and 28)	2,600,799	1,632,814
Deferred tax assets - net (Note 25)	846,111	650,153
Other noncurrent assets (Notes 16, 21, 24, 27 and 28)	35,493,223	29,711,085
Total Noncurrent Assets	335,836,248	284,823,991
	₱433,828,439	₱388,840,159
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 27 and 28)	₱4,675,000	₱2,670,000
Accounts payable and other current liabilities (Notes 18, 21, 27 and 28)	38,819,156	36,378,819
Current portion of long-term debt (Notes 19, 21, 27 and 28)	25,041,044	11,006,880
Income tax payable	955,533	743,506
Total Current Liabilities	69,490,733	50,799,205
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 27 and 28)	125,952,441	115,606,147
Tenants' and customers' deposits - net of current portion (Notes 26, 27 and 28)	13,218,264	13,251,526
Liability for purchased land - net of current portion (Notes 18, 27 and 28)	2,081,708	1,170,855
Deferred tax liabilities - net (Note 25)	2,488,990	1,934,174
Derivative liabilities (Notes 27 and 28)	-	58,705
Other noncurrent liabilities (Notes 16, 24, 27 and 28)	4,753,456	3,781,344
Total Noncurrent Liabilities	148,494,859	135,802,751
Total Liabilities	217,985,592	186,601,956
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 5, 20 and 29)	33,166,300	33,166,300
Additional paid-in capital - net (Notes 5 and 20)	39,304,027	39,302,194
Cumulative translation adjustment	1,005,978	840,430
Net unrealized gain on available-for-sale investments (Note 11)	16,621,547	25,905,440
Net fair value changes on cash flow hedges (Note 28)	428,799	249,332
Remeasurement loss on defined benefit obligation (Note 24)	(50,458)	(141,524)
Retained earnings (Note 20):		
Appropriated	42,200,000	42,200,000
Unappropriated	83,168,103	60,921,048
Treasury stock (Notes 20 and 29)	(3,355,474)	(3,355,530)
Total Equity Attributable to Equity Holders of the Parent	212,488,822	199,087,690
Non-controlling Interests (Note 20)	3,354,025	3,150,513
Total Equity	215,842,847	202,238,203
	₱433,828,439	₱388,840,159

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2015	2014	2013
REVENUE			
Rent (Notes 21 and 26)	₱40,742,657	₱36,497,242	₱32,195,285
Sales:			
Real estate	22,185,915	22,151,618	20,775,195
Cinema and event ticket	4,797,510	4,268,531	3,740,030
Others (Note 21)	3,785,205	3,322,679	3,083,900
	71,511,287	66,240,070	59,794,410
COSTS AND EXPENSES (Note 22)	40,072,460	38,553,561	35,658,865
INCOME FROM OPERATIONS	31,438,827	27,686,509	24,135,545
OTHER INCOME (CHARGES)			
Gain on sale of available-for-sale-investments (Notes 11 and 21)	7,410,711	2,743	285,129
Interest and dividend income (Notes 7, 11, 21 and 23)	1,168,610	731,884	1,093,870
Equity in net earnings of associates and joint ventures (Note 15)	542,905	304,434	349,468
Interest expense (Notes 21, 23, 27 and 28)	(3,379,104)	(4,099,499)	(3,686,603)
Others - net (Notes 7, 19, 21 and 28)	(2,271,110)	(951,935)	(1,467,318)
	3,472,012	(4,012,373)	(3,425,454)
INCOME BEFORE INCOME TAX	34,910,839	23,674,136	20,710,091
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	5,698,086	4,697,753	4,392,114
Deferred	320,160	79,894	(407,951)
	6,018,246	4,777,647	3,984,163
NET INCOME	₱28,892,593	₱18,896,489	₱16,725,928
Attributable to			
Equity holders of the Parent (Notes 20 and 29)	₱28,302,092	₱18,390,352	₱16,274,820
Non-controlling interests (Note 20)	590,501	506,137	451,108
	₱28,892,593	₱18,896,489	₱16,725,928
Basic/Diluted earnings per share (Note 29)	₱0.982	₱0.660	₱0.586

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
NET INCOME	₱28,892,593	₱18,896,489	₱16,725,928
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income transferred to profit or loss (net of tax):			
Realized gain on sale of available-for-sale investments (Note 11)	(7,410,711)	(2,743)	(285,129)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Unrealized gain (loss) due to changes in fair value of available-for-sale investments (Note 11)	(1,873,182)	5,949,853	462,438
Net fair value changes on cash flow hedges (Note 28)	179,467	(179,817)	429,149
Cumulative translation adjustment	165,548	(540,838)	774,031
	(8,938,878)	5,226,455	1,380,489
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) - Remeasurement income (loss) on defined benefit obligation (Note 24)	91,277	(143,144)	61,192
TOTAL COMPREHENSIVE INCOME	₱20,044,992	₱23,979,800	₱18,167,609
Attributable to			
Equity holders of the Parent (Notes 20 and 29)	₱19,454,280	₱23,474,512	₱17,717,168
Non-controlling interests (Note 20)	590,712	505,288	450,441
	₱20,044,992	₱23,979,800	₱18,167,609

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity**(Amounts in Thousands)**

	Capital Stock (Notes 5, 20 and 29)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Equity Attributable to Net Unrealized Gain on Available- for-Sale Investments (Note 11)
At January 1, 2015	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440
Net income for the year	-	-	-	-
Other comprehensive income (loss)	-	-	165,548	(9,283,893)
Total comprehensive income (loss) for the year	-	-	165,548	(9,283,893)
Cash dividends (Note 20)	-	-	-	-
Cash dividends received by a subsidiary	-	-	-	-
Cash dividends received by non-controlling interests	-	-	-	-
Acquisition of non-controlling interests (Note 20)	-	1,833	-	-
At December 31, 2015	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547
At January 1, 2014	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330
Net income for the year	-	-	-	-
Other comprehensive income (loss)	-	-	(540,838)	5,947,110
Total comprehensive income (loss) for the year	-	-	(540,838)	5,947,110
Cash dividends (Note 20)	-	-	-	-
Cash dividends received by a subsidiary	-	-	-	-
Cash dividends received by non-controlling interests	-	-	-	-
Reissuance of treasury shares (Note 20)	-	17,021,771	-	-
Acquisition of non-controlling interests (Note 20)	-	(23,013)	-	-
At December 31, 2014	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440
At January 1, 2013	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021
Net income for the year	-	-	-	-
Other comprehensive income (loss)	-	-	774,031	177,309
Total comprehensive income for the year	-	-	774,031	177,309
Equity adjustment from common control business combination (Note 5)	-	2,480,478	-	-
Cash dividends (Note 20)	-	-	-	-
Cash dividends received by non-controlling interests	-	-	-	-
Acquisition of non-controlling interests	-	153,964	-	-
At December 31, 2013	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent

Net Fair Value Changes on Cash Flow Hedges (Note 28)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 24)	Retained Earnings (Note 20)		Treasury Stock (Notes 20 and 29)	Total	Non-controlling Interests (Note 20)	Total Equity
		Appropriated	Unappropriated				
₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
-	-	-	28,302,092	-	28,302,092	590,501	28,892,593
179,467	91,066	-	-	-	(8,847,812)	211	(8,847,601)
179,467	91,066	-	28,302,092	-	19,454,280	590,712	20,044,992
-	-	-	(6,064,618)	-	(6,064,618)	-	(6,064,618)
-	-	-	9,581	-	9,581	-	9,581
-	-	-	-	-	-	(387,200)	(387,200)
-	-	-	-	56	1,889	-	1,889
₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
₱429,149	₱771	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525
-	-	-	18,390,352	-	18,390,352	506,137	18,896,489
(179,817)	(142,295)	-	-	-	5,084,160	(849)	5,083,311
(179,817)	(142,295)	-	18,390,352	-	23,474,512	505,288	23,979,800
-	-	-	(5,285,636)	-	(5,285,636)	-	(5,285,636)
-	-	-	8,668	-	8,668	-	8,668
-	-	-	-	-	-	(309,760)	(309,760)
-	-	-	-	623,916	17,645,687	-	17,645,687
-	-	-	-	932	(22,081)	-	(22,081)
₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
₱-	(₱61,088)	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985
-	-	-	16,274,820	-	16,274,820	451,108	16,725,928
429,149	61,859	-	-	-	1,442,348	(667)	1,441,681
429,149	61,859	-	16,274,820	-	17,717,168	450,441	18,167,609
-	-	-	(26,942)	-	2,453,536	-	2,453,536
-	-	-	(4,690,893)	-	(4,690,893)	-	(4,690,893)
-	-	-	-	-	-	(329,760)	(329,760)
-	-	-	-	5,084	159,048	-	159,048
₱429,149	₱771	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	₱34,910,839	₱23,674,136	₱20,710,091
Adjustments for:			
Loss (gain) on:			
Sale of available-for-sale investments (Note 11)	(7,410,711)	(2,743)	(285,129)
Unrealized foreign exchange	166,435	173,510	(29,994)
Mark-to-market on investments held for trading (Note 7)	101,087	101,076	(93,996)
Maturity of derivatives - net	(40,691)	-	-
Disposal of investments held for trading (Note 7)	693	-	-
Fair value changes on derivatives - net	-	(21,340)	(62,717)
Sale/retirement of investment properties and property and equipment	-	-	(68,579)
Depreciation and amortization (Note 22)	6,966,952	6,579,781	5,980,940
Interest expense (Note 23)	3,379,104	4,099,499	3,686,603
Interest and dividend income (Notes 7, 11 and 23)	(1,168,610)	(731,884)	(1,093,870)
Equity in net earnings of associates and joint ventures (Note 15)	(542,905)	(304,434)	(349,468)
Restructuring costs (Note 5)	-	-	1,276,629
Operating income before working capital changes	36,362,193	33,567,601	29,670,510
Decrease (increase) in:			
Receivables	(695,616)	(3,559,562)	(8,470,424)
Condominium and residential units for sale	5,439,068	2,667,246	4,196,726
Land and development	(6,807,357)	(13,906,967)	(11,109,456)
Prepaid expenses and other current assets	(2,012,614)	(910,972)	2,722,125
Increase (decrease) in:			
Accounts payable and other current liabilities	3,652,508	(9,230,430)	9,456,186
Tenants' and customers' deposits	1,486,421	3,019,113	1,192,142
Cash generated from operations	37,424,603	11,646,029	27,657,809
Income tax paid	(5,486,465)	(4,894,650)	(4,116,235)
Cash provided by operating activities	31,938,138	6,751,379	23,541,574
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	7,466,528	4,258	397,977
Investments held for trading	35,000	150,000	300,448
Investment properties	-	-	99,991
Interest received	647,572	418,076	692,313
Dividends received	552,397	333,980	354,602
Additions to:			
Investment properties (Note 14)	(42,478,023)	(35,510,709)	(24,553,198)
Property and equipment (Note 13)	(235,913)	(158,016)	(440,890)
Available-for-sale investments	-	(357,071)	(2,396)
Investments held for trading	-	(65,416)	-
Proceeds from:			
Pretermination of short-term investments	-	887,900	-
Early redemption of available-for-sale investments	-	-	1,000,000
Investments in associates and joint venture and acquisition of a subsidiary - net of cash acquired (Notes 5 and 15)	(15,443,151)	-	(7,352,729)
Decrease (increase) in other noncurrent assets (Note 16)	(5,774,646)	4,908,379	(862,111)
Net cash used in investing activities	(55,230,236)	(29,388,619)	(30,365,993)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 17 and 19)	₱45,993,435	₱48,121,250	₱76,494,060
Payments of:			
Long-term debt (Note 19)	(11,288,366)	(16,175,802)	(20,812,576)
Bank loans (Note 17)	(11,100,000)	(9,070,000)	(33,210,179)
Dividends (Note 20)	(6,442,237)	(5,586,728)	(5,020,653)
Interest	(3,159,806)	(4,183,961)	(4,207,108)
Restructuring costs (Note 5)	-	-	(607,172)
Proceeds from:			
Maturity of derivatives	12,468	-	-
Reissuance of treasury shares (Note 20)	-	17,645,687	-
Net cash provided by financing activities	14,015,494	30,750,446	12,636,372
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(98,694)	(9,506)	30,187
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,375,298)	8,103,700	5,842,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,245,206	27,141,506	21,299,366
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱25,869,908	₱35,245,206	₱27,141,506

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information and Corporate Restructuring

Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. SMPH and its subsidiaries (collectively known as "the Company") are incorporated to acquire by purchase, exchange, assignment, gift or otherwise, and to own, use, improve, subdivide, operate, enjoy, sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and hold for investment or otherwise, including but not limited to real estate and the right to receive, collect and dispose of, any and all rentals, dividends, interest and income derived therefrom; the right to vote on any proprietary or other interest on any shares of stock, and upon any bonds, debentures, or other securities; and the right to develop, conduct, operate and maintain modernized commercial shopping centers and all the businesses appurtenant thereto, such as but not limited to the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie or cinema theatres within the compound or premises of the shopping centers, to construct, erect, manage and administer buildings such as condominium, apartments, hotels, restaurants, stores or other structures for mixed use purposes.

