PRIME

Building New Opportunities for Growth

2014
ANNUAL
REPORT

SM PRIME

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ANNUAL
REPORT

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

At a

2014 Operating Highlights

- Total Revenues of PHP38.6 billion grew by 12.6% from 2013.
- Net Income of PHP13.3 billion grew by 10.8% from 2013.
- Total Investment Properties amounted to PHP169.1 billion from PHP142.5 billion in 2013.

2015 Forecast

- New mall openings: SM Center Sangandaan, SM Seaside City Cebu, SM City San Mateo, SM City Cabanatuan will add a total Gross Floor Area of 730,173 sqm.
- Expansions of SM City Lipa, SM City Iloilo together will add the total Gross Floor Area to 65,756 sqm this year.

Fast Facts

- 50 Malls in the Philippines
- 5 Malls in China
- 7.3 million sqm total Gross Floor Area

Malls

2014 Operating Highlights

- Total Real Estate Revenues of PHP22.7 billion grew by 8.7% from 2013.
- Net Income of PHP4.7 billion grew by 12.3% from 2013.
- Total Assets amounted to PHP106.2 billion from PHP97.4 billion in 2013.

2015 Forecast

- Five new projects with about 11,000 units combined will be launched in the second half of the year.
- New towers in 5 existing projects will be built to accommodate the increasing demand for housing.

Fast Facts

- 25 Condominium Projects
- 69,414 Condominium Units (Total)

Residences

Glance

2014 Operating Highlights

- Total Revenues of PHP2.9 billion increased by 0.4% from 2013.
- Net Income amounted to PHP794.5 million.
- Total Investment Properties amounted to PHP22.9 billion from PHP22.1 billion in 2013.

2015 Forecast

- Launch of FiveE-com is scheduled in first half of the year.

Fast Facts

- 4 Office Buildings
- 188,541 sqm total Gross Floor Area

2014 Operating Highlights

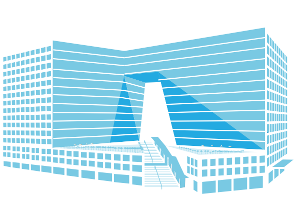
- Total Revenues of PHP2.0 billion grew by 25.5% from 2013.
- Net Income amounted to PHP253.5 million grew by 556.5%.
- Total Investment Properties amounted to PHP7.6 billion from PHP6.2 billion in 2013.

2015 Forecast

- Launch of Conrad Hotel Manila and Park Inn by Radisson Clark in Pampanga will be on the second half of the year.

Fast Facts

- 4 Hotels
- 1,013 Hotel Rooms
- 4 Convention Centers and 2 Trade Halls



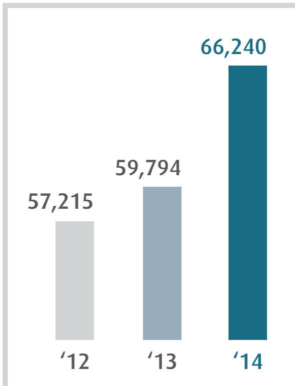
Offices

Hotels and Convention Centers

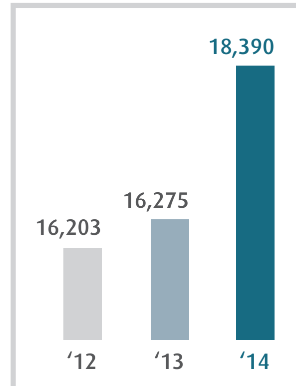
Financial Highlights

	2014	2013	2012
Balance Sheet Highlights (in PHP millions)			
Total Assets	388,840	335,584	284,652
Investment Properties	202,181	171,666	147,854
Total Debt	129,283	106,313	80,580
Net Debt	93,070	77,132	56,121
Total Stockholders' Equity	199,088	163,267	147,628
Income Statement Highlights (in PHP millions)			
Revenues	66,240	59,794	57,215
Cost and Expenses	38,554	35,659	35,145
Operating Income	27,687	24,136	22,070
Net Income	18,390	16,275	16,203
EBITDA	33,847	29,927	27,197
Financial Ratios			
Debt to Equity	39:61	39:61	35:65
Net Debt to Equity	32:68	32:68	28:72
Return on Equity	0.10	0.10	0.12
Debt to EBITDA	3.82	3.55	2.96
EBITDA to Interest Expense	8.26	8.12	8.87
Operating Income to Revenues	0.42	0.40	0.39
EBITDA Margin	0.51	0.50	0.48
Net Income to Revenues	0.28	0.27	0.28
Revenue Profile			
Malls	59%	57%	53%
Residences	34%	35%	40%
Offices	4%	5%	5%
Hotels and Convention Centers	3%	3%	2%
Asset Profile			
Malls	63%	61%	58%
Residences	27%	29%	31%
Offices	8%	8%	9%
Hotels and Convention Centers	2%	2%	2%

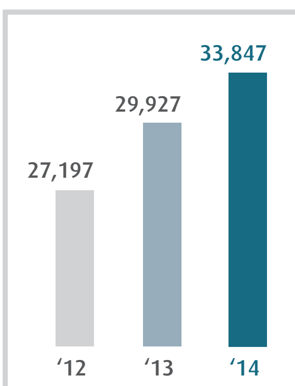
Revenues



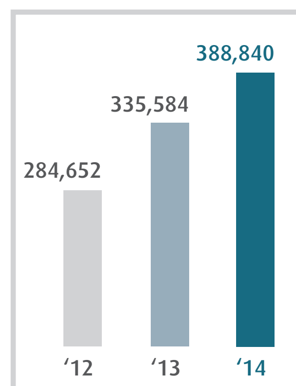
Net Income



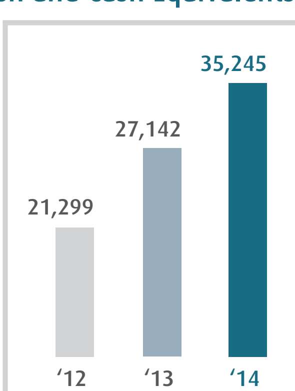
EBITDA



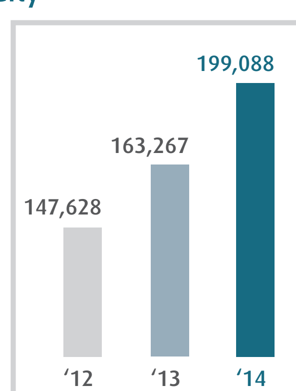
Assets



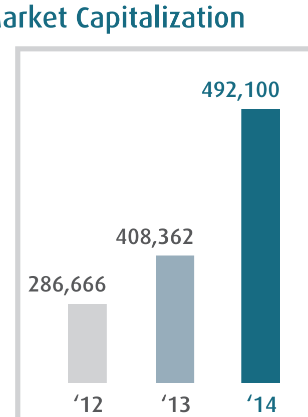
Cash and Cash Equivalents



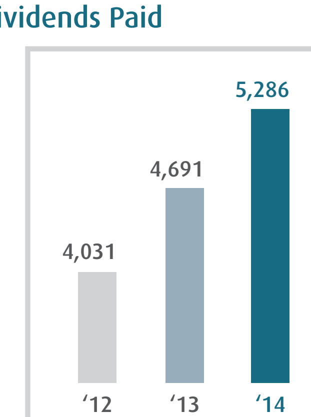
Equity



Market Capitalization



Dividends Paid



Message to Shareholders

To Our Valued Shareholders,

The past year signified a pivotal point for SM Prime Holdings. It earned its place as a distinguished and fully integrated property developer, posing a striking growth trajectory. With a remarkable surge of revenue growth of 11% at PHP66.2 billion and a consolidated net income growth of 13% at PHP18.4 billion, which registered a 28% net profit to gross revenue ratio; we solidified our dominance in the real estate industry in the country.

From our initial projects focusing on malls, we evolved to building large-scale, integrated property developments that generated sustaining value for our stakeholders. The Mall of Asia, our flagship lifestyle city, reinvented urban living, with upscale designs that promote accessibility, affordability, and convenience. We decided to replicate this lifestyle city model in our developments outside Metro Manila, generating vital city centers nationwide. Our malls served as lifestyle hubs that created a fusion of entertainment, dining, shopping, service, and cultural experience. With a deep understanding of the spirit of the Filipino family, we tailored our residential and mall development to enrich the quality of life for the greater majority.

Across all our developments, we endeavored to adhere to sustainable practices that ensure the protection of the environment. Through our renewable energy initiative, we launched another solar roof top facility, making SM City North EDSA a key proponent in the advocacy of renewable energy, particularly in harnessing of solar power. Through SM Cares, we remained steadfast in our commitment to uplift the well-being of the people in and around our communities. On a broader scale, our developments propelled economic activity and continue to serve as one of the pillars of progress.

With the forecast on the Philippines to be the fastest growing Southeast Asian economy in 2015, we anticipate consumer spending to be vibrant and the business climate to be dynamic. We believe that our company maintains an aggressive posture to maximize future opportunities. We shall set our sights to further expand in both our commercial leasing businesses and our hotels and resorts portfolio. As we look forward to achieve greater heights, we shall be true to our values of integrity and teamwork that serve as the cornerstone of the SM way of doing business.

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 your sincere and collective team contribution to our growth. As prospects remain optimistic, we look forward to more fruitful partnerships this year.

Henry Sy, Sr.
Chairman Emeritus

Henry T. Sy, Jr.
Chairman

President's Report

"The encouraging financial performance in 2014 reiterates that the transformation of SM Prime into a property conglomerate is bearing fruit and trending above management expectations."

It has been a momentous year for SM Prime as we marked our first year as one of the largest integrated property developers in Southeast Asia. The encouraging financial performance in 2014 reiterates that the transformation of SM Prime into a property conglomerate is bearing fruit and trending above management expectations. Since our consolidation, we have taken great strides in capital management that resulted to a strong balance sheet to support the expansion we envisioned. We take pride in the notable achievements posing a revenue growth of 11% to PHP66.2 billion and a consolidated net income growth of 13% to PHP18.4 billion. We have maintained total cost and expenses increase to a conservative 8% to PHP38.6 billion, allowing EBITDA to post a growth of 13.1% to PHP33.8 billion. These significant returns confirm our strength to create and leverage synergy across our four core business units.

Our Core Businesses

The SM Malls Group sustained its dominant position as its revenue soared by 12.6% to PHP38.6 billion, contributing almost 60% of SM Prime's total revenue. Rental revenues from malls grew from the previous year of 12% from PHP28.8 billion to PHP32.3 billion. Scoring a 97% mall occupancy rate, the additional shopping space of 564,000 sqm, cumulative to SM Aura, SM Megamall's Mega Fashion Hall, SM City in BF Parañaque, SM City Cauayan, and SM Center in Angono, augmented its growth. This build-up was supplemented by the expansion of office spaces, with TwoE-com displaying full occupancy.

The Filipino families continued to enjoy family time in our malls as exhibited by the increase in cinema ticket sales registering 14% growth to PHP4.3 billion. This was complemented by a strong patronage of mall amusement rides. To provide better entertainment and cinema experience, we opened additional digital cinemas in our new and expanded malls. Together with cinema ticket sales, total income for amusement accounted for the 13% balance of total revenue.

Our Residential Group has significantly increased its market share, contributing a strong 34% to SM Prime's total revenue. With three new projects launched in 2014, namely, Air Residences in Makati City, Fame Residences in Mandaluyong City, and Cool Suites in Tagaytay City, residential unit sales increased by 7% to PHP22.2 billion. Over the same period, reservation sales of SM Development Corporation soared by 60% to PHP35.9 billion, showing investor confidence in our developments.

We intensified our investments in our Hotels Group by expanding our portfolio with soon-to-open Conrad Hotel in the Mall of Asia Complex and the Park Inn by Radisson in Clark, Pampanga. With over 1,000 hotel rooms among our four operating hotels, we will continue to experience steady growth over the years.

Our Value Creation

With a large land banking in strategic locations, we are able to amplify our capacity to leverage on our existing world-class malls to anchor more lifestyle cities. Through this synergistic integrated approach, we maintain a strong position to substantially contribute in the creation of vital city centers nationwide. As our developments serve as pillars of progress, we remain focused on expanding our reach further to the periphery thereby promoting inclusive growth which is in line with our vision to be a prime mover in nation building.

Our Sustainability

As we aim to achieve greater heights and expand our developments, SM Prime maintains a triple-bottom line return of people, planet and profit, on our business and social investments. Through our five-level sustainability framework, we continue to reach our maximum growth potential with minimal consumption of our natural resources. Continuing our efforts to promote environmental initiatives, we serve as a key proponent in harnessing solar power. The solar rooftop facility in SM City North EDSA generates up to 1.5 megawatts of electricity, one of the largest in the region.

With the impact of climate change, SM Prime takes the lead in disaster risk and mitigation, in partnership with the United Nations Office for Disaster Risk Reduction. Through SM Cares, we have embarked on a campaign to relocate families from the geo-hazard zones with a goal to complete 1,000 homes. Throughout our core businesses, SM Malls takes the lead in uplifting the communities we serve and providing equitable access to people with disabilities.

Our Strategic Position for Growth

Forecasts in the Southeast Asian region remain very optimistic, posing the Philippines to be a very strong contender in achieving exponential growth. SM Prime has built a solid foundation to maximize prospects for optimum expansion. Our integrated strategy of developing lifestyle cities will allow us to create sustained value across the real estate spectrum. We are committed to infuse additional investments of up to PHP200 billion over the next three years to spur impetus to achieve our goal to double our income by 2018. We have a robust organization across our core businesses with a proven capacity to usher in seamless execution of our five-year road map. Guided by the highest ideals of corporate governance, we are poised to achieve this formidable feat. As we soar to higher peaks, we uphold our tradition that is anchored on innovation, integrity, and teamwork.

Allow me to extend our genuine gratitude to our shareholders for your steadfast trust in our vision. Along with our Board of Directors, you have remained firm in your support during our integration. We thank our customers and partners for your loyalty. And we express our genuine appreciation to our employees for faithfully performing your valuable roles through our integration.

As the horizon presents promising outlooks, we look forward to a brighter year ahead.

Hans T. Sy
President

The mall development and operations business accounts for the biggest contribution in the integrated property development.

PHP38.6B
Revenue

PHP13.3B
Net Income

7.3M sqm
Gross Floor Area

Malls

Fast Facts

Malls

50 Malls Philippines

5 Malls China

Total GFA

6.5M sqm Philippines

0.8M sqm China

Average Daily Pedestrian Count

3.5M Visitors Philippines

0.2M Visitors China

Mall Tenants

16,652 Tenants Philippines

1,408 Tenants China

Parking Slots

76,791 Slots Philippines

6,795 Slots China

Cinema Seats

134,890 Seats Philippines

6,456 Seats China

SM Supermalls: Growth Beyond Compare

SM Cauayan in Isabela, Cagayan Valley opened May 2014

SM Supermalls has become a catalyst for growth in the changing domestic and global landscape of consumerism, as it launches more architecturally-designed shopping malls with everything under one roof.

Now with 50 malls strategically located around the country, SM Supermalls continues to give consumers and businesses even bigger world-class venues for shopping, entertainment, and recreation.

In 2014, SM Supermalls launched its 49th and 50th malls: SM City Cauayan in Isabela, Cagayan Valley, and SM Center Angono in Rizal, respectively.

Opened to a bustling crowd in May 2014, SM City Cauayan gives the city a taste of urban shopping, dining, and entertainment with six digital cinemas and SM's signature range of international and local brands.

SM Center Angono, the group's third mall in Rizal province, opened its doors to the public on November 2014. With its brightly colored art pylons, the mall creates visual interest in the landscape while providing community recreation and shopping in the Philippines' art capital.

SM Center Angono in Rizal opened November 2014

In 2014, the company also redeveloped SM City Lipa, SM City Bacolod, and SM City Baliwag. The year also saw the opening of SM City Pampanga's Skyranch, and the Mega Fashion Hall — SM Megamall's new game-changing wing that houses the world's most popular brands including the Philippine flagship store of Swedish retailer H&M, Zara, Uniqlo, and Crate & Barrel.

A Lifestyle Experience in Every Community

SM Seaside City Cebu (aerial view)

SM Seaside City Cebu

SM Prime will be opening four new SM Supermalls in 2015. These are SM City San Mateo, SM City Cabanatuan, SM Center Sangandaan, and SM Seaside City Cebu. In the same year, SM Prime will be relaunching SM Megacenter Cabanatuan. In these areas, the local communities are eager to welcome a new experience in urban living. Offering fresh lifestyle options in food, fashion, entertainment, and more, SM Prime continues to serve every community with the mission of servicing these growing communities, while staying committed to sustainability and environmental responsibility.

Among these developments, the biggest is SM Seaside City Cebu, located within the SM Seaside Complex in the South Road Properties (SRP) in Cebu City.

It is the first of its kind urban development in the SRP. The lifestyle city has been designed by an international architecture, interior design, and planning firm. SM Seaside City Cebu promises to revolutionize the malling experience not only in Cebu, but in the whole Southern portion of the Philippines.

It's a majestic cityscape, with its nautilus-inspired design of concentric arcs from a central multi-purpose space. Among its attractions, it boasts of a 150-meter iconic viewing tower, which offers a sensational panoramic view of the entire city of Cebu while serving as a new landmark for the Queen City of the South.

The complex will have a mall, offices, residential buildings, a five-star hotel, conference and convention centers. It will feature "The Cube", a steel sculpture that symbolizes strength, stability, and SM's continued commitment to excellence. The development is expected to transform the city's landscape when it opens in 2015.

Mall Events 2014

MAY

SM City Xiamen - Disneyland Road Show

SM Xiamen became a venue for the first-ever Disneyland road show in Fujian province.

NOV

SM Jinjiang - IVEN Rabbit Exhibition

SM Jinjiang hosted the IVEN Rabbit Exhibition. These IVEN Rabbits were featured in different characters including "Captain America", "Pikachu", and other cartoon mascots.

JAN

"Lifestyle Curator" Art Festival

2014 "Lifestyle Curator" Art Festival featured nine themed series artworks including Wu Guan Zhong Print Exhibition, Nordic Art Exhibition, Taiwan Strait Ceramic Art Exhibition, Horse Art Exhibition, and Fujian Youth Art Salon to name a few. The artworks contain Chinese paintings, sculpture, oil paintings, watercolor, and ceramics, etc.

AUG

SM Mall of Asia - SM Little Stars 2014

The most talented children from all over the nation gathered together to vie for the title SM Little Stars 2014.

DEC

SM Mall of Asia - Grand Festival of Lights

Hello Kitty and her friends were in town to bring Christmas cheers all around the SM Mall of Asia grounds in the Grand Festival of Lights held every Saturday from November 29 to December 25, 2014.

FEB

SM Mall of Asia - Pyromusical Competition

The much awaited Philippine International Pyromusical Competition once again showcased an awesome fanfare and delightful display of lights and colors.

OCT

SM City - SM Lifestyle Fashion Week

Featured 19 brands including Givenchy, CK, and Initial. International Supermodel – Dong Yue Ning participated in the Lifestyle Fashion Week. The event also featured excellent performances from Zhou Jun (winner of the Asia-Pacific International Pole Dancing Championship).

MOA Arena Events 2014

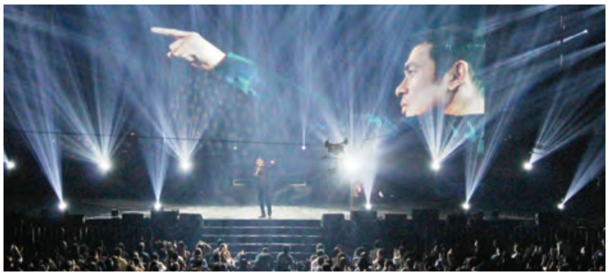
Family

The young and the young at heart had the grandest time as Feld Entertainment brought "Disney Live! Presents Three Classic Fairy Tales" at the Mall of Asia Arena. The live, interactive presentation showcased adventures from "Snow White and the Seven Dwarfs", "Cinderella", and "Beauty and the Beast".

Entertainment

Music superstar Bruno Mars came to Manila for the second time. As expected, the show was every bit as explosive as the first, and with the addition of the pyrotechnics, perhaps even more so.

A jam-packed Mall of Asia Arena sang, screamed and clapped with the American singer-songwriter Taylor Swift as she came back to Manila after three years for her "Red Tour" on June 6, 2014.



Mr. Pure Energy himself, Gary V. showcased his moves, a repeat of his April concert's success which was staged to commemorate his 30th year in the industry.

Corporate

BENCH resident stars took the spotlight for the much anticipated Bench fashion event dubbed as "The Naked Truth: Denim and Underwear Show" held last September 20, 2014 at the Mall of Asia Arena. The Bench Underwear and Denim show which occurs every two years, features the most popular celebrities and models.