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

As at December 31, 2015, SMPH is 49.60% and 25.71% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

The registered office and principal place of business of the Company is at 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

Corporate Restructuring

In 2013, SMPH initiated a corporate restructuring exercise to consolidate all of the SM Group's real estate companies and real estate assets under one single listed entity which is SMPH (collectively, the "SM Property Group"). The overall objective is to bring to the equities market the most comprehensive and integrated Philippine property company that will engage the investor community in the long-term growth potential not just of the Philippine property sector, but also of the consumer and tourism sectors. This will leverage on SM's strong brand franchise, group synergies, dominant position in mall and residential development, extensive marketing and supplier network, huge landbank and other resources to strongly enhance the overall value of the company and all its future projects, which also include township and mixed-use development, commercial and resorts development, and hotels and convention centers. The corporate restructuring involved the following transactions:

- SM Land, Inc.'s (SM Land) tender offers for SM Development Corporation (SMDC) and Highlands Prime, Inc. (HPI);
- Merger of SMPH (the "Surviving entity") and SM Land (the "Absorbed entity"); and
- Acquisition of unlisted real estate companies and real estate assets from SMIC and the Sy Family.

The corporate restructuring was approved by the Board of Directors (BOD) of SMPH on May 31, 2013 and ratified by the stockholders in a special stockholders meeting held on July 10, 2013. This was subsequently approved by the SEC on October 10, 2013 (see Note 5).

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on February 22, 2016.

2. Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

Company	Country of Incorporation	Percentage of Ownership	
		2015	2014
Malls			
First Asia Realty Development Corporation (FARDC)	Philippines	74.2	74.2
Premier Central, Inc.	- do -	100.0	100.0
Consolidated Prime Dev. Corp.	- do -	100.0	100.0
Premier Southern Corp.	- do -	100.0	100.0
San Lazaro Holdings Corporation	- do -	100.0	100.0
Southernpoint Properties Corp.	- do -	100.0	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.0	50.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)(b)	- do -	100.0	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	100.0	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	100.0	100.0
Springfield Global Enterprises Limited	- do -	100.0	100.0
Simply Prestige Limited and Subsidiaries(c)	- do -	100.0	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	100.0	100.0
Residential			
SMDC and Subsidiaries(a)	- do -	100.0	100.0
Summerhills Home Development Corp. (SHDC)(c)	- do -	100.0	100.0
HPI(a)	- do -	100.0	100.0
Costa del Hamilo, Inc. and Subsidiaries (Costa)(a)	- do -	100.0	100.0
Commercial			
Magenta Legacy, Inc.(a)	- do -	100.0	100.0
Associated Development Corporation(a)	- do -	100.0	100.0
Prime Metro Estate, Inc. and Subsidiary (PMI)(a)	- do -	60.0	60.0
Tagaytay Resort and Development Corporation (TRDC)(a)	- do -	100.0	100.0
SM Arena Complex Corporation (SMACC)(a)	- do -	100.0	100.0
MOA Esplanade Port Inc. (MEPI)	- do -	100.0	-
Hotels and Conventions Centers			
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)(a)	- do -	100.0	100.0

a. Acquired in 2013 as part of SM Property Group corporate restructuring accounted for as common control business combination using pooling of interest method.

b. Acquired in 2013 from unrelated parties accounted for under acquisition method.

c. Acquired in 2013 accounted for as common control business combination using pooling of interest method.

The consolidated financial statements also include the historical financial information of the real estate assets accounted for as “business” acquired from SMIC.

Properties	Classification	Location
Taal Vista Hotel	Land and building	Tagaytay
Radisson Cebu Hotel	Building	Cebu
Pico Sands Hotel	Building	Batangas
SMX Convention Center	Building	Pasay
Mall of Asia Arena	Building	Pasay
Mall of Asia Arena Annex	Building	Pasay
Corporate Office	Building	Pasay
Casino and Waste Water Treatment Plant	Building	Tagaytay
Tagaytay land	Land	Tagaytay
EDSA West land	Land	Quezon City
Park Inn Davao	Building	Davao

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the BOD representing the Parent Company.

The individual financial statements of the Parent Company and its subsidiaries, which were prepared for the same reporting period using their own set of accounting policies, are adjusted to the accounting policies of the Company when the consolidated financial statements are prepared. All intracompany balances, transactions, income and expenses, and profits and losses resulting from intracompany transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and when the Company has the ability to affect those returns through its power over the investee.

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

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

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

Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Revenue Recognition. The Company’s process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer’s commitment on the sale. This may be ascertained through the significance of the buyer’s initial investment and completion of development. The buyer’s commitment is evaluated based on collections, credit standing of the buyer and location of the property. The completion of development is determined based on engineer’s judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage. Revenue from real estate sales amounted to ₱22,186 million, ₱22,152 million and ₱20,775 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Property Acquisition and Business Combination. The Company acquires subsidiaries which own real estate properties. At the time of acquisition, the Company considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Company accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate properties.

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

Classification of Property. The Company determines whether a property is classified as property and equipment, investment property or land and development.

Property and equipment comprises building spaces and improvements which are occupied for use by, or in the operations of, the Company.

Investment property comprises building spaces and improvements which are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income or capital appreciation.

Land and development comprises property that is held for sale in the ordinary course of business in which the Company develops and intends to sell on or before completion of construction.

The Company considers whether a property will be sold in the ordinary course of business or is part of its strategic landbanking activities which will be developed for sale as condominium residential projects. For investment properties, the Company considers whether the property generates cash flows largely independent of the other assets and is held primarily to earn rentals or capital appreciation. Property and equipment is held for use in the supply of goods or services or for administrative purposes.

The Company considers each property separately in making its judgment.

The aggregate carrying values of land and development, investment properties and property and equipment amounted to ₱274,941 million and ₱237,356 million as at December 31, 2015 and 2014, respectively (see Notes 10, 13 and 14).

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

Rent income amounted to ₱40,743 million, ₱36,497 million and ₱32,195 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 26).

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

Rent expense amounted to ₱1,317 million, ₱1,187 million and ₱1,295 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 22).

Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value. The Company determines that an AFS investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The Company determines that a decline in fair value of greater than 20% below cost is considered to be a significant decline and a decline for a period longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

There was no impairment loss recognized on AFS investments for the years ended December 31, 2015, 2014 and 2013. The carrying values of AFS investments amounted to ₱20,332 million and ₱29,672 million as at December 31, 2015 and 2014, respectively (see Note 11).

Estimates and Assumptions

The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Revenue and Cost Recognition. The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from sale of real estate amounted to ₱22,186 million, ₱22,152 million and ₱20,775 million for the years ended December 31, 2015, 2014 and 2013, respectively, while the cost of real estate sold amounted to ₱12,039 million, ₱12,257 million and ₱11,921 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 22).

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

Allowance for impairment amounted to ₱966 million and ₱353 million as at December 31, 2015 and 2014, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱39,317 million and ₱39,029 million as at December 31, 2015 and 2014, respectively (see Notes 8 and 16).

Net Realizable Value of Condominium and Residential Units for Sale and Land and Development. The Company writes down the carrying value of condominium units held for sale and land and development when the net realizable value becomes lower than the carrying value due to changes in market prices or other causes. The net realizable value is assessed with reference to market price at the balance sheet date for similar completed property, less estimate cost to complete the construction and estimated cost to sell. The carrying value is reviewed regularly for any decline in value.

The carrying values of condominium and residential units for sale and land and development amounted to ₱8,165 million and ₱42,920 million as at December 31, 2015, respectively, and ₱7,579 million and ₱42,458 million as at December 31, 2014, respectively (see Notes 9 and 10).

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

The carrying values of AFS investments amounted to ₱20,332 million and ₱29,672 million as at December 31, 2015 and 2014, respectively (see Note 11).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱232,021 million and ₱194,898 million as at December 31, 2015 and 2014, respectively (see Notes 13 and 14).

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

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱232,021 million and ₱194,898 million as at December 31, 2015 and 2014, respectively (see Notes 13 and 14).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Company's deferred tax assets was recognized.

Deferred tax assets - net recognized in the consolidated balance sheets amounted to ₱846 million and ₱650 million as at December 31, 2015 and 2014, respectively, while the unrecognized deferred tax assets amounted to nil and ₱101 million as at December 31, 2015 and 2014, respectively (see Note 25).

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

The fair value of financial assets and liabilities are discussed in Note 28.

Contingencies. The Company is currently involved in various legal and administrative proceedings. The estimate of the probable costs for the resolution of these proceedings has been developed in consultation with in-house as well as outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its consolidated financial position and performance. It is possible, however, that future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provisions were made in relation to these proceedings (see Note 30).

Reclassification of Accounts

The Company changed the presentation of its consolidated balance sheet as at December 31, 2014 to present advances and deposits from other current assets to other noncurrent assets, and land use rights from investment properties to other noncurrent assets to conform to the 2015 presentation and classification. The Company did not present a consolidated balance sheet as at the beginning of the earliest comparative period since the reclassifications do not have a material impact on the consolidated balance sheets as at December 31, 2014 and January 1, 2014.

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial periods except for the adoption of the following amendments and Philippine Interpretations based on the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) effective beginning January 1, 2015:

- PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments), requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The adoption of these amendments did not have any impact on the Company's consolidated financial statements since the Company's retirement plans are noncontributory.

Annual Improvements to PFRS (2010 to 2012 cycle)

The Annual Improvements to PFRSs (2010 to 2012 cycle) contain non-urgent but necessary amendments to the following standards. Except as otherwise stated, the adoption of these amendments did not have a significant impact on the consolidated financial statements.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, are applied retrospectively and clarify that:
 - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- PAS 16, *Property, Plant and Equipment: Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, and PAS 38, *Intangible Assets: Revaluation Method - Proportionate Restatement of Accumulated Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures - Key Management Personnel*, is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRS (2011 to 2013 cycle)

The Annual Improvements to PFRSs (2011 to 2013 cycle) contain non-urgent but necessary amendments to the following standards. Except as otherwise stated, the adoption of these amendments did not have a significant impact on the consolidated financial statements.

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

Future Changes in Accounting Policies

The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2015 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on the financial position or performance.

Deferred

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective may result to a change in revenue and cost recognition from percentage of completion method to completed contract method.

Future Standards Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments), clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company is not using a revenue-based method to depreciate its noncurrent assets.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments), change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments), will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's consolidated financial statements.
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments), clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Company since the Company is not an investment entity nor does it have investment entity associates.
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments), require that a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments), are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
 - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

Annual Improvements to PFRSs (2012-2014 cycle)

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

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

Effective January 1, 2018

- PFRS 9, *Financial Instruments*, whose final version was issued in July 2014, reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 (2014 version) will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption of the other phases of the project is not expected to have any significant impact on the Company's consolidated financial statements. The Company is currently assessing the impact of adopting this standard.

The following new standards issued by the IASB have not yet been adopted locally by the SEC and FRSC:

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 16, *Leases*, was issued in January 2016. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, leases will apply the single-asset model, wherein lessees will recognize the assets and the related liabilities for most leases in their balance sheets and, subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Company is currently assessing the impact of IFRS 15 and IFRS 16 and plans to adopt the new and amended standards on their required effective dates once adopted locally.

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments, shown under current assets, are cash placements with original maturities of more than three months but less than one year.

Determination of Fair Value

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

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

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Others - net" account. Interest income on investments held for trading is included in the consolidated statements of income under the "Interest and dividend income" account. Instruments under this category are classified as current assets/liabilities if these are held primarily for the purpose of trading or expected to be realized/settled within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets/liabilities.

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱3,444 million and ₱2,600 million as at December 31, 2015 and 2014, respectively (see Note 28). Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to nil and ₱59 million as at December 31, 2015 and 2014, respectively (see Note 28).

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

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

Classified under this category are cash and cash equivalents, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under "Prepaid expenses and other current assets" account) and time deposits (included under "Other noncurrent assets" account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱12,524 million and ₱10,754 million as at December 31, 2015 and 2014, respectively (see Note 28).

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

The Company has no financial assets under this category as at December 31, 2015 and 2014.

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

Classified under this category are the investments in quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱20,332 million and ₱29,672 million as at December 31, 2015 and 2014, respectively (see Note 28).

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' and customers' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱144,593 million and ₱133,237 million as at December 31, 2015 and 2014, respectively (see Note 28).

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

Debt Issue Costs

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

Derivative Financial Instruments

The Company uses various derivative financial instruments such as non-deliverable forwards and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 28). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated as accounting hedges.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated statements of income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges.

Cash Flow Hedges. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Net fair value changes on cash flow hedges" in the consolidated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of comprehensive income under "Others - net" account (see Note 28).

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

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as "Net fair value changes on cash flow hedges" is retained in the other comprehensive income until the hedged transaction impacts the consolidated statements of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statements of comprehensive income is recognized immediately in the consolidated statements of income.

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under "Others - net" account in the consolidated statements of income (see Note 28). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives. An embedded derivative is a component of a hybrid instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid instrument is not recognized at FVPL.

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

AFS Investments. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income - is removed from the consolidated statements of comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in the consolidated statements of comprehensive income.

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

Offsetting Financial Instruments

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

Land and Development and Condominium and Residential Units for Sale

Land and development and condominium and residential units for sale are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Land and development and condominium and residential units for sale include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

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

Prepaid Expenses and Other Current Assets

Other current assets consist of advances to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, deposits, cash in escrow, prepayments and others. Advances to contractors are carried at cost. These represent advance payments to contractors for the construction and development of the projects. These are recouped upon every progress billing payment depending on the percentage of accomplishment. Advances for project development represent advances made for the purchase of land and is stated initially at cost. Advances for project development are subsequently measured at cost, net of any impairment. Prepaid taxes and other prepayments are carried at cost less amortized portion. These include prepayments for taxes and licenses, rent, advertising and promotions and insurance. Deposits represent advances made for acquisitions of property for future development and of shares of stocks.