Sports

ONE Fighting Championship held two of its shows at the Mall of Asia Arena last May 2 for Rise of Heroes and December 5 for ONE FC: Warrior's Way.

Mall of Asia Arena hosted the first-ever International Premier Tennis League season from November 28-30, 2014 featuring 28 of the world's finest tennis players for an epic three-day display of sport and entertainment.

Solar Power

SM Prime marked another milestone in its commitment towards sustainability with the launch of 5,760 solar panels on the rooftop of SM City North EDSA (Quezon City) in November of 2014.

President Benigno S. Aquino III and SM Prime President Mr. Hans T. Sy led the "switch on" of the solar powered rooftop at the Multi-level Carpark Building of the SM North EDSA.

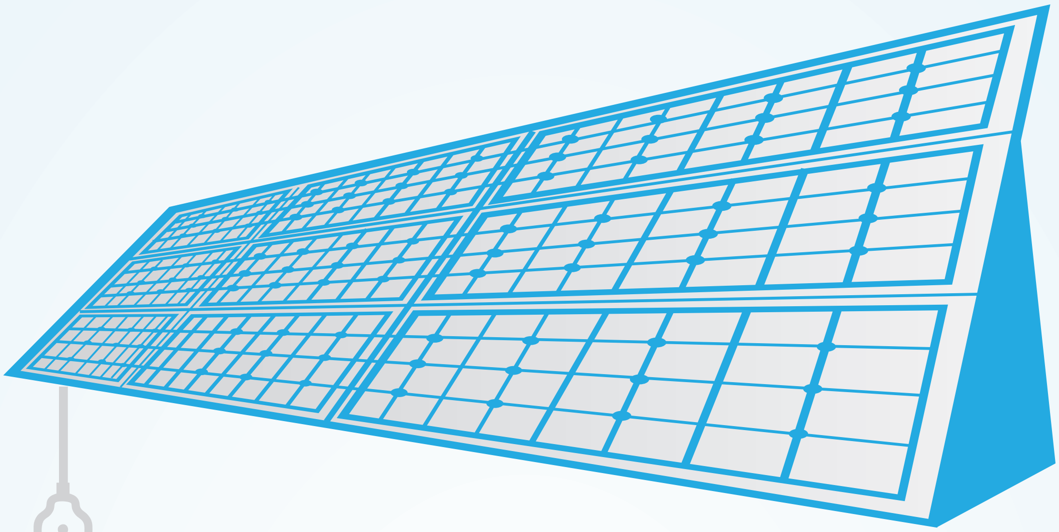
To offset the potential energy shortage from 2015 onwards, SM Prime worked closely with Solar Philippines to put up solar panels that could generate up to 1.5 megawatts of electricity which is enough to power 1,000 households, or light 150,000 10 watt light bulbs, or charge 214,285 cellular phones, or power 170,000 30 watt electric fans. The power generated from the solar panels could offset 1,200 tons of CO_2 per year, the equivalent of planting 6,000 trees.

SM Prime has also put up the first SM Mall in the world using solar energy to operate in Xiamen mainland China. It is a 1.1 megawatt project using 3,740 solar panels. For this pioneering effort in upgrading its services, SM City Xiamen was awarded the Mall China Golden Mall Awards 2014 Excellent Upgrade in 2013 in Shanghai by the Mall China Information Center.

SM Prime is hoping that the solar rooftop project will serve as a model for similar developments in other commercial and industrial establishments as it will not only make business sustainable but also ensure that future generations live in an environment that is safer and healthier.

The need for greater sustainability and disaster resiliency has been in the forefront of SM Prime's development because of the many disasters that have hit the nation over the past decade. For the Mall of Asia Complex, SM devotes around 30% of its budget to make the whole area disaster resilient. As a result, SM Mall of Asia (Pasay) had survived 50 typhoons, 4 earthquakes, and 2 floods from monsoon storms since it was built in 2006.

Great strides were also implemented through sustainable and disaster resilient designs of its other malls, notably in SM City Marikina, SM City Masinag, and SM City Muntinlupa.



The Solar Panel rooftop generates
1.5 megawatts of electricity
that can power any of these:

fully charges **214,285** cellphones

powers **1 million** laptops running at 4 hours a day

powers **150,000** 10 watt lightbulbs

powers **13,500** 16cu.ft refrigerator/freezer running 24 hours a day

powers **170,000** 30 watt electric fans

powers **136,000** microwave ovens running at 1 hour a day

offsets **1,200 tons of CO_2** or equivalent to planting **6,000 trees per year**

Mall Listings

PHILIPPINES
(In order of development)

Metro Manila

North EDSA
Sta. Mesa
Megamall
Southmall
Fairview
Manila
Sucat
Bicutan
San Lazaro
Valenzuela
Mall of Asia
Pasig
Muntinlupa
Marikina
Las Piñas
Novaliches
Aura
BF Parañaque

Luzon

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

Visayas

Cebu
Iloilo
Bacolod
Consolacion

Mindanao

Davao
Cagayan de Oro
General Santos
Lanang

CHINA
(In order of development)

Xiamen
Jinjiang
Chengdu
Suzhou
Chongqing

SM Development Corporation (SMDC) together with the other residential groups under SM Prime continues to deliver aspirational and strategically-located homes.

PHP22.7B
Revenue

PHP4.7B
Net Income

69,414
Condo Units

Residences

Luxurious Living in the Heart of the City

Cool Suites, Tagaytay City

Air Residences, Makati City

SM Development Corporation (SMDC) has been changing landscapes and lifestyles since its inception, and 2014 proved to be another banner year for the company with three new projects launched.

All providing comfort and luxury within reach, SMDC launched "Air Residences" in Makati, "Fame Residences" in Mandaluyong, and "Cool Suites" in Tagaytay. Each of these pre-selling projects offer the growing middle class with new lifestyle formats in urban living – style, accessibility, and convenience.

Aside from its pre-selling developments, SMDC has created the Ready-for-Occupancy (RFO) Program that recognizes the need of a market segment who wants to "MOVE IN NOW". The market has responded positively and will continue to grow as we continue to serve the aspirational needs of the growing middle class.

The Cosmopolitan Lifestyle Within Reach

Relaxing pool area

For 2015, SMDC takes its market leadership in the real estate sector one notch higher when it launches five new and expansion projects with 11,000 units in total in the cities of Mandaluyong, Quezon City, Taguig, and Tagaytay, and at the Mall of Asia Complex.

With its promise to offer a truly cosmopolitan lifestyle of utmost convenience and accessibility, its new residential buildings will each have a commercial facility that has been the trademark of an SMDC development.

Spacious and stylish condominium lobby

Leisure Experience in the Highlands

Construction of Woodridge Place's Mahogany and Linden buildings are in full swing

SM Prime remains a leader in the leisure industry with its Tagaytay Highlands integrated leisure development.

In 2014, there was strong market interest for its leisure residential projects which resulted in a 64% surge in net income.

Real estate revenues from Tagaytay Highlands properties increased by 28% compared with 2013 attributed largely to its complete product range comprised of themed lot developments, luxury mountaintop condominiums, and cozy elegant log homes.

Aspenhills, a modern ranch-inspired hilltop community was substantially completed in 2014. Marking this construction milestone was the turnover of lots to homeowners and the blessing of the Village Hall.

The condominium community of Woodridge Place reached its final stage of completion in preparation for the turnover of Mahogany Building. Construction of the last building, Linden, began in mid-2014 and is scheduled to top off by the third quarter of 2015.

Tagaytay Highlands, on its 20th year, enriched the leisure experience for its residents and members through extensive club renovations and improvements on the resort's township services, upgraded emergency facilities, refurbished structures, and the opening of a convenience store operated by 7-Eleven.

The Aspenhills Village Hall was completed in November 2014

The premium log cabin community of Woodlands Point

Tagaytay Highlands continues to define mountain resort living, reinforcing SM Prime's commitment to deliver distinct and sustainable lifestyle destinations.

Seaside Homes for Urban Dwellers

Pico de Loro at Hamilo Coast

Beachfront deck, Pico de Loro

Hamilo Coast, the seaside leisure development of SM Prime in Nasugbu, Batangas, experienced a banner year in 2014 as use of the Ternate-Nasugbu Road went into full swing. This new "tourism highway" reduced travel time from Manila to the property to only 90 minutes.

With improved proximity, revenue from condominium sales at Pico de Loro Cove, the maiden community of Hamilo Coast, increased by 96% compared to that of 2013. The combined site visits of condominium owners, country club members, and guests likewise increased by 24%.

Hamilo Coast is envisioned by SM Prime to become the Philippines' premier seaside resort township and a showcase for sustainable practices. The property is strategically located at the head of the Nasugbu coastline, the long-established favored seaside address of the Philippine elite. It encompasses three major mountain peaks and several coves, a number of which have been declared Marine Protected Areas (MPAs).

Since the opening of the Ternate-Nasugbu Road, Hamilo Coast has become more than just a weekend destination. Owning a seaside home is now a real and viable option for urban dwellers. Development of new projects is currently being fast-tracked at Hamilo Coast to bring the property closer to realizing its vision of becoming the Philippines' premier beach resort town.

SMDC Events 2014

SMDC South Corporate Event
with Mr. Pure Energy
Gary Valenciano

SMDC Condo Craze featuring Pop-star Princess
Sarah Geronimo via augmented reality

SMDC North Corporate Event with
Asia's Premier Balladeer
Christian Bautista

Philippine Pyromusical Event featuring Pop-star Princess
Sarah Geronimo singing "The SMDC Star Life"

Summer on Ice Event
featuring Olympic Skater
Michael Martinez

Blessing of the Shore Residences Showroom at SM Mall of Asia

SMDC South Corporate Event with
Asia's Nightingale Lani Misalucha

List of Residential Projects

SMDC

(In order of development)

Chateau Elysee
Mezza Residences
Berkeley Residences
Grass Residences
Sea Residences
Field Residences
Princeton Residences
Sun Residences
Jazz Residences
Light Residences
Wind Residences*
M Place South Triangle
Blue Residences
Mezza II Residences
Shine Residences
Green Residences
Shell Residences
Breeze Residences
Grace Residences
Fern Residences
Trees Residences
Shore Residences
Air Residences
Fame Residences
Cool Suites*

*Wind Residences and Cool Suites are located in Tagaytay City. All other SMDC projects are located in Metro Manila.

Tagaytay Highlands

The Highlands

Woodridge
Woodridge Place
Woodridge Place II
Woodlands Point
Hillside
Aspenhills

The Midlands

Sierra Lago
Horizon
Pueblo Real

Hamilo Coast

Jacana
Myna
Carola
Miranda

SM Prime's Commercial Properties Group (CPG) which manages office development and operations continues to deliver cutting-edge architecture and IT-enabled buildings for outsourcing companies and business headquarters.