Property Acquisitions and Business Combinations

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

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

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Company will be identified as the acquirer, (b) determination of the acquisition date, (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the costs and expenses.

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

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

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

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Company at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Company determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognizes any additional assets or liabilities that are identified in that review.

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

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

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

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

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying

amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

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

Common Control Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interests method. Under the pooling of interests method:

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets; and
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Acquisition of Non-controlling Interests

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity and included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets.

Property and Equipment

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

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

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

Land improvements	5 years
Buildings	10-25 years
Leasehold improvements	5-10 years or term of the lease, whichever is shorter
Data processing equipment	5-8 years
Transportation equipment	5-6 years
Furniture, fixtures and office equipment	5-10 years

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

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

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

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

Investment Properties

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

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

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

Land improvements	5 years
Buildings and improvements	20-40 years
Building equipment, furniture and others	3-15 years
Building and leasehold improvements	5 years or term of lease whichever is shorter

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

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

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

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

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

Investments in Shares of Stocks of Associates and Joint Ventures

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

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

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

The Company's investments in shares of stocks of associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in the net asset of the associate or joint venture. The consolidated statements of income reflects the share in the result of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of income. Profit and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate or joint venture. An investment in associate or joint venture is accounted for using the equity method from the date when it becomes an associate or joint venture. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follow:

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

Also, appropriate adjustments to the Company's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture.

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PAS 39, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value. Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statements of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Other Noncurrent Assets

Other noncurrent assets consist of bonds and deposits, land use rights, receivables from sale of real estate - net of current portion, time deposits, deferred input tax and others. Other noncurrent assets are carried at cost. Land use rights are amortized over its useful life of 40 to 60 years.

Impairment of Nonfinancial Assets

The carrying values of property and equipment, investment properties and investments in shares of stock of associates and joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an

arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Tenants' Deposits

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

Customers' Deposits

Customers' deposits, included under "Accounts payable and other current liabilities" account, mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statements of income as the related obligations to the real estate buyers are fulfilled.

Capital Stock and Additional Paid-in Capital

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

Retained Earnings

Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

Treasury Stock

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or cancellation of own equity instruments.

Dividends

Dividends on common shares are recognized as liability and deducted from equity when approved by the BOD. Dividends for the year that are approved after balance sheet date are dealt with as an event after the reporting period.

Revenue

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

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

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

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

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

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

Sale of Cinema, Event and Amusement Tickets and Merchandise. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services or the delivery of merchandise. Revenue from sale of amusement tickets and merchandise are included in the "Revenue - Others" account in the consolidated statements of income.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Revenue - Others" account in the consolidated statements of income.

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

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

Room rentals, food and beverage, and others. Revenue from room rentals is recognized on actual occupancy, food and beverage sales when orders are served, and other operated departments when the services are rendered. Revenue from other operated departments include, among others, business center, laundry service, and telephone service. Revenue from food and beverage sales and other hotel revenue are included under the "Revenue - Others" account in the consolidated statements of income.

Management Fees

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

Cost and Expenses

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

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

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

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

Pension Benefits

The Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit pension costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit obligation or asset is recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statements of income.

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

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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

Finance charges are reflected in the consolidated statements of income.

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

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

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

Provisions

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

Borrowing Costs

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

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. The Company limits exchange losses taken as amount of borrowing costs to the extent that the total borrowing costs capitalized do not exceed the amount of borrowing costs that would be incurred on functional currency equivalent borrowings. The amount of foreign exchange differences eligible for capitalization is determined for each period separately. Foreign exchange losses that did not meet the criteria for capitalization in previous years are not capitalized in subsequent years. All other borrowing costs are expensed as incurred.

Taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" and "Accounts

payable and other current liabilities” accounts in the consolidated balance sheets.

Business Segments

The Company is organized and managed separately according to the nature of business. The four operating business segments are mall, residential, commercial and hotels and convention centers. These operating businesses are the basis upon which the Company reports its segment information presented in Note 4 to the consolidated financial statements.

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

Events after the Reporting Period

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

4. Segment Information

For management purposes, the Company is organized into business units based on their products and services, and has four reportable operating segments as follows: mall, residential, commercial and hotels and convention centers.

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

Residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

Hotels and convention centers segment engages in and carry on the business of hotel and convention centers and operates and maintains any and all services and facilities incident thereto.

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

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.

Inter-segment Transactions

Transfer prices between business segments are set on an arm’s length basis similar to transactions with nonrelated parties. Such transfers are eliminated in the consolidated financial statements.

Business Segment Data

	2015					Consolidated Balances
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	
	<i>(In Thousands)</i>					
Revenue:						
External customers	₱42,705,269	₱22,931,237	₱3,434,135	₱2,440,646	₱-	₱71,511,287
Inter-segment	27,503	-	71,865	5,691	(105,059)	-
	₱42,732,772	₱22,931,237	₱3,506,000	₱2,446,337	(₱105,059)	₱71,511,287
Segment results:						
Income before income tax	₱20,380,936	₱5,688,535	₱1,703,004	₱534,543	₱6,603,821	₱34,910,839
Provision for income tax	(4,863,565)	(623,693)	(365,641)	(165,347)	-	(6,018,246)
Net income	₱15,517,371	₱5,064,842	₱1,337,363	₱369,196	₱6,603,821	₱28,892,593
Net income attributable to:						
Equity holders of the Parent	₱14,978,854	₱5,064,842	₱1,285,379	₱369,196	₱6,603,821	₱28,302,092
Non-controlling interests	538,517	-	51,984	-	-	590,501
Segment assets	₱283,013,015	₱108,811,859	₱31,284,878	₱10,804,808	(₱86,121)	₱433,828,439
Segment liabilities	₱160,242,498	₱54,148,046	₱3,038,706	₱642,463	(₱86,121)	₱217,985,592
Other information:						
Capital expenditures	₱35,916,735	₱19,522,186	₱1,052,206	₱2,845,821	₱-	₱59,336,948
Depreciation and amortization	5,781,043	296,636	549,443	339,830	-	6,966,952

2014						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	₱38,642,759	₱22,722,516	₱2,873,334	₱2,001,461	₱-	₱66,240,070
Inter-segment	57,767	916	71,996	3,229	(133,908)	-
	₱38,700,526	₱22,723,432	₱2,945,330	₱2,004,690	(₱133,908)	₱66,240,070
Segment results:						
Income before income tax	₱17,907,345	₱4,938,472	₱1,074,462	₱298,384	(₱544,527)	₱23,674,136
Provision for income tax	(4,193,180)	(246,225)	(273,729)	(64,513)	-	(4,777,647)
Net income	₱13,714,165	₱4,692,247	₱800,733	₱233,871	(₱544,527)	₱18,896,489
Net income attributable to:						
Equity holders of the Parent	₱13,240,587	₱4,692,247	₱768,174	₱233,871	(₱544,527)	₱18,390,352
Non-controlling interests	473,578	-	32,559	-	-	506,137
Segment assets	₱244,909,574	₱106,187,067	₱28,617,113	₱9,391,400	(₱264,995)	₱388,840,159
Segment liabilities	₱127,760,583	₱55,362,092	₱3,092,728	₱651,548	(₱264,995)	₱186,601,956
Other information:						
Capital expenditures	₱32,393,612	₱22,546,987	₱2,822,857	₱1,274,294	₱-	₱59,037,750
Depreciation and amortization	5,337,698	304,316	612,814	324,953	-	6,579,781
2013						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	₱34,332,874	₱20,906,585	₱2,855,564	₱1,600,045	₱99,342	₱59,794,410
Inter-segment	134,258	9,565	58,734	69,723	(272,280)	-
	₱34,467,132	₱20,916,150	₱2,914,298	₱1,669,768	(₱172,938)	₱59,794,410
Segment results:						
Income (loss) before income tax	₱15,773,978	₱4,599,152	₱1,058,465	(₱24,287)	(₱697,217)	₱20,710,091
Benefit from (provision for) income tax	(3,737,260)	(367,900)	(259,480)	(31,241)	411,718	(3,984,163)
Net income (loss)	₱12,036,718	₱4,231,252	₱798,985	(₱55,528)	(₱285,499)	₱16,725,928
Net income (loss) attributable to:						
Equity holders of the Parent	₱11,630,987	₱4,231,252	₱798,985	(₱55,528)	(₱330,876)	₱16,274,820
Non-controlling interests	405,731	-	-	-	45,377	451,108
Segment assets	₱204,805,990	₱97,345,097	₱28,245,291	₱7,173,803	(₱1,986,499)	₱335,583,682
Segment liabilities	₱114,964,693	₱50,203,798	₱3,872,643	₱1,682,990	(₱1,361,967)	₱169,362,157
Other information:						
Capital expenditures	₱25,867,627	₱12,439,263	₱5,002,947	₱146,437	₱-	₱43,456,274
Depreciation and amortization	4,754,081	233,137	619,279	374,443	-	5,980,940

For the years ended December 31, 2015, 2014 and 2013, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

5. Business Combinations

Common Control Business Combinations

As disclosed in Note 1, SMPH initiated a corporate restructuring exercise of the SM Property Group involving series of transactions. SMPH's management viewed the series of the corporate restructuring transactions described below as a "single" or "linked" arrangements effected by the Sy Family (the Controlling Shareholder) to re-organize its real estate businesses and assets. The companies and real estate assets (accounted for as business units) involved in the restructuring are all under the common control by the Sy Family. Thus, the re-organization was considered as common control business combinations and was accounted for using the pooling of interest method.

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

• SM Land's Tender Offers for SMDC and HPI

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

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

• *Merger of SMPH (the “Surviving entity”) and SM Land (the “Absorbed entity”)*

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

Also included in the plan of merger, which were also approved by the SEC on October 10, 2013 are the following:

- a) The increase in the authorized capital stock of SMPH by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation (see Note 20).
- b) The change in SMPH’s primary purpose from development and operation of commercial shopping centers to a mixed-use real property developer, and the consequent amendment of Article II of the Articles of Incorporation.

The merger resulted to equity adjustment from common control business combination, included under “Additional paid-in capital” account, amounting to ₱1,753 million (see Note 20).

• *Acquisition of Unlisted Real Estate Companies and Real Estate Assets from SMIC and the Sy Family*

On October 10, 2013, the SEC also approved SMPH’s acquisition of SMIC’s unlisted real estate companies including SMHCC, SMACC, Costa, PMI and TRDC. The SEC likewise approved SMPH’s acquisition of real property assets of SMIC which includes among others, SMX Convention Center in MOAC and real properties located in Tagaytay, by issuing new SMPH shares to SMIC. The unlisted real estate companies and real estate assets of SMIC were acquired based on the appraised values as at February 28, 2013 as conducted by CB Richard Ellis. Total acquisition price of the unlisted real estate companies and real property assets amounted to ₱25.8 billion equivalent to 1,382,841,458 SMPH common shares issued based on SMPH 30-day VWAP of ₱18.66.

The acquisition of real estate companies and real estate assets resulted to equity adjustment from common control business combination, included under “Additional paid-in capital” account, amounting to ₱12,067 million (see Note 20).

Other Common Control Business Combinations

In 2013, SMPH also acquired SM Store (China) Holdings Ltd. Co. (SM Store) through its newly incorporated subsidiary, Simply Prestige Limited, for a nominal amount. As a result of the acquisition, SM Store became a wholly-owned subsidiary of SMPH. SM Store owns and operates all the SM Department Stores in the SM Malls in China. SM Store is owned and controlled by the Sy Family. Thus, the transaction was considered a combination of businesses under common control for which pooling of interests was applied. The excess of the cost of business combination over the paid-up capital amounting to ₱110 million is included under “Additional paid-in capital - net” account (see Note 20).

Business Acquisitions

In January 2013, the Company entered into a Binding Share Purchases Agreement for the acquisition of 100% interest in CHAS for a total purchase consideration of ₱1,685 million. CHAS is engaged in the business of shopping mall operations which owns Cabanatuan Megacenter in Nueva Ecija. The Company acquired CHAS to expand its market share through the pre-existing mall of CHAS.

In 2013, the Company completed its acquisition of 100% interest in CHAS.

Total identifiable assets acquired amounted to ₱1,834 million, which mainly consist of investment properties amounting to ₱1,385 million and cash and other assets amounting to ₱449 million. Total identifiable liabilities assumed amounted to ₱149 million, which mainly consist of accounts payable and other current liabilities. The resulting identifiable net assets acquired amounted to ₱1,685 million. No goodwill is recognized upon completion of the acquisition.

The fair value of acquired receivables amounting to ₱37 million (included in “Receivables”) approximates their carrying value. No impairment loss was provided on these receivables.

The Company’s consolidated revenue and net income would have increased by ₱80 million and decreased by ₱105 million, respectively, for the year ended December 31, 2013 had the acquisition of CHAS took place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.

Net cash outflow from the acquisition of CHAS amounted to ₱2,238 million, inclusive of advances made to CHAS prior to the acquisition amounting to ₱665 million, and net of cash acquired from CHAS amounting to ₱112 million.

6. Cash and Cash Equivalents

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Cash on hand and in banks (see Note 21)	₱2,943,394	₱3,002,606
Temporary investments (see Note 21)	22,926,514	32,242,600
	₱25,869,908	₱35,245,206

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

Interest income earned from cash in banks and temporary investments amounted to ₱371 million, ₱214 million and ₱472 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

7. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds and listed common shares. The Philippine government and corporate bonds have yields ranging from 6.63% to 7.20% and 5.88% to 8.64% in 2015 and 2014, respectively. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities in 2017.