PHP2.9B
Revenue

PHP0.8B
Net Income

0.2M sqm
Gross Floor Area

Offices

Delivering World-Class Offices

FiveE-comCenter located at the Mall of Asia Complex, Pasay City

Fuelled by a robust BPO sector, SM Prime's Commercial Properties Group (CPG) with its four office buildings, namely SM Makati Cyber One, SM Makati Cyber Two, TwoE-comCenter, and SM Cyber West, continued to make its strong foothold in the commercial offices segment in 2014.

The buildings' competitive rates and prime locations as well as state-of-the-art features that cater to the international requirements of the BPO industry have ensured that the offices have a high occupancy rate.

For 2015, SM Prime CPG will keep the growth momentum going with the opening of the FiveE-comCenter in Mall of Asia. It promises to be another architectural landmark in the MOA Complex with its modern and innovative graphic design. It will add 129,281 sqm to the existing total Gross Floor Area of 188,541 sqm.

Energy Efficient Offices

SM Makati Cyber One was cited by the Department of Energy for its energy and conservation programs. Receiving DOE's Don Emilio Abello Energy Efficiency Awards for 2014, SM Makati Cyber One was recognized for its conservation projects which enabled it to save PHP3,534,774 in a year or about 29,219 kWh.

SM Cyber West Avenue Office Building in Quezon City

Energy-efficiency is one of the hallmarks of all SM Prime projects to make use of power-saving technologies in their construction and operation.

The effort paid off because SM Prime's energy efficiency programs saved PHP320.28 million in electricity costs between the period July 2013 to June 2014 alone.

Truly, 2015 will be another promising year for SM Prime CPG as it continues to meet the ever-growing demand of businesses in a global setting.

Managing SM Prime's hotel development and operations business, SM Hotels and Convention Corporation (SMHCC), emerges as the country's leading provider of a wide range of trusted hotels and convention facilities.

PHP2.0B
Revenue

PHP253.5M
Net Income

1,013
Hotel Rooms

Hotels and Convention Centers

Taal Vista Hotel's 75th Anniversary: A Heritage That Lasts Forever


Original Tudor structure


Renovated Tudor structure

75th Anniversary celebration

For Mr. Henry Sy, Sr., the iconic Taal Vista Hotel in Tagaytay holds a distinctive memory that was instrumental in sculpting his visions into reality. This is true for several others who hold a significant piece of Taal Vista Hotel in their memoirs throughout the hotel's 75-year history.

The same scenic view captured the heart of Commonwealth President Manuel L. Quezon, who, in early 1935 expressed interest in developing Tagaytay as a tourist destination. In 1939, the Zamoras of Manila Hotel built Taal Vista Lodge on a stretch of flatland perched atop an incline. During the Second World War from 1942 to 1944, Taal Vista Lodge was converted to an officers' quarters for the Japanese. After the liberation of Manila and between 1956 and 1964, Tagaytay began to be promoted as a major tourist destination in the Philippines with Taal Vista Lodge, now Taal Vista Hotel, as a key attraction in the city.

In the sixties, one of the hotel's many regular visitors was a young man who often chose one spot on the grounds from which to gaze out and dream. He is Henry Sy, Sr. of SM Investments Corporation — the company that would later acquire Taal Vista Hotel in 1988.

Under SM, Taal Vista Hotel underwent a series of renovations from 2002 to present, with the iconic Tudor House refurbished and expanded. From just 50 rooms, the hotel now has 261 with a ballroom that can easily seat 1,000 people, in addition to its other function and meeting rooms. Combined with its spectacular view of Taal Lake and Volcano, the hotel has become one of the most popular sites for weddings and conferences in Tagaytay.

To commemorate the milestones of the hotel throughout its 75 years in operation, Taal Vista Hotel built a historical wall which is aptly located in the main building. A multi-media exhibit showcasing the hotel's rich history, was first launched at the SM Aura and went on tour at select SM Malls.

Part of the celebration included showcasing the hotel's exquisite cuisine, with seven celebrated chefs preparing unique dishes for its Café Veranda customers on all the weekends of September to November 2014. Included were former Malacañang Executive Chef Babes Austria, celebrity chef couple Jackie and Rolando Laudico, chef and restaurateurs Fernando Aracama and Sau del Rosario, chef and TV personality Bruce Lim, and Taal Vista Hotel Executive Chef Edwin Santos.

And to make its anniversary equally more meaningful, Taal Vista Hotel feted its longest-serving employees who have dedicated most of their lives to ensure that the hotel's 75-year legacy of quality service continues to live on.

Today, Taal Vista Hotel remains a landmark deeply entrenched in the history and heritage of Tagaytay City, constantly evolving, exceeding guests' expectations and weaving numerous memorable journeys and experiences for many more years to come.

Hotel Group Events 2014

Pico de Loro

"The Pico-MINI Fun Drive" also introduced the newest and shortest route to the resort via Cavitex and the Nasugbu-Ternate Road from what used to be a three-hour trip, to almost half. Select members of the press experienced a weekend paradise at Pico de Loro Cove at Hamilo Coast made more fun by driving MINI Coopers.

Radisson Blu Cebu

World-renowned culinary masters Executive Pastry Chef Allan Barrios, Chinese Master Chef Peter Yeung, Indian Chef Hira Tiwari, and Executive Sous Chef Randy Origenes have come to share their craft at Radisson Blu Cebu's Feria.

Taal Vista Hotel

The Culinary Gems: A Festival of Filipino Flavors Buffet featured celebrity chefs Fernando Aracama, Sau del Rosario, Babes Austria, Bruce Lim, and couple Rolando and Jackie Laudico who took over the Café Veranda kitchen at Taal Vista Hotel to present their unique interpretations of Filipino cuisine.

SMX Events 2014

SMX Manila, MOA Complex

Philippine Travel Tour Expo 2014

The Travel Tour Expo held last February 2014, which was conceptualized by PTAA in 1994, is considered to be the biggest and the most awaited event for travel and tourism industry in the Philippines.

Philippine Fashion Week

Philippine Fashion Week is the Olympics of Fashion and is the most prestigious fashion event in the country—celebrating Filipino talent and creativity held twice a year with its Summer and Holiday collections.

Megatrade Hall

TOYCON PH 2014

The Philippine Toys, Hobbies, and Collectibles Convention (TOYCON) is the country's biggest pop culture event, and is the longest running convention for collectibles, toys, anime, comics, cosplay, gaming, and anything related to hobbies and collections.

SMX Bacolod

SMX Convention Center Bacolod – Formal Opening

SMX Convention Center Bacolod officially opened its first convention center in Visayas last November 2014. SMX Bacolod spans 8,218 sqm on the third level of SM City Bacolod. It offers three function rooms and six meeting rooms, totaling 4,269 sqm of leasable space that can accommodate up to 4,500 guests.

SMX Davao

Brunei Darussalam, Indonesia, Malaysia, Philippines-East ASEAN Growth Area (BIMP-EAGA) and Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT) Trade Fair and Business Leaders' Conference

The conference is a venue for leaders of key government, business, and partner organizations within and outside the ASEAN region to share experiences, best practices, and lessons learned in growing businesses/industries through innovation and integration.

SMX Taguig

ManilART 2014

The event showcases Philippine contemporary art and its growing global network of artists and galleries. ManilART 2014 is on its 6th edition, with 28 of the best galleries in the Philippines, including works from Europe and Southeast Asia. The event was presented by the Bonafide Art Galleries Organization (BAGO) and the National Commission for Culture and the Arts (NCCA).

2014 TOP LEADERS FORUM

Business Resiliency in the Midst of Climate Change

With the effects of climate change experienced all over the world, SM Prime once again took the lead to increase awareness on disaster risk reduction and resilience in times of calamities and other emergencies.

Following the successful 2013 Top Leaders Forum in Manila, Philippines, SM Prime hosted another conference in partnership with the United Nations International Strategy for Disaster Risk Reduction (UNISDR) on November 10, 2014.

The 2014 Top Leaders Forum entitled "Multi-stakeholder Collaboration for Disaster Risk Reduction", discussed possible approaches to create sector-based collaboration between the public and private sector.

With over 100 business leaders from all over the Philippines in attendance, Ms. Margareta Wahlström, Special Representative of the Secretary General for Disaster Risk Reduction stressed that, "The Philippine private sector's contribution will be a very significant inspiration for all the people who will come to Sendai for the World Conference on Disaster Risk Reduction".

Mr. Hans T. Sy, President of SM Prime and member of the UNISDR - Private Sector Advisory Group, said that "Disaster Risk Reduction Management is not only to protect the longevity of the business, but is a basic humanitarian imperative and a commitment to contribute to the economic development of the country and ensure the safety of its people".

The Private Sector Declaration was produced during the 2014 Top Leaders Forum which forms part of the world's private sector's contribution to the Post-2015 Hyogo Framework for Action which will be formed in Sendai, Japan at the World Conference for Disaster Risk Reduction.

20 Years

of Unparalleled Growth

1994 - 2014

"While I am not big with words, I am big in my dreams and visions." – Henry Sy, Sr.

Our story was borne out of **one man**, **one vision**, and **the will to turn his dreams into reality**.

Henry Sy, Sr. arrived in Manila in 1936 as a young boy with the future ahead of him. Amidst the turmoil looming in world affairs, he saw an opportunity that would later alter the Filipino way of life for future generations. Following his passion for people and zeal for trade, he began his journey as an entrepreneur by providing quality, stylish shoes at affordable price points. As he gained a reputation for quality products and good service, he built his first department store – **SM SHOEMART**, in Carriedo, Manila in 1958. It is from this pilot project that he first envisioned shopping centers so grand that would eventually redefine the urban landscape.

The Glimpse of a Dream

With his formidable spirit and determination, the SM Department Stores has gained ground and have progressively effected change in its surrounding communities. Inspired by this momentum, Henry Sy, Sr. saw the complementing value of venturing into real estate to achieve his dream in scale. In 1985, SM North EDSA was completed in what was then a barren area in the northern most tip of EDSA in Quezon City; and today is one of the busiest gateways connecting Northern Luzon to Metro Manila. Although, he embarked on this prospect during one of the most turbulent times in Philippine history, it proved to be one of his most vital ventures. Replicating this model with SM City Sta. Mesa in 1990 and with SM Mega Mall in 1991; he pioneered SM Malls anchored on SM Department Stores nationwide. This paved the way for the incorporation of SM Prime in 1994 and its listing in the Philippine Stock Exchange (PSE) as the parent company of SM Malls.

SM Prime demonstrated exponential growth as it developed projects in second tier cities. In the turn of the century, SM Prime has established 10 malls nationwide of which seven are in Metro Manila and three in the nearby provinces. With a collective gross floor area of 1.6 million sqm, total gross revenue escalated to PHP6.1 billion that year. This remarkable expansion inspired SM Prime's leadership to pursue a target to open at least two malls per year.

The Realization of a Vision

The year 2006 presented to be a breakthrough for SM Prime as it unveiled the 380,000 sqm Mall of Asia. Situated on a 60-hectare reclaimed property in Pasay City, Henry Sy, Sr. envisioned a city center that created synergy through the integration of business, malls, residences, and leisure, now known as the **Mall of Asia Complex**. This flagship project will later serve as the foundation for the lifestyle city strategy that will catapult the future of SM Prime.

As SM Prime pursued to build better and bigger across the nation, it completed five new malls in the same year increasing total shopping area to 3.5 million sqm. It also gained foothold in China through the acquisition of its first three international malls, located in Xiamen, Jinjiang, and in the central city of Chengdu. With a combined gross shopping area of 467,197 sqm, SM Prime attained a strong position for long-term growth outside the Philippines.

1958

- Mr. Henry Sy, Sr. founded SM

1985

- The first mall SM North EDSA was launched

1994

- SM Prime was incorporated in January and was listed in July 1994

2000

- Doubled the number of malls to 10
- Total malls: 10
- Total GFA: 1.6 million sqm

Revolutionizing the malling culture in the country, SM Prime has impressed its significance in the mall industry. By 2012, it has established a total of 46 malls in the Philippines with a total of 5.6 million sqm; and five malls in China with almost 800,000 sqm shopping area. It focused its expansion further out to the periphery broadening its presence with half of its malls in Metro Manila, and establishing the balance throughout the rest of Luzon, the Visayas, and Mindanao.

As SM Prime sustained its aggressive growth, SM Development Corporation (SMDC) steadily gained traction in the residential market. In less than a decade, it has established itself as one of the major players in its segment through its initial developments of Chateau Elysee and Mezza Residences, among others. Concurrently, the SM Hotels and Conventions Group has also taken giant steps with its initial projects of Taal Vista in Tagaytay, Radisson Blu Hotel in Cebu, the Pico Sands Hotel, and the SMX Convention Centers in various cities nationwide.

A Leap into the Future

From the impetus incited by the synergistic approach of the SM Mall of Asia Complex, SM Prime captured the promise of Henry Sy, Sr.'s vision of an integrated city center. In 2013, his legacy in the real estate industry was sealed in the integration of SM Prime, SM Development Corporation (SMDC), Highlands Prime, Commercial Properties Group (CPG), and SM Hotels and Convention Centers into **SM PRIME**. This integrated strategy of developing lifestyle cities positioned SM Prime to create sustained value across the real estate spectrum. The foreseen impact of its integration posed a remarkable net income of PHP18.4 billion on a revenue of PHP66.3 billion. This is a huge jump from its initial PHP1.0 billion net income in its inception. Succeeding this integrated lifestyle city approach, SM Prime will soon launch a 30-hectare Seaside City in Cebu as well as expand from existing SM world-class malls nationwide.

SM Prime's Chairman Henry T. Sy, Jr. carries on Henry Sy, Sr.'s vision to enrich the quality of life for the greater majority, through an integrated lifestyle city approach that would generate immense significance for its surrounding community and cumulatively, for the country. Anchored on the tradition of innovation, integrity, hardwork, and teamwork, SM Prime continues to build on these values that serve as the core of the company as it thrives into the future.

"With the different property units of SM working as one, we can leverage the strengths of each of these units to undertake a wider range of projects, larger in scope in a more coordinated manner. This, we believe, will result in enhanced shareholder value, and more than this, create greater value for the communities we serve."

– Hans T. Sy,
SM Prime President

2006

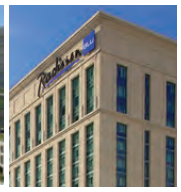
- Launched Mall of Asia
- Total malls: 27
- Total GFA: 4.2 million sqm

2007

- Acquired 3 malls in China
- Total malls (Philippines): 30
- Total GFA (Philippines and China): 5.1 million sqm

2013 – 2014



- First full year integration
- Total malls (Philippines and China): 55
- Total GFA (Philippines and China): 7.3 million sqm

A Catalyst for Change

About SM Cares

The year 2014 has been a transformative year for SM Cares as it has evolved from being SM Supermalls' corporate social responsibility platform to a wholistic program that creates change through people empowerment.

SM Cares has six major advocacy groups – Children and the Youth, Overseas Filipino Workers, Persons with Disability, Senior Citizens, Women and Breastfeeding Mothers, and Environment and Sustainability.

Since its inception, SM Cares has been in the forefront of efforts to reach out to these sectors to ensure the viability of the business and provide a strong positive change in the communities where the malls operate.

Persons with Disability

The program on Disability promotes a barrier-free and disability-inclusive environment. It ensures that SM becomes a mall for all; and a mall for all means no one gets left behind.

Initiatives for 2014 included:

- Angels Walk for Autism
- Happy Walk for Down Syndrome Awareness
- Special Movie Screening for the Deaf and Blind
- Free concert by foreign performer, The Cascades
- Tour of the Exploreum for children with autism
- Best Buddies Friendship Bowling Games
- Basketball Clinic for special children

Overseas Filipino Workers (SM Global Pinoy)

The importance of the Overseas Filipino Workers to the Philippine economy cannot be overstated. This is the reason why SM Cares has made OFWs one of the focal points of its CSR initiative.

Through the SM Global Pinoy program we are able to offer services to OFW families such as remittance, foreign exchange, free international calls, internet access, and a comfortable lounging area inside the SM Global Pinoy Center which is located in 38 SM malls.

Other initiatives include various activities that are aimed at educating them on financial management and other OFW family related topics.

To date, there are 344,071 SM Global Pinoy members and the centers have received a foot traffic of 971,131.

SM Cares has always championed the causes of senior citizens. Aside from providing them with services for leisure and ease, SM also gives them opportunities that make them rediscover their self-worth in society.

With this in mind, SM Cares launched the Casual Employment for Senior Citizens program which gives seniors 60 to 70 years of age a chance to work in SM malls nationwide. To date, 854 senior citizens have been employed by SM.

Other initiatives for 2014 included the regular Seniors Day at the Mall; Livelihood projects; "Walk for Life"; Oldies but Techies; and the "Pamaskong Handog (Christmas Offering)" for Senior Citizens.

Senior Citizens

Women have their unique needs that should be recognized. SM not only addresses these needs but highlights women's fundamental importance to the family and society through various programs that recognize their own uniqueness.

Initiatives for 2014 include the Women's Month Celebration with Filipino-American Jessica Cox, the first armless pilot in the world, who delivered an inspirational message at the SM North EDSA Sky Dome in March 2014.

Since 2006, SM Cares has been in the forefront to encourage breastfeeding. For 2014, international expert Dr. Jack Newman was invited to conduct a series of talks in SM Malls on the latest on breastfeeding.

To date, there are 49 Breastfeeding stations across various SM Supermalls, which have served 350,000 breastfeeding mothers.

Women and Breastfeeding Mothers

Recognizing that the future of any nation rests on its youth, SM Cares has been carrying out various activities to inspire the youth to be global leaders and shapers.

The book reading session to mark the National Children's Reading Day is one of its projects held for public school elementary students held simultaneously across all SM Supermalls in the Philippines and in China.

Other initiatives for 2014 include the long-running "Drink for Two" partnership with UNICEF and the Adoption Consciousness Week project in partnership with the Department of Social Welfare and Development.

Children and the Youth

Board of Directors

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, after taking his Master of Business Administration (MBA) from the University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest 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.

MR. HERBERT T. SY
Director

Mr. Herbert T. Sy is an Adviser to the Board of SM Investments Corporation (SMIC) and is currently the Vice Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation, as well as Director of China Banking Corporation. He also holds board positions in several companies within the SM Group. He holds a Bachelor's Degree in Management from 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 Barings' stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He also served as a director of the demutualized Philippine Stock Exchange in 2003. He took his MBA at the Wharton School of the University of Pennsylvania.

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

Mr. Jose L. Cuisia, Jr. holds a diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America since 2011. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company (Philamlife) and is currently the Vice Chairman of Philamlife since August 2009. He also served as Governor of 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. In May 2011, he was awarded the "Joseph Wharton Award for Lifetime Achievement" by the Wharton School of the University of Pennsylvania for an outstanding career in banking and social security system.

MR. HENRY SY, SR.
Chairman Emeritus

Mr. Henry Sy, Sr. served as Chairman of the Board of Directors of SM Prime until April 2014. He is the founder of the SM Group, and is currently, Chairman of 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. 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 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. JORGE T. MENDIOLA
Director

Mr. Jorge T. Mendiola 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's Degree in Business Management from the Asian Institute of Management and has an A.B. Economics degree from Ateneo de Manila University.

MR. HANS T. SY
Director and President

Mr. Hans T. Sy has served 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 current positions include Adviser to the Board of SMIC, Director of HPI, and Vice Chairman of SMDC. He is also Chairman of China Banking Corporation and National University. Mr. Sy is a Mechanical Engineering graduate of De La Salle University.

Advisers to the Board
MS. TERESITA SY-COSON
MS. ELIZABETH T. SY

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

Davee M. Zuniga
Vice President – Internal Audit

Anna Maria S. Garcia
Head, Malls

Jose Mari H. Banzon
Head, Residential (Primary)

Shirley C. Ong
Head, Residential (Secondary)

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

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 integrity, hard work, innovation, teamwork and focus.

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 February 2014, the Company engaged the Institute of Corporate Directors to provide an exclusive training for the Company's Board of Directors and key executives.

Director's Name	Directorship	Age	Date First Elected	Elected When (Annual/Special Meeting)	No. of Years as Director
Henry Sy, Sr.	Non-Executive	90	April 1994	Annual	21
Jose L. Cuisia, Jr.	Independent	71	April 1994	Annual	21
Henry T. Sy, Jr.	Non-Executive	61	April 1994	Annual	21
Hans T. Sy	Executive	59	April 1994	Annual	21
Herbert T. Sy	Non-Executive	58	April 1994	Annual	21
Jorge T. Mendiola	Non-Executive	55	December 2012	Annual	3
Gregorio U. Kilayko	Independent	60	April 2008	Annual	7
Joselito H. Sibayan	Independent	56	April 2011	Annual	4

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 Meeting, 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 its 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.