The movements in this account are as follows:

	2015	2014
	<i>(In Thousands)</i>	
At beginning of the year	₱967,511	₱1,151,464
Unrealized foreign exchange gain	12,525	1,706
Mark-to-market loss during the year	(101,087)	(101,076)
Disposals - net	(35,693)	(84,583)
At end of the year	₱843,256	₱967,511

Mark-to-market loss on changes in fair value of investments held for trading are included under "Others - net" account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱18 million, ₱26 million and ₱28 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

Dividend income earned from investments held for trading amounted to ₱14 million, ₱13 million and ₱13 million for the years ended December 31, 2015, 2014 and 2013, respectively.

8. Receivables

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Trade:		
Sale of real estate	₱31,073,388	₱29,607,958
Rent:		
Third parties	4,555,888	3,878,656
Related parties (see Note 21)	2,422,175	2,294,805
Others (see Note 21)	17,996	55,237
Due from related parties (see Note 21)	101,069	365,874
Nontrade	31,265	90,317
Receivable from a co-investor (see Note 15)	270,674	269,161
Accrued interest (see Note 21)	108,998	142,878
Others	1,701,307	2,676,512
	40,282,760	39,381,398
Less allowance for impairment	965,859	352,847
	39,316,901	39,028,551
Less noncurrent portion of receivables from sale of real estate (see Note 16)	7,962,615	8,341,583
	₱31,354,286	₱30,686,968

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

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate pertains to sold condominium and residential units at various terms of payments.

The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱1,895 million and ₱3,751 million for the years ended December 31, 2015 and 2014, respectively (see Note 21).

The Company also assigned receivables from real estate on a with recourse basis to local banks amounting to ₱406 million and ₱91 million for the years ended December 31, 2015 and 2014, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates ranging from 3.50% to 4.00% and 4.50% in 2015 and 2014, respectively. The fair value of the assigned receivables and liability from assigned receivables approximates its cost.

- Receivables from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 15).
- Accrued interest and other receivables are normally collected throughout the financial period.

Interest income earned from receivables totaled ₱70 million, ₱45 million and ₱67 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

The movements in the allowance for impairment related to receivables from sale of real estate and other receivables are as follows:

	2015	2014
	<i>(In Thousands)</i>	
At beginning of the year	₱352,847	₱322,904
Provision for impairment	613,012	29,943
At end of the year	₱965,859	₱352,847

The aging analyses of receivables as at December 31 are as follows:

	2015	2014
		<i>(In Thousands)</i>
Neither past due nor impaired	₱30,564,617	₱30,301,899
Past due but not impaired:		
Less than 30 days	2,666,853	2,499,328
31-90 days	2,153,625	1,888,204
91-120 days	733,877	585,374
Over 120 days	3,197,929	3,753,746
Impaired	965,859	352,847
	₱40,282,760	₱39,381,398

Receivables, except for those that are impaired, are assessed by the Company's management as not impaired, good and collectible.

9. Condominium and Residential Units for Sale

This account consists of:

	2015	2014
		<i>(In Thousands)</i>
Condominium units for sale	₱7,780,550	₱7,177,902
Residential units and subdivision lots	384,431	400,983
	₱8,164,981	₱7,578,885

The movements in "Condominium units for sale" account are as follows:

	2015	2014
		<i>(In Thousands)</i>
At beginning of the year	₱7,177,902	₱5,788,429
Transfer from land and development (see Note 10)	5,720,176	3,997,101
Cost of real estate sold (see Note 22)	(5,117,528)	(2,607,628)
At end of the year	₱7,780,550	₱7,177,902

Condominium units for sale pertains to the completed projects of SMDC, HPI and Costa. These are stated at cost as at December 31, 2015 and 2014.

The movements in "Residential units and subdivision lots" account are as follows:

	2015	2014
		<i>(In Thousands)</i>
At beginning of the year	₱400,983	₱314,224
Transfer from land and development (see Note 10)	304,988	156,231
Cost of real estate sold (see Note 22)	(321,540)	(69,472)
At end of the year	₱384,431	₱400,983

Residential units and subdivision lots for sale are stated at cost as at December 31, 2015 and 2014.

10. Land and Development

This account consists of:

	2015	2014
		<i>(In Thousands)</i>
Land and development	₱41,053,508	₱40,856,084
Land held for future development	1,866,660	1,601,748
	42,920,168	42,457,832
Less noncurrent portion	23,105,553	22,886,306
	₱19,814,615	₱19,571,526

Land and Development

The movements in "Land and development" account are as follows:

	2015	2014
		<i>(In Thousands)</i>
At beginning of the year	₱40,856,084	₱33,302,111
Development cost incurred	11,165,617	14,677,138
Land acquisitions	1,203,487	6,883,083
Capitalized borrowing cost	407,549	690,462
Cost of real estate sold (see Note 22)	(6,600,008)	(9,579,932)
Transfer to condominium and residential units for sale (see Note 9)	(6,025,164)	(4,153,332)
Reclassified from property and equipment (see Note 13)	1,327	-
Others	44,616	(963,446)
At end of the year	₱41,053,508	₱40,856,084

Borrowing costs capitalized to land and development account amounted to ₱408 million and ₱690 million in 2015 and 2014, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 2.0% to 5.2% in 2015 and from 3.9% to 4.9% in 2014.

- SMDC
Land and development include those attributable to SMDC which pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱23,440 million and ₱31,912 million as at December 31, 2015 and 2014, respectively.
- Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱219 million and ₱290 million as at December 31, 2015 and 2014, respectively.

As at December 31, 2015, the development of macro-infrastructure is still ongoing.

- HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱831 million and ₱1,181 million as at December 31, 2015 and 2014, respectively.

Land Held for Future Development

This represents substantially parcels of land acquired by HPI from Belle Corporation (Belle). The movements in "Land held for future development" are as follows:

	2015	2014
	<i>(In Thousands)</i>	
At beginning of the year	₱1,601,748	₱1,519,073
Acquisition and transferred-in costs and others	264,912	82,675
At end of year	₱1,866,660	₱1,601,748

Land and development is stated at cost as at December 31, 2015 and 2014. There is no allowance for inventory write-down as at December 31, 2015 and 2014.

11. Available-for-sale Investments

This account consists of investments in:

	2015	2014
	<i>(In Thousands)</i>	
Shares of stock:		
Listed (see Note 21)	₱20,323,495	₱29,663,165
Unlisted	8,560	8,573
	20,332,055	29,671,738
Less noncurrent portion	19,689,781	28,994,983
	₱642,274	₱676,755

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

On February 25, 2015, the Company sold a portion of its listed shares of stock to SMIC based on a 5% discount to 30-day volume-weighted average price as of trade date resulting to a realized gain amounting to ₱7,410 million (see Note 21). In 2014 and 2013, shares with acquisition cost of ₱2 million and ₱101 million were sold resulting to a realized gain amounting to ₱3 million and ₱285 million, respectively. Realized gain on sale of available-for-sale investments is shown as component of "Other Income" in the consolidated statements of income.

Dividend income from investments in listed and unlisted shares of stock amounted to ₱541 million, ₱322 million and ₱389 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Interest income earned from investment in corporate notes amounted to nil, nil and ₱34 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

The movements in the "Net unrealized gain on AFS investments" account are as follows:

	2015	2014
	<i>(In Thousands)</i>	
At beginning of the year	₱25,905,440	₱19,958,330
Realized gain on sale of AFS investments	(7,410,711)	(2,743)
Unrealized gain (loss) due to changes in fair value	(1,873,182)	5,949,853
At end of the year	₱16,621,547	₱25,905,440

12. Prepaid Expenses and Other Current Assets

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Advances and deposits	P4,829,512	P2,991,975
Input and creditable withholding taxes	3,467,461	3,203,920
Prepaid taxes and other prepayments	2,108,087	1,948,049
Cash in escrow (see Note 21)	437,639	667,778
Supplies and inventories	402,347	323,285
Advances for project development	-	16,467
Others	57,825	137,843
	P11,302,871	P9,289,317

- Advances pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.
- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.
- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.
- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account.

Also included in cash in escrow are deposits made in 2015 and 2014 for payments of liability arising from acquisition of land.

Interest income earned from the cash in escrow amounted to P24 million, P7 million and P5 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

13. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
	<i>(In Thousands)</i>						
Cost							
Balance at December 31, 2013	P270,871	P1,245,729	P143,240	P98,999	P1,065,210	P-	P2,824,049
Additions	609	45,537	47,905	12,881	115,600	7,827	230,359
Disposals	-	(92,576)	(6,295)	(1,443)	(24,529)	-	(124,843)
Reclassifications	(54,163)	1,113,654	52,641	44,272	(19,421)	-	1,136,983
Balance at December 31, 2014	217,317	2,312,344	237,491	154,709	1,136,860	7,827	4,066,548
Additions	207	42,180	65,308	87,199	66,112	2,755	263,761
Disposals/retirements	-	(3,553)	(10)	(3,097)	(33,662)	-	(40,322)
Reclassifications (see Notes 10 and 14)	-	(727,330)	(133,075)	8,725	(551,122)	(10,582)	(1,413,384)
Balance at December 31, 2015	P217,524	P1,623,641	P169,714	P247,536	P618,188	P-	P2,876,603
Accumulated Depreciation and Amortization							
Balance at December 31, 2013	P105,932	P542,690	P80,077	P53,832	P462,625	P-	P1,245,156
Depreciation and amortization (see Note 22)	23	211,202	67,506	13,878	184,817	-	477,426
Disposals/retirements	-	(39,323)	(3,343)	(1,325)	(8,509)	-	(52,500)
Reclassifications	(105,932)	192,179	13,346	14,132	24,354	-	138,079
Balance at December 31, 2014	23	906,748	157,586	80,517	663,287	-	1,808,161
Depreciation and amortization (see Note 22)	73	128,812	33,417	25,486	83,645	-	271,433
Disposals/retirements	-	(716)	(199)	(1,866)	(9,693)	-	(12,474)
Reclassifications (see Notes 10 and 14)	-	(422,637)	(83,659)	15,590	(380,193)	-	(870,899)
Balance at December 31, 2015	P96	P612,207	P107,145	P119,727	P357,046	P-	P1,196,221
Net Book Value							
As at December 31, 2014	P217,294	P1,405,596	P79,905	P74,192	P473,573	P7,827	P2,258,387
As at December 31, 2015	217,428	1,011,434	62,569	127,809	261,142	-	1,680,382

As at December 31, 2015 and 2014, the carrying amount of fully depreciated property and equipment still in use amounted to P155 million and P159 million, respectively.

14. Investment Properties

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
	(In Thousands)				
Cost					
Balance as at December 31, 2013	₱35,464,429	₱125,915,788	₱23,824,105	₱23,359,266	₱208,563,588
Additions	5,378,822	8,054,234	1,719,211	17,379,564	32,531,831
Reclassifications	42,399	(1,135,278)	(452,511)	(1,966,846)	(3,512,236)
Translation adjustment	(107,095)	(299,725)	(37,595)	(155,709)	(600,124)
Disposals	-	(145,147)	(46,462)	-	(191,609)
Balance as at December 31, 2014	40,778,555	132,389,872	25,006,748	38,616,275	236,791,450
Additions	18,391,404	16,979,710	1,811,820	9,190,394	46,373,328
Reclassifications (see Note 13)	281,629	14,761,945	2,284,279	(15,920,011)	1,407,842
Translation adjustment	64,091	99,036	12,795	78,218	254,140
Disposals	(310,664)	(2,833,882)	(101,076)	-	(3,245,622)
Balance as at December 31, 2015	₱59,205,015	₱161,396,681	₱29,014,566	₱31,964,876	₱281,581,138
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2013	₱931,456	₱28,323,309	₱12,458,507	₱-	₱41,713,272
Depreciation and amortization (see Note 22)	292,576	3,912,221	1,897,558	-	6,102,355
Reclassifications	220,565	(3,505,401)	(227,400)	-	(3,512,236)
Translation adjustment	(9,031)	(43,422)	(15,047)	-	(67,500)
Disposals	-	(49,968)	(33,852)	-	(83,820)
Balance as at December 31, 2014	1,435,566	28,636,739	14,079,766	-	44,152,071
Depreciation and amortization (see Note 22)	217,002	4,204,068	2,274,449	-	6,695,519
Reclassifications (see Note 13)	9,908	397,325	459,452	-	866,685
Translation adjustment	4,041	16,752	5,437	-	26,230
Disposals	(41,085)	(360,637)	(98,044)	-	(499,766)
Balance as at December 31, 2015	₱1,625,432	₱32,894,247	₱16,721,060	₱-	₱51,240,739
Net Book Value					
As at December 31, 2014	₱39,342,989	₱103,753,133	₱10,926,982	₱38,616,275	₱192,639,379
As at December 31, 2015	57,579,583	128,502,434	12,293,506	31,964,876	230,340,399

Portions of investment properties located in China with carrying value of ₱678 million and with estimated fair value of ₱5,447 million as at December 31, 2015, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Consolidated rent income from investment properties amounted to ₱40,743 million, ₱36,497 million and ₱32,195 million for the years ended December 31, 2015, 2014 and 2013, respectively. Consolidated costs and expenses from investment properties which generate income amounted to ₱23,461 million, ₱20,006 million and ₱17,075 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱31,965 million and ₱38,616 million as at December 31, 2015 and 2014, respectively.