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 2014. 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 looking for 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, and the roles and responsibilities of the Board and its committees, as well as 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 chaired by independent director Mr. Joselito H. Sibayan, and is composed of three members: Mr. Jose L. Cuisia, Jr. (independent director), Mr. Gregorio U. Kilayko (independent director) and Mr. Herbert T. Sy (non-executive director). The committee met twice in 2014. All meetings were attended by all members of the committee, except Mr. Joselito H. Sibayan, who became part and chairman of the Nomination Committee only in November 2014.

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, and the review of SM Prime's risk management and internal control systems, its 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 seven members, is chaired by Mr. Jose L. Cuisia Jr. (independent director). Other members are independent directors Mr. Gregorio U. Kilayko and Mr. Joselito H. Sibayan, non-executive director Mr. Jorge T. Mendiola, and external members Mr. Jose T. Sio, Mr. Serafin U. Salvador and Atty. Corazon I. Morando. The committee met five (5) times in 2014 with 100% attendance in all meetings. (Please see the Audit and Risk Management Committee Report 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 of 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 2014 on the following dates: February 24, April 15, May 5, August 4, November 3 and December 8. 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 Definitive Information Statement sent to stockholders, together with the Notice of the Annual Stockholders' Meeting.

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	• Diversity of competencies • Adequate knowledge of different risks	• Industrial background • Academic qualifications
Board Activities	• 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	• Setting the tone in promoting good governance principles and policies • Promotion of continuing education or director's training • Board committee performance
Board Meetings	• Frequency and length of meetings sufficient to accomplish goals • Full and positive participation during meetings	• Quality of materials and sufficient time to study such • Easy and timely access to information and inputs
Individual Directors	• Independence • Participation	• Expertise
President	• Leadership • Integrity • Diligence	• Adherence to Corporate Governance

The annual evaluation also serves as a venue for identifying areas for improvement, in terms of training/ 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 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 2013, SM Group's property companies and real estate assets were consolidated under SM Prime. Following this consolidation, the ERM scope was expanded in 2014 to include residences, offices, hotels and convention centers, and resorts/events destinations. Risk assessment was conducted to identify key operational risks affecting SM Prime and its subsidiaries.

SM Prime prioritizes safety and security in its properties. The company implements a robust safety and security system in its malls, which 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. As an asset-based company, SM Prime also invests in the disaster resiliency of its company assets as a means to reduce the impact of property damage and business disruption caused by natural catastrophes. The Company also has a property insurance program and an on-going Business Continuity Management System Project that will align its business continuity practices with international standards. In addition, SM Prime implements systems vulnerability assessment to proactively detect and address information security threats and vulnerabilities.

The Company is currently undertaking an enterprise-wide alignment of key business processes and internal controls. The consolidation provided an opportunity for sharing best practices across different business units to improve processes and controls effectiveness and efficiency.

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 editor 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

The Company'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 the 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 stockholders' meeting to exercise their voting right (including individually electing candidates to the Board of Directors and voting on matters requiring stockholders 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 non-compliance. 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 potential vendors/ suppliers. 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 for 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 Goverance 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 Manual on Corporate Governance, Code of Ethics and other relevant policies, programs and important information. SM Prime also publishes a separate Sustainability Report, which highlights its policies and programs on corporate 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:
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Mall of Asia Complex
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AWARDS AND ACCOLADES

"Recognition serves as an inspiration for the company to do more not only for its shareholders but to everyone who continues to believe and support what it stands for."

HANS T. SY, PRESIDENT

CORPORATE

KPMG Executive Leadership Team of the Year Award
2014 Asia CEO Awards Philippines
SM Prime Holdings, Inc.
Winner

4th Asian Excellence
Best Corporate Governance
Best Investor Relations Company
Best CEO - Hans T. Sy
Best CFO - Jeffrey C. Lim

Capital One CSR Company of the Year
2014 Asia CEO Awards Philippines
SM Cares for SM Prime Holdings, Inc.
Finalist

CORPORATE SOCIAL RESPONSIBILITY

International Labour Organization (ILO)
and UNICEF
Breastfeeding in the Workplace Award

ASEAN Best Practices Energy Management
for Building and Industries Awards
2nd Runner-up in the Large Buildings Category
at the ASEAN Energy Awards

Lion Award Business 2014

26th Perlas Awards
Awarding of Valuable Institutions

HOTELS

International Hotel Awards 2014-2015
5 Star Convention Hotel
Radisson Blu Hotel

HICAP Sustainable Hotel Awards
Sustainable Operations
Radisson Blu Hotel

Sustainable Business Awards Philippines
by Global Initiatives
Special Recognition on Climate Change
Radisson Blu Hotel

MALLS

Philippines Property Awards
2014 Best Commercial Architectural Design (Retail)
SM Aura Premier
Winner

Philippines Property Awards
2014 Best Commercial Development (Retail)
SM Aura Premier
Winner

2014 Shopping Center of the Year Awards
(Small Category)
SM Muntinlupa
Finalist

2014 Shopping Center of the Year
(Large Category)
SM Megamall
Winner

International Council of Shopping Centers, Inc.
Asia Pacific Shopping Center Awards
2014 Design and Development Excellence
SM Aura Premier
Silver Award

RESIDENCES

Readers Digest Trusted Brand 2014

Philippines Property Awards
2014 Best Developer

Philippines Property Awards
Best Mid Range Condo Development
(Manila)

Philippines Property Awards
Best Residential Interior Design
Jazz Residences

Philippines Property Awards 2014
Special Recognition in CSR

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

TRUST AND INVESTMENTS GROUP BDO Corporate Center
7899 Makati Avenue, Makati City, Philippines
T: (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54

Investor Relations

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

Financial Reports

FINANCIAL AND OPERATIONAL HIGHLIGHTS
(In Million Pesos, except for financial ratios and percentages)

	TWELVE MONTHS ENDED DEC 31				
	2014	% to Revenues	2013	% to Revenues	% Change
Profit and Loss Data					
Revenues	66,240	100%	59,794	100%	11%
Costs and Expenses	38,554	58%	35,659	60%	8%
Operating Income	27,687	42%	24,136	40%	15%
Net Income	18,390	28%	16,275	27%	13%
EBITDA	33,847	51%	29,927	50%	13%

	Dec 31 2014	% to Total Assets	Dec 31 2013	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	388,840	100%	335,584	100%	16%
Investment Properties	202,181	52%	171,666	51%	18%
Total Debt	129,283	33%	106,313	32%	22%
Net Debt	93,070	24%	77,132	23%	21%
Total Stockholders' Equity	199,088	51%	163,267	49%	22%

	Dec 31	
	2014	2013
Debt to Equity	0.39 : 0.61	0.39 : 0.61
Net Debt to Equity	0.32 : 0.68	0.32 : 0.68
Return on Equity	0.10	0.10
Debt to EBITDA	3.82	3.55
Interest Coverage Ratio	8.26	8.12
Operating Income to Revenues	0.42	0.40
EBITDA Margin	0.51	0.50
Net Income to Revenues	0.28	0.27

REVENUE
SM Prime recorded consolidated revenues of ₱66.24 billion in the year ended 2014, an increase of 11% from ₱59.79 billion in the year ended 2013, primarily due to the following:

Rent
SM Prime recorded consolidated revenues from rent of ₱36.50 billion in 2014, an increase of 13% from ₱32.20 billion in 2013. The increase in rental revenue was primarily due to the new malls and expansions opened in 2013 and 2014, namely, SM Aura Premier, SM City BF Parañaque, Mega Fashion Hall in SM Megamall, SM City Cauayan and SM Center Angono, with a total gross floor area of 564,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%.

Real Estate Sales
SM Prime recorded a 7% increase in real estate sales in 2014 from ₱20.78 billion to ₱22.15 billion primarily due to increase in sales take-up and higher construction accomplishments of projects launched in 2011 up to 2013 namely, Shell, Green, Shine, Breeze, Grace, Shore, Grass Phase 2 and Trees Residences. Actual construction of projects usually starts within one year from launch date and revenues are recognized in the books based on percentage of completion.

Cinema Ticket Sales
SM Prime cinema ticket sales significantly increased by 14% to ₱4.27 billion in 2014 from ₱3.74 billion in 2013. The increase was due to the showing of local blockbuster movies with sales growth of 30% year-on-year and international movies as well as opening of additional digital cinemas in the new malls and expansions. The major blockbusters screened in 2014 were "Transformers: Age of Extinction," "The Amazing Spiderman 2," "Starting Over Again," "Maleficent," and "Bride for Rent." The major blockbusters shown in 2013 were "Ironman 3," "Man of Steel," "It Takes a Man and a Woman," "Thor: The Dark World," and "My Little Bossing." Excluding the new malls and expansions, same-store growth in cinema ticket sales is at 10%.

Other Revenues
Other revenues likewise increased by 8% to ₱3.32 billion in 2014 from ₱3.08 billion in 2013. The increase was mainly due to opening of new amusement rides in SM By the Bay in Mall of Asia and Sky Ranch in Tagaytay and in Pampanga, reopening of ice skating rink and bowling center in SM Megamall last January 2014, and increase in sponsorship income and merchandise sales from snackbars. This account is mainly composed of amusement income from rides, bowling and ice skating operations including the Exploreum and SM Storyland, merchandise sales from snackbars and food and beverages from hotels and convention centers.

COSTS AND EXPENSES
SM Prime recorded consolidated costs and expenses of ₱38.55 billion in the year ended 2014, an increase of 8% from ₱35.66 billion in the year ended 2013, as a result of the following:

Costs of Real Estate
Consolidated costs of real estate was ₱12.26 billion in 2014, representing an increase of 3% from ₱11.92 billion in 2013 primarily due to costs related to higher recognized real estate sales due to increase in construction accomplishments in 2014. Gross profit margin for residential improved to 45% in 2014 compared to 43% in 2013 as a result of improving cost efficiencies as well as rationalization of expenses.

Operating Expenses
SM Prime's consolidated operating expenses increased by 11% to ₱26.30 billion in 2014 compared to last year's ₱23.74 billion. Same-store mall growth in operating expenses is 5% and the balance is mainly attributable to the opening of new malls and expansions.

Contributors to the increase are depreciation and amortization, administrative expenses, film rentals, and business taxes and licenses, in line with related increase in revenues as well as the opening of new malls and expansions.