In 2015, shopping mall complex under construction mainly pertains to cost of land amounting to ₱3,291 million, and costs incurred for the development of SM Trece Martires, SM San Jose Del Monte, SM Cagayan de Oro Premier, SM Tianjin and the ongoing expansions of SM Mall of Asia and SM Xiamen.

In 2014, shopping mall complex under construction mainly pertains to cost of land amounting to ₱6,576 million and costs incurred for the development of SM Seaside City Cebu, SM City Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱106,136 million and ₱81,977 million as at December 31, 2015 and 2014, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱24,304 million and ₱17,272 million as at December 31, 2015 and 2014, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,039 million, ₱51 million and ₱77 million for the years ended December 31, 2015, 2014 and 2013, respectively. Capitalization rates used range from 2.06% to 6.07%, from 4.61% to 5.99% and from 5.83% to 7.20% for the years ended December 31, 2015, 2014 and 2013, respectively. In 2015, foreign exchange loss amounting to ₱642 million were also capitalized to the construction of investment property.

The fair value of investment properties amounted to ₱540,040 million as at February 28, 2013 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	10.00%
Capitalization rate	7.40%
Average growth rate	5.00%

Investment properties are categorized under Level 3 fair value measurement.

While the valuation of the investment properties as at December 31, 2015 is still on-going, the Company's management believes that there were no conditions present in 2015 and 2014 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

15. Investments in Associates and Joint Ventures

Investments in Associates

This pertains mainly to investments in the following companies:

- OCLP Holdings, Inc. (OHI)
- Fei Hua Real Estate Company (FHREC)

On May 7, 2015, SMPH acquired 39.96% collective ownership interest in OHI, through acquisition of 100% interest in six (6) holding entities, for a total consideration of ₱15,433 million, which approximates the proportionate share of SMPH in the fair values of the identifiable net assets of OHI. OHI owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

As at December 31, 2015, OHI's total assets, total liabilities and total equity amounted to ₱23,664 million, ₱19,944 million and ₱3,720 million, respectively. The cost of investment in OHI amounted to ₱15,433 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱13,772 million. In 2015, the share in profit and total comprehensive income amounted to ₱27 million.

On April 10, 2012, SMPH, through TRC, entered into a Memorandum of Agreement with Trendlink Holdings Limited (THL), a third party, wherein Fei Hua Real Estate Company (FHREC), a company incorporated in China and 100% subsidiary of TRC, issued new shares to THL equivalent to 50% equity interest. In addition, THL undertakes to pay for the difference between cash invested and the 50% equity of FHREC and the difference between the current market value and cost of the investment properties of FHREC. Management assessed that SMPH lost control over FHREC by virtue of the agreement with the shareholders of THL. Consequently, FHREC became an associate of SMPH (see Note 8).

The carrying value of investment in FHREC amounted to ₱1,109 million and ₱749 million as at December 31, 2015 and 2014, respectively. This consists of the acquisition cost amounting to ₱277 million and ₱276 million as at December 31, 2015 and 2014, respectively, and cumulative equity in net earnings amounting to ₱832 million and ₱473 million as at December 31, 2015 and 2014, respectively. The share in profit and total comprehensive income amounted to ₱356 million, ₱183 million and ₱295 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Investment in Joint Ventures

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 21 malls across Metro Manila and Luzon. The investments in Waltermart were accounted as joint ventures using equity method of accounting because the contractual arrangement between the parties establishes joint control.

The aggregate carrying values of investments in joint ventures amounted to ₱5,501 million and ₱5,302 million as at December 31, 2015 and 2014, respectively. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱386 million and ₱187 million as at December 31, 2015 and 2014, respectively. The aggregate share in profit and total comprehensive income amounted to ₱199 million, ₱122 million and ₱65 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2015 and 2014.

16. Other Noncurrent Assets

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Bonds and deposits	₱9,454,397	₱6,604,419
Land use rights	9,563,565	9,541,287
Receivables from sale of real estate - net of current portion (see Note 8)	7,962,615	8,341,583
Time deposits (see Note 21)	4,561,849	2,412,190
Deferred input tax	2,805,664	1,583,025
Others (see Note 24)	1,145,133	1,228,581
	₱35,493,223	₱29,711,085

Bonds and Deposits

Bonds and deposits consist of deposits to contractors and suppliers to be applied throughout construction and advances, deposits paid for leased properties to be applied at the last term of the lease and advance payments for land acquisitions which will be applied against the purchase price of the properties upon fulfillment by both parties of certain undertakings and conditions.

Land use rights

Included under "Land use rights" account are the 89,378 and 212,119 square meters of real estate properties with a carrying value of ₱361 million and ₱488 million as at December 31, 2015 and 2014, respectively, and a fair value of ₱12,830 million and ₱13,531 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Time Deposits

Time deposits with various maturities within one year, amounting to ₱4,562 million and ₱2,412 million as of December 31, 2015 and 2014, respectively, were used as collateral for use of credit lines obtained by the Company from related party banks. Interest income earned amounted to ₱131 million, ₱91 million and ₱57 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

17. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱4,675 million and ₱2,670 million as at December 31, 2015 and 2014, respectively, with due dates of less than one year. These loans bear interest rates ranging from 2.00% to 4.15% in 2015 and 2014.

Interest expense incurred from loans payable amounted to ₱261 million, ₱106 million and ₱275 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Trade:		
Third parties	₱17,485,188	₱15,398,110
Related parties (see Note 21)	61,283	30,281
Accrued operating expenses:		
Third parties	9,647,340	6,991,653
Related parties (see Note 21)	692,897	677,047
Tenants' and customers' deposits	17,641,578	15,771,187
Liability for purchased land	5,602,380	4,774,116
Deferred output VAT	1,289,236	1,107,056
Accrued interest (see Note 21)	767,172	591,056
Payable to government agencies	630,989	616,300
Nontrade	321,988	1,018,539
Due to related parties (see Note 21)	88,869	147,432
Others	864,100	3,678,423
	55,093,020	50,801,200
Less noncurrent portion	16,273,864	14,422,381
	₱38,819,156	₱36,378,819

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- The terms and conditions relating to due to related parties are further discussed in Note 21.
- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial period. Accrued operating expenses - third parties consist of:

	2015	2014
	<i>(In Thousands)</i>	
Utilities	₱3,870,702	₱3,762,036
Marketing and advertising	650,491	424,155
Payable to contractors and others	5,126,147	2,805,462
	₱9,647,340	₱6,991,653

- Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue. Tenants' deposits refers to security deposits received from various tenants upon inception of the respective lease contracts on the Company's investment properties. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any.
- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.

19. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance	
					2015	2014
<i>(In Thousands)</i>						
Parent Company						
U.S. dollar-denominated loans:						
Five-year term loans	May 6, 2011 – April 23, 2014	March 21, 2016 – April 14, 2019	LIBOR + spread; semi-annual	Unsecured	₱50,354,200	₱43,825,600
Five-year, three-year and two-year bilateral loans	November 30, 2010 – December 7, 2012	November 30, 2015 – August 30, 2017	LIBOR + spread; semi-annual	Unsecured	2,353,000	4,472,000
Other U.S. dollar loans	November 20, 2013	September 17, 2018	LIBOR + spread; semi-annual	Unsecured	1,176,500	1,118,000
Philippine peso-denominated loans:						
Five-year and ten-year retail bonds	November 25, 2015	February 25, 2021 – November 25, 2025	4.51%-4.80%; quarterly	Unsecured	20,000,000	–
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 – September 1, 2024	5.10%-5.74%; quarterly	Unsecured	20,000,000	20,000,000
Five-year and ten-year floating and fixed rate notes	June 19, 2012	June 20, 2017 – June 19, 2022	PDST-R2 + margin; 5.91%-6.74%; quarterly	Unsecured	7,226,500	7,301,000
Five-year, seven-year and ten-year corporate notes	December 20, 2010 – December 21, 2015	December 21, 2015 – December 21, 2022	PDST-R2 + margin; 5.50%-6.65%; quarterly	Unsecured	6,520,000	6,528,000
Five-year floating rate notes	March 18, 2011 – June 17, 2011	March 19, 2016 – June 18, 2016	PDST-R2 + margin; quarterly	Unsecured	4,800,000	4,850,000
Five-year, seven-year and ten-year fixed and floating rate notes	January 12, 2012	January 13, 2017 – January 12, 2022	PDST-R2 + margin; 5.86%-6.10%; quarterly	Unsecured	4,229,200	4,272,800
Other bank loans	August 15, 2006 – June 8, 2015	June 24, 2015 – June 8, 2020	PDST-R2 + margin; 5.00%-9.75%; semi-annual and quarterly	Unsecured	1,525,000	1,985,280
Subsidiaries						
Philippine peso-denominated loans:						
Fixed rate term loans	December 27, 2012 – December 28, 2015	December 23, 2015 – June 25, 2023	3.22%-5.94%; semi-annual and quarterly	Unsecured	21,443,500	22,823,000
Fixed rate corporate notes	June 3, 2013 – June 28, 2014	June 3, 2020 – June 3, 2023	5.25%-5.88%; semi-annual	Unsecured	8,683,100	8,691,800
Four-year and five-year floating rate notes	October 31, 2013 – December 1, 2015	October 31, 2017 – December 1, 2020	PDST-R2 + margin; quarterly	Unsecured	3,200,000	1,300,000
Five-year bilateral loans	February 2, 2010 – October 24, 2011	February 2, 2015 – October 24, 2016	PDST-R2 + margin; Fixed 5% quarterly	Unsecured	500,000	538,800
China yuan renminbi-denominated loans:						
Five-year loan	July 28, 2015	December 31, 2019	CBC rate less 10%; quarterly	Secured	32,249	–
					152,043,249	127,706,280
Less debt issue cost					1,049,764	1,093,253
					150,993,485	126,613,027
Less current portion					25,041,044	11,006,880
					₱125,952,441	₱115,606,147

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Treasury Reference Rates – PM

CBC – Central Bank of China

Parent Company

U.S. Dollar-denominated Five-Year Term Loans

This includes the following:

- A US\$300 million syndicated loan obtained on various dates in 2013. The loans bear an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US\$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 27 and 28).
- A US\$200 million syndicated loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 27 and 28).

Philippine Peso-denominated Five-Year and Ten-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on November 25, 2015. The issue consists of the five-year and three months or Series D Bonds amounting to ₱17,969 million with a fixed interest rate equivalent to 4.5095% per annum due on February 25, 2021 and ten-year or Series E Bonds amounting to ₱2,031 million with a fixed interest rate equivalent to 4.7990% per annum due on November 25, 2025.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036 million with a fixed interest rate equivalent to 5.1000% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362 million with a fixed interest rate equivalent to 5.2006% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602 million with a fixed interest rate equivalent to 5.7417% per annum due on September 1, 2024.

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loans

- This represents a ¥5 million, out of ¥400 million loan facility obtained on July 28, 2015 to finance the construction of shopping malls. The loan is payable in quarterly installments until December 2019. The loan has a floating rate with a quarterly re-pricing at prevailing rate dictated by People's Bank of China. The loan carries an interest rate of 5.00% and is secured by a portion of investment properties in China (see Note 14).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.75:0.25 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control. As at December 31, 2015 and 2014, the Company is in compliance with the terms of its loan covenants.

The re-pricing frequencies of floating rate loans of the Company range from three to six months.

Interest expense incurred from long-term debt amounted to ₱3,038 million, ₱3,824 million and ₱3,218 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

Debt Issue Cost

The movements in unamortized debt issue cost of the Company follow:

	2015	2014
		<i>(In Thousands)</i>
Balance at beginning of the year	₱1,093,253	₱957,093
Additions	290,082	450,804
Amortization	(333,571)	(314,644)
Balance at end of the year	₱1,049,764	₱1,093,253

Amortization of debt issuance costs is recognized in the consolidated statements of income under "Others - net" account.

Repayment Schedule

The repayments of long-term debt are scheduled as follows:

	Gross Loan	Debt Issue Cost	Net
		<i>(In Thousands)</i>	
2016	₱25,041,044*	(₱338,600)	₱24,702,444
2017	9,089,344	(303,051)	8,786,293
2018	29,601,144	(191,778)	29,409,366
2019	22,150,017	(112,082)	22,037,935
2020	23,866,060	(60,061)	23,805,999
2021	21,999,780	(22,304)	21,977,476
2022	11,243,260	(9,604)	11,233,656
2023	4,419,860	(6,327)	4,413,533
2024	2,601,700	(4,014)	2,597,686
2025	2,031,040	(1,943)	2,029,097
	₱152,043,249	(₱1,049,764)	₱150,993,485

* Including U.S. Dollar-denominated Five-Year Term Loans amounting to US\$270 million which was refinanced in January 2016.

20. Equity

Capital Stock

On May 31, 2013, the BOD approved the increase in the authorized capital stock of the Company by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation. On October 10, 2013, the SEC approved the Company's application for increase in its authorized capital stock.

As at December 31, 2015 and 2014, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued.

The movement of the outstanding shares of the Company are as follows:

	2015	2014
		<i>(In Thousands)</i>
Balance at beginning of the year	28,833,513	27,771,930
Acquisition of non-controlling interest	95	1,583
Sale of treasury shares	-	1,060,000
Balance at end of the year	28,833,608	28,833,513

The following summarizes the information on SMPH's registration of securities under the Securities Regulation Code:

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	-	₱-
April 22, 1994	-	6,369,378,049	5.35
May 29, 2007	10,000,000,000	-	-
May 20, 2008	-	912,897,212	11.86
October 14, 2010	-	569,608,700	11.50
October 10, 2013	20,000,000,000	15,773,765,315	19.50

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,487 and 2,514 as at December 31, 2015 and 2014, respectively.

Additional Paid-in Capital - Net

Following represents the nature of the consolidated "Additional paid-in capital - net":

	2015	2014
	<i>(In Thousands)</i>	
Paid-in subscriptions in excess of par value	₱33,177,063	₱33,177,063
Net equity adjustments from common control business combinations (see Note 5)	9,068,132	9,068,132
Arising from acquisition of non-controlling interests	(2,941,168)	(2,943,001)
As presented in the consolidated balance sheets	₱39,304,027	₱39,302,194

Net equity adjustments from common control business combinations also include equity adjustments from the acquisitions of SM China subsidiaries in 2007 and 2009 amounting to ₱4,862 million, which were charged against "Additional paid-in capital" account.

On November 27, 2014, the Parent Company has undergone an international placement of its treasury shares to raise capital to finance capital expenditures, general corporate purposes, and potential acquisitions. The Parent Company entered into a Placement Agreement with J. P. Morgan Securities Plc and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners") on November 27, 2014. Based on the Placement Agreement, the Parent Company sold its 1,060 million shares held in treasury (the "Sale Shares") with a par value of ₱1 per share at ₱17.00 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

The Company was able to sell through the Joint Bookrunners the total sale shares of 1,060 million Parent Company common shares. The proceeds of ₱18,020 million, net of transaction costs of ₱374 million, add up to the capital of the Parent Company.

Retained Earnings

In 2015, the BOD approved the declaration of cash dividend of ₱0.21 per share or ₱6,065 million to stockholders of record as of May 14, 2015, ₱10 million of which was received by SMDC. This was paid on June 9, 2015. In 2014, the BOD approved the declaration of cash dividend of ₱0.19 per share or ₱5,286 million to stockholders of record as of May 15, 2014, ₱9 million of which was received by SMDC. In 2013, the BOD approved the declaration of cash dividend of ₱0.27 per share or ₱4,691 million.

As at December 31, 2015 and 2014, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million.

For the year 2016, the Company expects to incur capital expenditures of at least ₱60 billion.

The retained earnings account is restricted for the payment of dividends to the extent of ₱49,834 million and ₱40,453 million as at December 31, 2015 and 2014, respectively, representing the cost of shares held in treasury (₱3,355 million and ₱3,356 million as at December 31, 2015 and 2014, respectively) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱46,479 million and ₱37,097 million as at December 31, 2015 and 2014, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock

As at December 31, 2015 and 2014, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱3,355 million and ₱3,356 million, respectively. The movement of the treasury stock of the Company are as follows:

	2015	2014
	<i>(In Thousands)</i>	
Balance at beginning of year	4,332,787	5,394,370
Acquisition of non-controlling interest	(95)	(1,583)
Sale of treasury shares	-	(1,060,000)
Balance at end of year	4,332,692	4,332,787

21. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2015 and 2014, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally

occur in cash.

The significant related party transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]		Terms	Conditions
	2015	2014	2013	2015	2014		
				(In Thousands)			
Ultimate Parent							
Rent income	₱48,344	₱44,329	₱115,048	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	-	₱22,108	₱16,005		
Sponsorship income	-	-	3,898	-	-	Noninterest-bearing	Unsecured; not impaired
Service income	27,903	44,200	53,040	-	-	Noninterest-bearing	Unsecured; not impaired
Service fee receivable	-	-	-	17	-	Noninterest-bearing	Unsecured; not impaired
Interest income	-	-	3,339	-	-	Interest-bearing	Unsecured; not impaired
Due from related parties	-	488	295	449	783	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	91,611	87,276	189,214	-	-	Noninterest-bearing	Unsecured
Accrued rent payable	-	-	-	(1,427)	(1,561)	Noninterest-bearing	Unsecured
Administrative expenses	-	-	9,578	-	-	Noninterest-bearing	Unsecured
Due to related parties	-	-	2,199,471	(26,707)	(31,459)	On demand; noninterest-bearing	Unsecured
Trade payable	37,831	-	-	(39,855)	(2,024)	Noninterest-bearing	Unsecured
AFS investments	-	-	-	84,156	78,750	Noninterest-bearing	Unsecured; not impaired
Dividend income	1,033	1,007	4,597	-	-	Noninterest-bearing	Unsecured
Gain on sale of AFS investments	7,410,301	-	-	-	-	Noninterest-bearing	Unsecured
Banking and Retail Group							
Cash and cash equivalents	116,720,058	183,027,363	5,289,545	18,907,056	29,377,591	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	-	65,416	112,234	563,897	659,676	Noninterest-bearing	Unsecured; not impaired
Rent income	12,419,414	11,379,209	10,393,358	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	-	2,371,247	2,254,280		
Service income	1,663	2,351	-	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee income	6,533	7,412	-	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	-	-	-	29,405	31,437		
Deferred rent income	-	-	-	(63,548)	(83,548)	Noninterest bearing	Unsecured
Sponsorship income	-	-	3,508	-	-	Noninterest bearing	Unsecured; not impaired
Interest income	260,183	238,595	559,419	-	-	Interest-bearing	Unsecured; not impaired
Accrued interest receivable	-	-	-	44,534	104,836	Noninterest-bearing	Unsecured; not impaired
Marketing fee income	-	-	28,463	-	-	Noninterest-bearing	Unsecured; not impaired
Due from related parties	-	7,261	-	19	8,907	On demand; noninterest-bearing	Unsecured; not impaired
Receivable financed	1,894,719	3,750,848	3,735,340	-	-	Without recourse interest-bearing	Unsecured; Unsecured
Time deposits	2,160,836	2,249,600	-	4,410,436	2,249,600	Interest-bearing	Unsecured
Loans payable and long-term debt	-	6,915,000	15,006,500	(961,624)	(1,230,000)	Interest-bearing	Combination of secured and unsecured
Interest expense	101,856	658,400	363,738	-	-	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable	-	-	-	(638)	(5,668)	Noninterest-bearing	Unsecured
Rent expense	1,523	288	-	-	-	Noninterest-bearing	Unsecured
Trade payable	4,621	-	-	(5,886)	(1,265)	Noninterest-bearing	Unsecured
Due to related parties	2,592	793	-	(3,385)	(793)	Noninterest-bearing	Unsecured
Management fee expense	3,452	2,135	-	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	-	(876)	(519)	Noninterest-bearing	Unsecured
AFS investments	-	52,886	-	10,968,613	11,843,233	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	230,139	-	763,869	437,639	667,778	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	248,407	241,712	240,037	-	-	Noninterest-bearing	Unsecured
Other Related Parties							
Rent income	50,472	-	-	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	-	28,820	24,520	Noninterest-bearing	Unsecured; not impaired
Service income	4,702	-	25,315	-	-	Noninterest-bearing	Unsecured; not impaired
Due from related parties	-	-	367,510	100,601	356,184	On demand; noninterest-bearing	Unsecured; not impaired
Management fee income	-	10,912	4,723	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	-	-	-	7,993	11,017	Noninterest-bearing	Unsecured; not impaired
Trade receivable - others	-	-	11,716	-	-	Noninterest-bearing	Unsecured
Rent expense	4,962	3,927	-	-	-	-	-
Due to related parties	-	56,138	(104,500)	(58,777)	(115,180)	Noninterest-bearing	Unsecured
Accrued expenses	-	-	352,434	(573,192)	(573,192)	Noninterest-bearing	Unsecured
Management fee expense	1,057,603	1,110,626	963,126	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	-	(117,402)	(101,775)	Noninterest-bearing	Unsecured
Administrative expenses	-	-	971	-	-	Noninterest-bearing	Unsecured
Advances for project development	-	-	518,122	-	-	Noninterest-bearing	Unsecured; not impaired
Trade payable	-	-	-	(15,542)	(26,992)	Noninterest-bearing	Unsecured
AFS investments	-	-	-	2,140,461	3,602,136	Noninterest-bearing	Unsecured; not impaired
Sponsorship income	-	-	7,406	-	-	Noninterest-bearing	Unsecured
Interest income	-	-	21,972	-	-	Noninterest-bearing	Unsecured
Dividend income	202,277	14,769	-	-	-	Noninterest-bearing	Unsecured
Gain on disposal of land	-	-	33,314	-	-	Noninterest-bearing	Unsecured

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent

The Company has existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Management Fees

The Company pays management fees to Shopping Center Management Corporation and SM Lifestyle Entertainment, Inc. (affiliates) for the management of the office and mall premises.

Service Fees

The Company provides manpower and other services to affiliates.

Dividend Income

The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans

The Company has certain bank accounts and cash placements that are maintained with BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates). Such accounts earn interest based on prevailing market interest rates (see Notes 6, 7 and 11).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

Others

The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel

The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2015, 2014 and 2013 consist of short-term employee benefits amounting to ₱363 million, ₱340 million and ₱260 million, respectively, and post-employment benefits (pension benefits) amounting to ₱61 million, ₱27 million and ₱27 million, respectively.

22. Costs and Expenses

This account consists of:

	2015	2014	2013
		<i>(In Thousands)</i>	
Cost of real estate sold (see Notes 9 and 10)	₱12,039,076	₱12,257,032	₱11,920,739
Administrative (see Notes 21 and 24)	7,184,191	6,707,326	5,858,726
Depreciation and amortization (see Notes 13 and 14)	6,966,952	6,579,781	5,980,940
Marketing and selling	3,668,214	3,400,983	3,232,536
Business taxes and licenses	3,465,807	3,125,697	2,748,088
Film rentals	2,597,433	2,308,946	2,041,830
Rent (see Notes 21 and 26)	1,317,443	1,186,622	1,294,925
Management fees (see Note 21)	1,279,292	1,145,319	1,050,548
Insurance	393,738	418,581	353,019
Others	1,160,314	1,423,274	1,177,514
	₱40,072,460	₱38,553,561	₱35,658,865

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

23. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2015	2014	2013
		<i>(In Thousands)</i>	
Interest income on:			
Cash and cash equivalents (see Note 6)	₱370,670	₱213,641	₱471,901
Time deposits (see Note 16)	130,961	90,548	56,879
Investments held for trading (see Note 7)	17,998	25,791	28,310
Short-term investments	-	15,527	29,274
Available-for-sale investments (see Note 11)	-	-	34,038
Others (see Notes 8 and 12)	94,064	51,947	71,911
	₱613,693	₱397,454	₱692,313
Interest expense on:			
Long-term debt (see Note 19)	₱3,038,426	₱3,824,165	₱3,218,400
Loans payable (see Note 17)	260,769	105,742	274,534
Others	79,909	169,592	193,669
	₱3,379,104	₱4,099,499	₱3,686,603

24. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2015.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2015	2014	2013
		<i>(In Thousands)</i>	
Current service cost	₱106,465	₱72,808	₱51,692
Net interest cost (income)	804	(5,967)	(2,010)
Curtailment	-	(302)	-
	₱107,269	₱66,539	₱49,682

Net Pension Asset (included under "Other noncurrent assets" account)

	2015	2014
		<i>(In Thousands)</i>
Fair value of plan assets	₱329,279	₱272,771
Defined benefit obligation	(224,365)	(215,462)
Effect of asset ceiling limit	(10,613)	(5,469)
Net pension asset	₱94,301	₱51,840

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2015	2014
		<i>(In Thousands)</i>
Defined benefit obligation	₱385,207	₱381,892
Fair value of plan assets	(311,972)	(273,355)
Net pension liability	₱73,235	₱108,537

The changes in the present value of the defined benefit obligation are as follows:

	2015	2014
		<i>(In Thousands)</i>
Balance at beginning of the year	₱597,354	₱361,747
Current service cost	106,465	72,808
Interest cost	28,058	22,696
Actuarial loss (gain):		
Changes in financial assumptions	(115,093)	124,435
Changes in demographic assumptions	(31,645)	(16,190)
Experience adjustments	20,015	46,852
Benefits paid from assets	(10,698)	(4,579)
Transfer to (from) the plan	(430)	556
Others	15,546	(10,971)
Balance at end of the year	₱609,572	₱597,354

The above present value of defined benefit obligation are broken down as follows:

	2015	2014
		<i>(In Thousands)</i>
Related to pension asset	₱224,365	₱215,462
Related to pension liability	385,207	381,892
	₱609,572	₱597,354

The changes in the fair value of plan assets are as follows:

	2015	2014
		<i>(In Thousands)</i>
Balance at beginning of year	₱546,126	₱424,822
Contributions	107,082	87,015
Interest income	27,530	29,143
Remeasurement gain (loss)	(28,359)	9,169
Benefits paid	(10,698)	(4,579)
Transfer to (from) the plan and others	(430)	556
Balance at end of year	₱641,251	₱546,126

The changes in the fair value of plan assets are broken down as follows:

	2015	2014
	<i>(In Thousands)</i>	
Related to pension asset	₱329,279	₱272,771
Related to pension liability	311,972	273,355
	₱641,251	₱546,126

The changes in the effect of asset ceiling limit are as follows:

	2015	2014
	<i>(In Thousands)</i>	
Asset ceiling limit at beginning of year	₱5,469	₱7,773
Remeasurement loss (gain)	4,868	(2,784)
Interest cost	276	480
	₱10,613	₱5,469

The carrying amounts and fair values of the plan assets as at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(In Thousands)</i>			
Cash and cash equivalents	₱97,143	₱97,143	₱30,262	₱30,262
Investments in:				
Common trust funds	210,439	210,439	213,852	213,852
Government securities	166,833	166,833	157,839	157,839
Debt and other securities	142,172	142,172	123,278	123,278
Equity securities	20,557	20,557	17,208	17,208
Other financial assets	4,107	4,107	3,687	3,687
	₱641,251	₱641,251	₱546,126	₱546,126

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 4.37% to 6.80% and have maturities ranging from 2019 to 2025;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in equity securities consist of listed and unlisted equity securities;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 2.13% to 8.75% and have maturities ranging from 2016 to 2032; and
- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the year ended December 31:

	2015	2014
	<i>(In Thousands)</i>	
Cash and cash equivalents	₱97,143	₱30,262
Interest income from cash and cash equivalents	1,649	1,714
Investments in common trust funds	210,439	213,852
Income (loss) from investments in common trust funds	(94,074)	135,347

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2015	2014	2013
Discount rate	4.9% - 5.9%	4.5% - 5.6%	4.7% - 6.4%
Future salary increases	3.0% - 9.0%	3.0% - 10.0%	3.0% - 10.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2015	2014	2013
	<i>(In Thousands)</i>		
Actuarial loss (gain)	(₱126,723)	₱155,097	(₱67,347)
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	33,227	(11,953)	6,155
	(₱93,496)	₱143,144	(₱61,192)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2015 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation <i>(In Thousands)</i>
Discount rates	50 (50)	(P32,436) 35,409
Future salary increases	100 (100)	65,129 (56,282)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2015:

Year	Amount <i>(In Thousands)</i>
2016	P47,080
2017	15,636
2018 – 2019	117,749
2020 – 2026	579,863

The Company expects to contribute about P98 million to its defined benefit pension plan in 2016.