OTHER INCOME (CHARGES)
Interest Expense
SM Prime's consolidated interest expense increased by 11% to ₱4.10 billion in 2014 compared to ₱3.69 billion in 2013 due to new bank loans and the ₱20.0 billion retail bond availed in 2014 for working capital and capital expenditure requirements.

Interest and Dividend Income
Interest and dividend income decreased by 33% to ₱0.73 billion in 2014 from ₱1.09 billion in 2013. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and available-for-sale investments. The decrease in interest income is due to the pretermination of short-term investments in February 2014 and lower average balance of cash and cash equivalents in 2014 as compared to last year. The decrease in dividend income is due to less dividends received on available-for-sale investments held compared to the same period last year.

Other income (charges) - net
Other charges – net decreased by 23% to ₱645 million in 2014 from ₱833 million in 2013. In 2013, SM Prime incurred restructuring costs amounting to ₱1.28 billion related to its Reorganization.

PROVISION FOR INCOME TAX
SM Prime's consolidated provision for income tax increased by 20% to ₱4.78 billion in 2014 from ₱3.98 billion in 2013. The increase is due to the related increase in taxable income and expiration of income tax holiday incentives in the residential business unit.

NET INCOME
As a result of the foregoing, consolidated net income for the year ended December 31, 2014 increased by 13% to ₱18.39 billion from ₱16.27 billion in the same period last year.

BALANCE SHEET ACCOUNTS
Cash and cash equivalents significantly increased by 30% from ₱27.14 billion to ₱35.25 billion as of December 31, 2013 and 2014, respectively. Part of this account still includes portion of the proceeds from the issuance of bonds in September 2014 amounting to ₱20.00 billion, the US$210 million loan and the $400 million top-up placement in November 2014 to finance working capital and capital expenditure requirements in 2014.

Investments held for trading decreased by 16% from ₱1.15 billion to ₱0.97 billion as of December 31, 2013 and 2014, respectively, due to scheduled maturities of investment in bonds.

Receivables increased by 13% from ₱27.18 billion to ₱30.69 billion as of December 31, 2013 and 2014, respectively, mainly due to increase in construction accomplishments of sold units as well as new sales for the period. This account also includes rent receivables from leases of shopping mall spaces.

Condominium and residential units increased by 24% from ₱6.10 billion to ₱7.58 billion as of December 31, 2013 and 2014, respectively, mainly due to completion of condominium towers in Blue, Grass Phase 1, Jazz and Sun.

Land and development increased by 22% from ₱34.82 billion to ₱42.46 billion as of December 31, 2013 and 2014, respectively, mainly due to land acquisitions and construction in progress related to residential projects.

Prepaid expenses and other current assets increased by 13% from ₱9.94 billion to ₱11.27 billion as of December 31, 2013 and 2014, respectively, mainly due to deposits and advances to contractors related to residential projects.

Investment properties increased by 18% from ₱171.67 billion to ₱202.18 billion as of December 31, 2013 and 2014, respectively primarily because of ongoing new mall projects located in Cebu City, Cabanatuan and San Mateo in the Philippines and Zibo and Tianjin in China. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-com and Conrad Hotel Manila.

Available-for-sale investments increased by 27% from ₱23.37 billion to ₱29.67 billion as of December 31, 2013 and 2014, respectively, due to higher market prices of listed shares held under this portfolio.

Derivative assets decreased by 8% from ₱1.78 billion to ₱1.63 billion as of December 31, 2013 and 2014, mainly resulting from net fair value changes on a $350 million cross currency swap transaction designated as a cash flow hedge. Likewise, derivative liabilities decreased by 63% from ₱160 million to ₱59 million as of December 31, 2013 and 2014, respectively, due to marked-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

Deferred tax assets decreased by 6% from ₱691 million to ₱650 million as of December 31, 2013 and 2014, respectively, mainly due to MCIT. Deferred tax liabilities decreased by 4% from ₱2.02 billion to ₱1.93 billion as of December 31, 2013 and 2014, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Other noncurrent assets decreased by 17% from ₱29.27 billion to ₱24.24 billion as of December 31, 2013 and 2014, respectively, mainly due to subsequent reclassification of deposits for land to land and development.

Loans payable decreased by 18% from ₱3.25 billion to ₱2.67 billion as of December 31, 2013 and 2014, respectively, due to subsequent payments of maturing loans.

Accounts payable and other current liabilities decreased by 20% from ₱45.30 billion to ₱36.38 billion as of December 31, 2013 and 2014, respectively, mainly due to payment of advances.

Long-term debt increased by 23% from ₱103.06 billion to ₱126.61 billion as of December 31, 2013 and 2014, respectively, due to issuance of bonds in September 2014 amounting to ₱20.00 billion and the availment of US$210 million loan to fund capital expenditures and for working capital requirements.

Tenants' deposits increased by 29% from ₱10.25 billion to ₱13.25 billion as of December 31, 2013 and 2014, respectively, due to the new malls and expansions which opened in 2013 and 2014. Likewise, liability for purchased land increased by 5% from ₱1.12 billion to ₱1.17 billion as of December 31, 2013 and 2014, respectively, due to landbanking.

The Company's key financial indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' 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 stockholders' equity is steady at 0.39:0.61 as of December 31, 2014 and 2013. Similarly, net interest-bearing debt to stockholders' equity was also unchanged at 0.32:0.68 as of December 31, 2014 and 2013 in spite of the increase in long-term debt in 2014, due to the $400 million top-up placement last November 2014.

In terms of profitability, ROE is steady at 10% as of December 31, 2014 and 2013.

Debt to EBITDA slightly increased to 3.82:1 as of December 31, 2014 from 3.55:1 as of December 31, 2013, while interest coverage ratio increased to 8.26:1 as of December 31, 2014 from 8.12:1 as of December 31, 2013 as a result of the new loans availed in 2014. EBITDA margin improved to 51% as of December 31, 2014 from 50% as of December 31, 2013.

Consolidated operating income to revenues improved to 42% as of December 31, 2014 from 40% as of December 31, 2013. Net income to revenues likewise improved at 28% as of December 31, 2014 from 27% as of December 31, 2013.

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 2015, the Company expects to incur capital expenditures of approximately ₱70 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's mall business unit has fifty shopping malls in the Philippines with 6.5 million square meters of gross floor area and five shopping malls in China with 0.8 million square meters of gross floor area. For 2015, the mall business unit will open five new malls, located in SRP Cebu, Sangandaan, Cabanatuan and San Mateo in the Philippines and Zibo in China, as well as expansions of SM City Iloilo and SM City Lipa. By end 2015, the mall business unit will have 54 malls in the Philippines and six in China with an estimated combined gross floor area of 8.2 million square meters.

SM Prime currently has twenty five residential projects in the market, twenty three of which are in Metro Manila and two in Tagaytay. For 2015, SM Prime is launching five new projects and six expansions of existing towers in Metro Manila and in Tagaytay, equivalent to about 19,000 additional units.

SM Prime's Commercial Properties Group has four office buildings with an estimated gross leasable area of 122,000 square meters and is currently constructing Three E-com Center scheduled for opening in 2016. Five E-com Center is targeted for completion by the first quarter of 2015.

For hotels and convention centers, Park Inn by Radisson in Clark, Pampanga and Conrad Hotel Manila in the Mall of Asia Complex in Pasay are expected to open in the last quarter of 2015.

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014 and 2013, 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 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 financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of SM Prime Holdings, Inc. 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 23rd of February, 2015

Report of Audit and Risk Management Committee

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

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 seven (7) members, three (3) of whom are independent directors. The members are Mr. Jose L. Cuisia, Jr., Mr. Gregorio U. Kilayko, Mr. Joselito H. Sibayan, Mr. Jorge T. Mendiola, Mr. Jose T. Sio, Atty. Serafin U. Salvador and Atty. Corazon I. Morando.

- We met five (5) times in 2014 on the following dates: February 24, April 15, May 5, August 4 and November 3. All meetings registered 100% attendance of all members.

- Each member of the Committee possesses adequate knowledge and competence of 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. He is also currently the Vice-Chairman of the Philippine American Life and General Insurance Company (Philamlife) – a position he has held since August 2009 after having served as Philamlife's President and Chief Executive Officer. He took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America in 2011. He served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. In May 2011, he was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton School of the University of Pennsylvania for an outstanding career in the country's banking and social security system

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

  MR. JOSELITO H. SIBAYAN *(Member, Independent Director)* - Mr. Sibayan has spent the past 25 years of his career in investment banking. He is currently a Director of Philippine Postal Savings Bank and Apex Mining Corporation. Prior to 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He served as Head of International Fixed Income Sales at Deutsche Bank in New York. He later transferred to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations and eventually run its team. 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 Director in December 2012. He is currently the President of SM Department Stores. He took his Master in Business Management from the Asian Institute of Management and has an A.B. Economics degree from Ateneo de Manila University.

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

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

  ATTY. CORAZON I. MORANDO *(Member)* – Atty. Morando is the Senior Vice President for Legal and Corporate Affairs/Compliance Officer/and Assistant Corporate Secretary of the Company and SM Investments Corporation, and Compliance Officer of SM Development Corporation. She is also Corporate Secretary of Highlands Prime, Inc. and China Banking Corporation. She holds a Bachelor of Law degree from the University of the Philippines and took up graduate studies under the MBA-Senior Executive Program in the Ateneo de Manila University. She was formerly the Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

- We have complied with the required self-assessment consistent with the provisions of SEC Memorandum Circular No. 4 on the Self-Assessment of the Performance of Audit Committees;

- We have reviewed and approved the following with regard to our Independent Auditor, SGV & Co. and our Internal Auditor:
  - Their respective audit plans, scope, risk-based methods and time table;
  - The results of their examinations and Management's action plans to address pending audit issues; and
  - Their assessment of internal controls, including controls over financial reporting;

- We have received and reviewed the report of SGV & Co. on significant accounting issues, changes in accounting principles and relevant pending tax legislations, which would impact SM Prime Holdings, Inc.;

- 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 are conducted at arm's length basis;

- We have reviewed the internal control system of the Company based on the assessments completed and reported by the 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 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, 2014, second quarter ended June 30, 2014, and third quarter ended September 30, 2014;

- 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, 2014.

- 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 2014. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2015.

23 February 2015

Jose L. Cuisia, Jr.*
Chairman

Jose T. Sio
Member

Gregorio U. Kilayko*
Member

Atty. Serafin U. Salvador
Member

Joselito H. Sibayan*
Member

Atty. Corazon I. Morando
Member

Jorge T. Mendiola
Member

*Independent Director

Independent Auditors' Report

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.