The weighted average duration of the defined benefit obligation is 18 years and 20 years as of December 31, 2015 and 2014, respectively.

25. Income Tax

The details of the Company's deferred tax assets and liabilities are as follows:

	2015	2014
	<i>(In Thousands)</i>	
Deferred tax assets:		
NOLCO	P440,906	P302,679
Excess of fair value over cost of investment properties and others	430,385	438,231
Accrued marketing and rent expenses	228,443	181,792
Provision for impairment of receivables	108,238	106,817
Deferred rent income	30,270	40,241
MCIT	19,942	21,066
Unamortized past service cost	5,381	9,137
	1,263,565	1,099,963
Deferred tax liabilities:		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	(1,571,251)	(1,499,054)
Unrealized gross profit on sale of real estate	(1,164,236)	(783,354)
Pension asset	(10,658)	(15,953)
Others	(160,299)	(85,623)
	(2,906,444)	(2,383,984)
Net deferred tax liabilities	(P1,642,879)	(P1,284,021)

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2015	2014
	<i>(In Thousands)</i>	
Deferred tax assets	P846,111	P650,153
Deferred tax liabilities	(2,488,990)	(1,934,174)
	(P1,642,879)	(P1,284,021)

As at December 31, 2015 and 2014, unrecognized deferred tax assets amounted to nil and P101 million, respectively, bulk of which pertains to NOLCO of the hotels and convention centers segment.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2015	2014	2013
Statutory tax rate	30.0%	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	(0.5)	(0.4)	(0.1)
Availment of income tax holiday	(3.2)	(3.2)	(4.0)
Interest income subjected to final tax and dividend income exempt from income tax	(0.6)	(0.9)	(1.5)
Nondeductible expenses	(8.5)	(5.3)	(5.2)
Effective tax rates	17.2%	20.2%	19.2%

26. Lease Agreements

Company as Lessor

The Company's lease agreements with its mall tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Also, the Company's lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2015	2014
	<i>(In Millions)</i>	
Within one year	₱1,643	₱1,224
After one year but not more than five years	5,272	4,180
After more than five years	3,929	637
	₱10,844	₱6,041

Consolidated rent income amounted to ₱40,743 million, ₱36,497 million and ₱32,195 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Company as Lessee

The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

The Company's future minimum lease payables under the noncancellable operating leases as at December 31 are as follows:

	2015	2014
	<i>(In Millions)</i>	
Within one year	₱717	₱744
After one year but not more than five years	3,190	3,138
After five years	25,737	25,867
Balance at end of year	₱29,644	₱29,749

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,317 million, ₱1,187 million and ₱1,295 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 22).

27. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, investments held for trading, accrued interest and other receivables, AFS investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 28).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to cash flow interest rate risk are disclosed in Notes 6, 7 and 19.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2015 and 2014, after taking into account the effect of interest rate swaps, approximately 63% and 67%, respectively, of its long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 28).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2015 and 2014:

	Interest Rate	2015					Total	Unamortized Debt Issuance Costs	Carrying Value
		1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years			
Fixed Rate									
Philippine peso-denominated corporate notes	5.25%-6.65%	P16,700	P16,700	P16,700	P16,700	P9,376,300	P9,443,100	(P43,602)	P9,399,498
Philippine peso-denominated fixed rate notes	4.32%-6.74%	P5,463,600	P1,985,100	P4,559,900	P6,662,200	P9,070,400	27,741,200	(91,316)	27,649,884
Philippine peso-denominated fixed rate retail bonds	4.51%-5.20%	P-	P-	P-	P-	P40,000,000	40,000,000	(309,400)	39,690,600
Other bank loans	4.25%-9.75%	P1,200,000	P412,500	P-	P235,000	P325,000	2,172,500	(3,349)	2,169,151
Floating Rate									
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$270,000	\$-	\$500,000	\$300,000	\$-	50,354,200	(523,656)	49,830,544
U.S. dollar-denominated bilateral loans	LIBOR + spread	\$-	\$50,000	\$-	\$-	\$-	2,353,000	(24,215)	2,328,785
Other U.S. dollar loans	LIBOR + spread	\$-	\$-	\$25,000	\$-	\$-	1,176,500	(14,029)	1,162,471
Philippine peso-denominated corporate notes	PDST-R2+margin%	P100,000	P100,000	P100,000	P100,000	P5,360,000	5,760,000	(1,711)	5,758,289
Philippine peso-denominated floating rate notes	PDST-R2+margin%	P5,046,500	P4,214,000	P210,000	P1,010,000	P2,030,000	12,510,500	(38,007)	12,472,493
Philippine peso-denominated five-year bilateral loans	PDST-R2+margin%	P500,000	P-	P-	P-	P-	500,000	(479)	499,521
China yuan renminbi-denominated five-year loan	CBC rate less 10%	P8,044	P8,044	P8,044	P8,117	P-	32,249	-	32,249
							P152,043,249	(P1,049,764)	P150,993,485

PDST-R2 - Philippine Treasury Reference Rates - PM

	Interest Rates	2014					Total	Unamortized Debt Issuance Costs	Carrying Value
		1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years			
Fixed Rate									
Philippine peso-denominated corporate notes	5.57%-6.65%	P976,700	P16,700	P16,700	P16,700	P9,393,000	P10,419,800	(P51,841)	P10,367,959
Philippine peso-denominated fixed rate notes	4.00%-6.81%	P2,073,600	P5,463,600	P2,485,100	P4,559,900	P14,932,600	29,514,800	(125,555)	29,389,245
Philippine peso-denominated fixed rate retail bonds	5.10%-5.74%	P-	P-	P-	P-	P20,000,000	20,000,000	(166,362)	19,833,638
Other bank loans	4.50%-9.75%	P38,800	P1,200,000	P412,500	P-	P412,500	2,063,800	(2,549)	2,061,251
Floating Rate									
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$-	\$270,000	\$-	\$500,000	\$210,000	43,825,600	(637,943)	43,187,657
U.S. dollar-denominated bilateral loans	LIBOR + spread	\$50,000	\$-	\$50,000	\$-	\$-	4,472,000	(39,699)	4,432,301
Other U.S. dollar loans	LIBOR + spread	\$-	\$-	\$-	\$25,000	\$-	1,118,000	(17,654)	1,100,346
Philippine peso-denominated corporate notes	PDST-F+margin%	P4,800,000	P-	P-	P-	P-	4,800,000	(10,749)	4,789,251
Philippine peso-denominated floating rate notes	PDST-F+margin%	P96,500	P4,846,500	P3,514,000	P10,000	P1,740,000	10,207,000	(39,134)	10,167,866
Philippine peso-denominated five-year bilateral loans	PDST-F+margin%	P-	P500,000	P-	P-	P-	500,000	(1,036)	498,964
Other bank loans	PDST-F+margin%	P785,280	P-	P-	P-	P-	785,280	(731)	784,549
							P127,706,280	(P1,093,253)	P126,613,027

PDST-F - Philippine Dealing System Treasury Fixing

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax (In Thousands)
2015	100	(P123,780)
	50	(61,890)
	(100)	123,780
	(50)	61,890
2014	100	(P77,004)
	50	(38,502)
	(100)	77,004
	(50)	38,502

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk arises mainly from its debt issuances which are denominated in U.S. dollars and subsequently remitted to China to fund its capital expenditure requirements. To manage its foreign currency risk, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets amounted to US\$796 million (P37,457 million) as at December 31, 2015 and US\$759 million (P33,948 million) as at December 31, 2014. The Company's foreign currency-denominated monetary liabilities amounted to US\$802 million (P37,745 million), US\$764 million (¥4,961 million) and ¥4.45 million as at December 31, 2015, and US\$762 million (P34,082 million) and US\$711 million (¥4,415 million) as at December 31, 2014.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ¥6.4937 to US\$1.00 and ¥6.2055 to US\$1.00, the China Yuan Renminbi to U.S. dollar exchange rate and P47.06 to US\$1.00 and P44.72 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2015 and 2014, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate and U.S. dollar to China Yuan Renminbi, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of \$	Effect on Income Before Tax (In Thousands)	Appreciation (Depreciation) of \$	Effect on Income Before Tax (In Thousands)
2015	1.50	(P2,282)	1.50	(¥286,476)
	1.00	(1,521)	1.00	(190,984)
	(1.50)	2,282	(1.50)	286,476
	(1.00)	1,521	(1.00)	190,984
2014	1.50	(P1,124)	1.50	(¥266,787)
	1.00	(749)	1.00	(177,858)
	(1.50)	1,124	(1.50)	266,787
	(1.00)	749	(1.00)	177,858

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, investments held for trading and current AFS investments amounting to P25,870 million, P843 million and P642 million, respectively, as at December 31, 2015 and P35,245 million, P968 million and P677 million, respectively, as at December 31, 2014 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2015			Total
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	
	(In Thousands)			
Loans payable	P4,675,000	P-	P-	P4,675,000
Accounts payable and other current liabilities*	37,872,822	-	-	37,872,822
Long-term debt (including current portion)**	31,357,365	120,519,559	25,013,426	176,890,350
Liability for purchased land - net of current portion	-	2,081,708	-	2,081,708
Tenants' and customers' deposits	-	13,019,430	198,834	13,218,264
Other noncurrent liabilities**	-	3,341,067	-	3,341,067
	P73,905,187	P138,961,764	P25,212,260	P238,079,211
	2014			Total
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	
	(In Thousands)			
Loans payable	P2,670,000	P-	P-	P2,670,000
Accounts payable and other current liabilities*	34,231,558	-	-	34,231,558
Long-term debt (including current portion)	15,261,124	88,712,795	45,231,699	149,205,618
Derivative liabilities	-	58,705	-	58,705
Liability for purchased land - net of current portion	-	1,170,855	-	1,170,855
Tenants' and customers' deposits	-	13,082,936	168,590	13,251,526
Other noncurrent liabilities**	-	3,208,432	-	3,208,432
	P52,162,682	P106,233,723	P45,400,289	P203,796,694

**Excluding nonfinancial liabilities amounting to P946 million and P2,147 million as at December 31, 2015 and 2014, respectively.

**Excluding nonfinancial liabilities amounting to P1,412 million and P573 million as at December 31, 2015 and 2014, respectively.

**Long-term debt amounting to US\$270 million was refinanced in January 2016.

Credit Risk

The Company trades only with recognized, creditworthy related and third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 28.

The Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The fair value of the respective units sold is sufficient to cover the credit risk arising from the "Receivable from sale of real estate." The Company has no other significant terms and conditions associated with the use of collateral.

As at December 31, 2015 and 2014, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2015 and 2014, the credit quality of the Company's financial assets is as follows:

	2015			Total
	Neither High Quality	Past Due nor Standard Quality	Impaired but not Impaired	
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	₱25,784,727	₱-	₱-	₱25,784,727
Receivables**	16,776,566	5,821,771	8,752,284	31,350,621
Cash in escrow (included under "Prepaid expenses and other current assets")	437,639	-	-	437,639
Real estate receivable - noncurrent (included under "Other noncurrent assets")	7,962,615	-	-	7,962,615
Time deposits (included under "Other noncurrent assets")	4,561,849	-	-	4,561,849
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	843,256	-	-	843,256
Derivative assets	2,600,799	-	-	2,600,799
AFS Investments				
Shares of stocks	20,323,495	8,560	-	20,332,055
	₱79,290,946	₱5,830,331	₱8,752,284	₱93,873,561

**Excluding cash on hand amounting to ₱85 million

** Excluding nonfinancial assets amounting to ₱4 million

	2014			Total
	Neither High Quality	Past Due nor Standard Quality	Impaired but not Impaired	
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	₱35,148,896	₱-	₱-	₱35,148,896
Receivables**	15,352,165	6,604,078	8,726,652	30,682,895
Cash in escrow (included under "Prepaid expenses and other current assets")	667,778	-	-	667,778
Real estate receivable - noncurrent (included under "Other noncurrent assets")	8,341,583	-	-	8,341,583
Time deposits (included under "Other noncurrent assets")	2,412,190	-	-	2,412,190
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	967,511	-	-	967,511
Derivative assets	1,632,814	-	-	1,632,814
AFS Investments				
Shares of stocks	29,663,165	8,573	-	29,671,738
	₱94,186,102	₱6,612,651	₱8,726,652	₱109,525,405

** Excluding cash on hand amounting to ₱96 million

** Excluding nonfinancial assets amounting to ₱4 million

Equity Price Risk

The Company's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2015 and 2014) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2015	
	Change in Equity Price	Effect on Equity After Income Tax (In Millions)
AFS investments	+4%	₱472
	-4%	(472)

	2014	
	Change in Equity Price	Effect on Equity After Income Tax (In Millions)
AFS investments	+9%	₱2,815
	-9%	(2,815)

Capital Management

Capital includes equity attributable to the owners of the Parent.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is interest-bearing debt divided by total capital plus interest-bearing debt and net interest-bearing debt divided by total capital plus net interest-bearing debt. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents and investments held for trading.

As at December 31, 2015 and 2014, the Company's gearing ratios are as follows:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2015	2014
	<i>(In Thousands)</i>	
Loans payable	₱4,675,000	₱2,670,000
Current portion of long-term debt	25,041,044	11,006,880
Long-term debt - net of current portion	125,952,441	115,606,147
Total interest-bearing debt (a)	155,668,485	129,283,027
Total equity attributable to equity holders of the parent	212,488,822	199,087,690
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	₱368,157,307	₱328,370,717
Gearing ratio (a/b)	42%	39%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2015	2014
	<i>(In Thousands)</i>	
Loans payable	₱4,675,000	₱2,670,000
Current portion of long-term debt	25,041,044	11,006,880
Long-term debt - net of current portion	125,952,441	115,606,147
Less cash and cash equivalents and investments held for trading	(26,713,164)	(36,212,717)
Total net interest-bearing debt (a)	128,955,321	93,070,310
Total equity attributable to equity holders of the parent	212,488,822	199,087,690
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	₱341,444,143	₱292,158,000
Gearing ratio (a/b)	38%	32%

28. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values as at December 31:

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	₱843,256	₱843,256	₱967,511	₱967,511
Derivative assets	2,600,799	2,600,799	1,632,814	1,632,814
	3,444,055	3,444,055	2,600,325	2,600,325
Loans and receivables:				
Noncurrent portion of receivable from sale of real estate	7,962,615	7,833,491	8,341,583	8,255,073
Time deposits (included under "Other noncurrent assets")	4,561,849	4,528,341	2,412,190	2,387,174
AFS investments - Shares of stocks	20,332,055	20,332,055	29,671,738	29,671,738
	₱36,300,574	₱36,137,942	₱43,025,836	₱42,914,310
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	₱-	₱-	₱58,705	₱58,705
Other financial liabilities:				
Liability for purchased land - net of current portion	2,081,708	2,066,418	1,170,855	1,158,712
Long-term debt - net of current portion	125,952,441	133,874,562	115,606,147	118,510,996
Tenants' and customers' deposits	13,218,264	13,121,180	13,251,526	12,972,502
Other noncurrent liabilities*	3,341,067	3,319,530	3,208,432	3,171,783
	144,593,480	152,381,690	133,236,960	135,813,993
	₱144,593,480	₱152,381,690	₱133,295,665	₱135,872,698

*Excluding nonfinancial liabilities amounting to ₱1,412 million and ₱573 million as at December 31, 2015 and 2014, respectively.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are based on the quoted market prices of the instruments.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 4.1% and 5.2% as at December 31, 2015 and 2014, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.18% to 5.59% and from 3.54% to 5.32% as at December 31, 2015 and 2014, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.95% to 2.37% and 1.70% to 1.97% as at December 31, 2015 and 2014, respectively.

Tenants' and Customers' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 4.03% to 4.17% and 2.69% to 5.22% as at December 31, 2015 and 2014, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments. For AFS investments related to unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair values.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2015		
	Level 1	Level 2	Level 3
	(In Thousands)		
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	P279,359	P-	P-
Shares	563,897	-	-
Derivative assets	-	2,600,799	-
	843,256	2,600,799	-
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	-	-	7,833,491
Time deposits (included under "Other noncurrent assets")	-	4,528,341	-
AFS investments - Shares of stocks	20,323,495	-	8,561
	P21,166,751	P7,129,140	P7,842,052
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	P-	P-	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	2,066,418
Long-term debt - net of current portion	-	-	133,874,562
Tenants' and customers' deposits	-	-	13,121,180
Other noncurrent liabilities*	-	-	3,319,530
	-	-	152,381,690
	P-	P-	P152,381,690

*Excluding nonfinancial liabilities amounting to P1,412 million as at December 31, 2015.

	2014		
	Level 1	Level 2	Level 3
	(In Thousands)		
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	P307,835	P-	P-
Shares	659,676	-	-
Derivative assets	-	1,632,814	-
	967,511	1,632,814	-
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	-	-	8,255,073
Time deposits (included under "Other noncurrent assets")	-	2,387,174	-
AFS investments - Shares of stocks	29,663,165	-	8,573
	P30,630,676	P4,019,988	P8,263,646
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	P-	P58,705	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	1,158,712
Long-term debt - net of current portion	-	-	118,510,996
Tenants' and customers' deposits	-	-	12,972,502
Other noncurrent liabilities*	-	-	3,171,783
	-	-	135,813,993
	P-	P58,705	P135,813,993

*Excluding nonfinancial liabilities amounting to P573 million as at December 31, 2014.

During the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, non-deliverable forwards and non-deliverable currency swaps.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 19). Details of the hedged loans are as follows:

Under the floating-to-fixed cross-currency swaps, it effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents (P8,134 million for US\$200 million and P6,165 million for US\$150 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the twelve-month period ended December 31, 2015.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	<i>(In Thousands)</i>			
Unsecured loan	US\$200,000	₱9,412,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	7,059,000	6-month US LIBOR + 1.70%	March 25, 2018

The table below provides the details of SMPH's outstanding cross-currency swaps as at December 31, 2015:

	Notional Amounts		Receive	Pay	US\$:₱ Rate	Maturity	Fair Value <i>(In Thousands)</i>
	<i>(In Thousands)</i>						
Floating-to-Fixed	US\$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	₱1,162,002
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	372,570
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	370,959
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	343,859
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	351,409

Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱2,601 million gain and ₱1,602 million gain as at December 31, 2015 and 2014, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2015 and 2014. Foreign currency translation loss arising from the hedged loan amounting to ₱819 million in 2015, ₱114 million in 2014 and ₱1,239 million in 2013 was recognized in the consolidated statement of income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges

The table below shows information on the Company's interest rate swaps presented by maturity profile.

Year Obtained	Maturity	Interest Payment	Outstanding Notional Amount			Receive	Pay	Aggregate Fair Value	
			<1 Year	>1-<2 Years	>2-<5 Years			2015	2014
			<i>(In Thousands)</i>			<i>(In Thousands)</i>			
Floating-to-Fixed									
2013	June 2015	Quarterly	₱174,720	-	-	3MPDST-R2	3.65%	P-	(₱941)
2013	June 2015	Quarterly	₱174,720	-	-	3MPDST-R2	4.95%	-	(941)
2011	March 21, 2015	Semi-annual	\$145,000	-	-	6 months LIBOR+margin%	2.91%-3.28%	-	(37,535)
2010	November 30, 2015	Semi-annual	\$30,000	-	-	6 months LIBOR+margin%	3.18%	-	(19,288)
Fixed-to-Floating									
2010	June 2015	Quarterly	₱785,280	-	-	5.44%	3MPDST-R2	P-	₱16,728
2010	June 2015	Quarterly	₱785,280	-	-	7.36%	3MPDST-R2	-	13,754

Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱2 million gain in 2015.

In 2011, SMPH entered into floating to fixed US\$ interest rate swap agreements with aggregate notional amount of US\$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱38 million gain in 2015.

SMPH also entered into US\$ interest rate swap agreement with notional amount of US\$20 million in 2011. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million loss in 2014.

In 2010, the SMPH entered into the following interest rate swap agreements:

- A US\$ interest rate swap agreement with nominal amount of US\$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱19 million gain in 2015.
- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱31 million loss in 2015.

In 2009, SMPH entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$25 million. Under these agreements, SMPH effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013. Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million gain in 2013.

Non-deliverable Currency Forwards and Swaps. In 2015 and 2014, SMPH entered into sell ₱ and buy US\$ currency forward contracts. It also entered into sell US\$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱14 million gain, ₱14 million gain and ₱32 million gain in 2015, 2014 and 2013, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2015	2014
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,574,109	₱1,618,836
Net changes in fair value during the year	793,985	(293,786)
Fair value of settled derivatives	232,705	249,059
Balance at end of year	₱2,600,799	₱1,574,109

In 2015, the net changes in fair value amounting to ₱794 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱246 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱998 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱42 million, which is included under "Others - net" account in the consolidated statements of income.

In 2014, the net changes in fair value amounting to ₱294 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱263 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱66 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱35 million, which is included under "Others - net" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2015	2014
	<i>(In Thousands)</i>	
Derivative assets	₱2,600,799	₱1,632,814
Derivative liabilities	-	(58,705)
	₱2,600,799	₱1,574,109

29. EPS Computation

Basic/diluted EPS is computed as follows:

	2015	2014	2013
	<i>(In Thousands, Except Per Share Data)</i>		
Net income attributable to equity holders of the parent (a)	₱28,302,092	₱18,390,352	₱16,274,820
Common shares issued	33,166,300	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	4,332,755	5,291,243	5,394,370
Weighted average number of common shares outstanding (b)	28,833,545	27,875,057	27,771,930
Earnings per share (a/b)	₱0.982	₱0.660	₱0.586

30. Other Matters

Bases Conversion and Development Authority (BCDA) Case

In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order (TRO) against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA.

On November 26, 2012, the Company filed with Supreme Court a Very Urgent Manifestation with Motion to Resolve the Company's Application for TRO and Preliminary Injunction related to the termination by the BCDA of the Competitive Challenge on the submitted unsolicited proposal for privatization and development of a 33.13 hectares Bonifacio South Property located in Fort Bonifacio, Taguig City.

On December 20, 2012, the Company filed with the Supreme Court Urgent Manifestation with Reiterative Motion to Resolve Application for TRO and Preliminary Injunction.

On January 9, 2013, the Supreme Court approved the Company's application and issued a TRO wherein BCDA or any of their representatives and or agents are enjoined from proceeding with the bidding process subject of said "Invitation to Bid", enforcing the Supplemental Notice No. 5 and in any way disposing of the subject lot which acts tend to render the Court's resolution of the petition ineffectual, until further orders from Supreme Court.

On January 14, 2013, the Company's counsel received the Motion for Reconsideration filed by the BCDA with the Supreme Court. The Company's counsel filed its Comment/Opposition to the Motion for Reconsideration on February 11, 2013.

On February 21, 2013, the Company's counsel received copies of the Comment-in-Intervention and Motion for Leave to file Comment-in-Intervention and to admit attached Comment-in-Intervention filed by the Department of National Defense and Armed Forces of the Philippines (DND-AFP). This remains pending as at February 22, 2016.

On March 20, 2013, the Supreme Court issued a resolution denying BCDA's urgent motion to dissolve TRO and noting the Company's Comment/Opposition to the Motion for Reconsideration. The TRO is made permanent in a Decision dated August 13, 2014.

On April 30, 2013, the Company filed its Opposition to the Comment-in-Intervention filed by the DND-AFP.

On May 14, 2013, BCDA and Casanova also filed a Motion for Leave to Refer the Case to the En Banc. The Company filed an Opposition to this Motion. The Supreme Court issued a resolution denying the Motion. BCDA filed a Motion for Reconsideration. The Company filed its Opposition and this remains pending as at February 22, 2016.

On June 5, 2013, BCDA and Casanova filed a Motion to Inhibit the Honorable Presiding Chairman. The Company filed an Opposition to this Motion. On July 31, 2013, the Supreme Court issued a resolution denying the BCDA and Casanova's Motion.

On August 13, 2014, the Supreme Court promulgated its Decision granting the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others.

On September 26, 2014, BCDA and Casanova filed a Motion for Reconsideration of the August 13, 2014 Decision with a Motion to Resolve BCDA and Casanova's Unresolved Motions.

On March 18, 2015, the Supreme Court issued a resolution denying BCDA and Casanova's Motion for Reconsideration dated September 26, 2014 and Motion to Resolve BCDA and Casanova's Unresolved Motions. In the same resolution, the Supreme Court ordered the issuance of an Entry of Judgment. Accordingly, an Entry of Judgment was issued and the Decision dated August 13, 2014 became final and executory on March 18, 2015.

On April 28, 2015, BCDA and Casanova filed a Second Motion for Reconsideration. On June 2, 2015, the Company filed an Opposition to this Motion. On September 7, 2015, the Supreme Court denied the Second Motion for Reconsideration. On November 30, 2015, BCDA and Casanova filed a Third Motion for Reconsideration and this remains pending as at February 22, 2016.



PRIME

10th Floor, Mall of Asia Arena Annex Building
Coral Way corner J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City 1300, Philippines

Email: info@smprime.com
www.smprime.com