Report on the Financial Statements

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, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting and financial reporting 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 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 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 the 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. and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

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

February 23, 2015

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 22, 28 and 29)	**₱35,245,206**	₱27,141,506
Short-term investments (Notes 8, 22, 28 and 29)	**–**	887,900
Investments held for trading (Notes 9, 22, 28 and 29)	**967,511**	1,151,464
Receivables (Notes 10, 17, 22, 28 and 29)	**30,686,968**	27,184,434
Condominium and residential units for sale (Note 11)	**7,578,885**	6,102,653
Land and development - current portion (Note 12)	**19,571,526**	13,281,246
Available-for-sale investments (Notes 13, 22, 28 and 29)	**676,755**	–
Prepaid expenses and other current assets (Notes 14, 22, 28 and 29)	**11,269,530**	9,936,120
Total Current Assets	**105,996,381**	85,685,323
Noncurrent Assets		
Available-for-sale investments - net of current portion (Notes 13, 22, 28 and 29)	**28,994,983**	23,369,074
Property and equipment - net (Note 15)	**2,258,387**	1,578,893
Investment properties - net (Notes 16, 20 and 22)	**202,180,666**	171,666,409
Land and development - net of current portion (Note 12)	**22,886,306**	21,539,938
Derivative assets (Notes 28 and 29)	**1,632,814**	1,778,810
Deferred tax assets - net (Note 26)	**650,153**	690,525
Other noncurrent assets (Notes 17, 22, 25, 28 and 29)	**24,240,469**	29,274,710
Total Noncurrent Assets	**282,843,778**	249,898,359
	₱388,840,159	₱335,583,682
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 18, 22, 28 and 29)	**₱2,670,000**	₱3,250,000
Accounts payable and other current liabilities (Notes 19, 22, 28 and 29)	**36,378,819**	45,298,216
Current portion of long-term debt (Notes 20, 22, 28 and 29)	**11,006,880**	7,387,260
Income tax payable	**743,506**	946,593
Total Current Liabilities	**50,799,205**	56,882,069
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 28 and 29)	**115,606,147**	95,675,730
Tenants' deposits (Notes 27, 28 and 29)	**13,251,526**	10,248,792
Liability for purchased land - net of current portion (Notes 19, 28 and 29)	**1,170,855**	1,117,809
Deferred tax liabilities - net (Note 26)	**1,934,174**	2,022,539
Derivative liabilities (Notes 28 and 29)	**58,705**	159,974
Other noncurrent liabilities (Notes 16, 22, 25, 28 and 29)	**3,781,344**	3,255,244
Total Noncurrent Liabilities	**135,802,751**	112,480,088
Total Liabilities	**186,601,956**	169,362,157
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 6, 21 and 30)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 6 and 21)	**39,302,194**	22,303,436
Cumulative translation adjustment	**840,430**	1,381,268
Net unrealized gain on available-for-sale investments (Note 13)	**25,905,440**	19,958,330
Net fair value changes on cash flow hedges (Note 29)	**249,332**	429,149
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(141,524)**	771
Retained earnings (Note 21):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**60,921,048**	47,807,664
Treasury stock (Notes 21 and 30)	**(3,355,530)**	(3,980,378)
Total Equity Attributable to Equity Holders of the Parent	**199,087,690**	163,266,540
Non-controlling Interests (Note 21)	**3,150,513**	2,954,985
Total Equity	**202,238,203**	166,221,525
	₱388,840,159	₱335,583,682

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		
	2014	2013	2012
REVENUE			
Rent (Notes 22 and 27)	**₱36,497,242**	₱32,195,285	₱28,951,727
Sales:			
Real estate	**22,151,618**	20,775,195	22,575,692
Cinema ticket	**4,268,531**	3,740,030	3,477,262
Others (Note 22)	**3,322,679**	3,083,900	2,210,413
	66,240,070	59,794,410	57,215,094
COSTS AND EXPENSES (Note 23)	**38,553,561**	35,658,865	35,145,277
INCOME FROM OPERATIONS	**27,686,509**	24,135,545	22,069,817
OTHER INCOME (CHARGES)			
Interest expense (Notes 22, 24, 28 and 29)	**(4,099,499)**	(3,686,603)	(3,064,825)
Interest and dividend income (Notes 13, 22 and 24)	**731,884**	1,093,870	1,062,028
Restructuring costs and others - net (Notes 6, 9, 12, 13, 17, 20, 22 and 29)	**(644,758)**	(832,721)	366,874
	(4,012,373)	(3,425,454)	(1,635,923)
INCOME BEFORE INCOME TAX	**23,674,136**	20,710,091	20,433,894
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**4,697,753**	4,392,114	3,687,530
Deferred	**79,894**	(407,951)	102,931
	4,777,647	3,984,163	3,790,461
NET INCOME	**₱18,896,489**	₱16,725,928	₱16,643,433
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱18,390,352**	₱16,274,820	₱16,202,777
Non-controlling interests (Note 21)	**506,137**	451,108	440,656
	₱18,896,489	₱16,725,928	₱16,643,433
Basic/Diluted earnings per share (Note 30)	**₱0.660**	₱0.586	₱0.584

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
NET INCOME	**₱18,896,489**	₱16,725,928	₱16,643,433
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized gain due to changes in fair value in available-for-sale investments (Note 13)	**5,947,110**	177,309	6,457,624
Net fair value changes on cash flow hedges (Note 29)	**(179,817)**	429,149	–
Cumulative translation adjustment	**(540,838)**	774,031	(290,688)
	5,226,455	1,380,489	6,166,936
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods - Remeasurement income (loss) on defined benefit obligation (Note 25)	**(143,144)**	61,192	(33,088)
TOTAL COMPREHENSIVE INCOME	**₱23,979,800**	₱18,167,609	₱22,777,281
Attributable to			
Equity holders of the Parent (Notes 21 and 30)	**₱23,474,512**	₱17,717,168	₱22,336,625
Non-controlling interests (Note 21)	**505,288**	450,441	440,656
	₱23,979,800	₱18,167,609	₱22,777,281

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes In Equity

(Amounts in Thousands)

	Equity Attributable to			
	Capital Stock (Notes 6, 21 and 30)	**Additional Paid-in Capital - Net** (Notes 6 and 21)	**Cumulative Translation Adjustment**	**Net Unrealized Gain on Available-for-Sale Investments** (Note 13)
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 for the year	**–**	**–**	**(540,838)**	**5,947,110**
Cash dividends (Note 21)	**–**	**–**	**–**	**–**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**
Reissuance of treasury shares (Note 21)	**–**	**17,021,771**	**–**	**–**
Acquisition of non-controlling interests (Note 21)	**–**	**(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 6)	–	2,480,478	–	–
Cash dividends (Note 21)	–	–	–	–
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
At January 1, 2012	₱29,691,565	₱17,732,721	₱897,925	₱13,323,397
Net income for the year	–	–	–	–
Other comprehensive income (loss)	–	–	(290,688)	6,457,624
Total comprehensive income (loss) for the year	–	–	(290,688)	6,457,624
Equity adjustment from common control business combination (Note 6)	–	1,936,273	–	–
Cash dividends (Note 21)	–	–	–	–
Stock dividends (Note 21)	3,474,735	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Appropriation during the year - net of reversal	–	–	–	–
At December 31, 2012	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent (Notes 21 and 30)							
		Retained Earnings (Note 21)					
Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Appropriated	Unappropriated	Treasury Stock (Notes 21 and 30)	Total	Non- controlling Interests (Note 21)	Total Equity
₱771	**₱429,149**	**₱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**
(142,295)	**(179,817)**	**–**	**–**	**–**	**5,084,160**	**(849)**	**5,083,311**
(142,295)	**(179,817)**	**–**	**18,390,352**	**–**	**23,474,512**	**505,288**	**23,979,800**
–	**–**	**–**	**(5,276,968)**	**–**	**(5,276,968)**	**–**	**(5,276,968)**
–	**–**	**–**	**–**	**–**	**–**	**(309,760)**	**(309,760)**
–	**–**	**–**	**–**	**623,916**	**17,645,687**	**–**	**17,645,687**
–	**–**	**–**	**–**	**932**	**(22,081)**	**–**	**(22,081)**
(₱141,524)	**₱249,332**	**₱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
61,859	429,149	–	–	–	1,442,348	(667)	1,441,681
61,859	429,149	–	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
₱771	₱429,149	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525
(₱28,000)	₱–	₱23,200,000	₱45,825,366	(₱3,985,462)	₱126,657,512	₱2,403,648	₱129,061,160
–	–	–	16,202,777	–	16,202,777	440,656	16,643,433
(33,088)	–	–	–	–	6,133,848	–	6,133,848
(33,088)	–	–	16,202,777	–	22,336,625	440,656	22,777,281
–	–	–	727,966	–	2,664,239	–	2,664,239
–	–	–	(4,030,695)	–	(4,030,695)	–	(4,030,695)
–	–	–	(3,474,735)	–	–	–	–
–	–	–	–	–	–	(10,000)	(10,000)
–	–	19,000,000	(19,000,000)	–	–	–	–
(₱61,088)	₱–	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱23,674,136**	₱20,710,091	₱20,433,894
Adjustments for:			
Depreciation and amortization (Note 23)	**6,579,781**	5,980,940	5,126,801
Interest expense (Note 24)	**4,099,499**	3,686,603	3,064,825
Interest income and dividend income (Notes 13 and 24)	**(731,884)**	(1,093,870)	(1,062,028)
Restructuring costs (Note 6)	**–**	1,276,629	–
Loss (gain) on:			
Unrealized foreign exchange	**173,510**	(29,994)	(107,495)
Fair value changes on investment held-for-trading (Note 9)	**101,076**	(93,996)	(194,768)
Fair value changes on derivatives - net	**(21,340)**	(62,717)	16,278
Sale of available-for-sale investments (Note 13)	**(2,743)**	(285,129)	(158,444)
Sale/retirement of investment properties and property and equipment	**–**	(68,579)	(253,590)
Operating income before working capital changes	**33,872,035**	30,019,978	26,865,473
Decrease (increase) in:			
Receivables	**(3,559,562)**	(8,470,424)	(10,377,471)
Condominium and residential units for sale	**2,667,246**	4,196,726	618,220
Land and development	**(13,906,967)**	(11,109,456)	(11,281,180)
Prepaid expenses and other current assets	**(910,972)**	2,722,125	(3,079,072)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(9,230,430)**	9,478,924	3,909,461
Tenants' deposits	**3,019,113**	1,192,142	3,577,509
Cash generated from operations	**11,950,463**	28,030,015	10,232,940
Income tax paid	**(4,894,650)**	(4,116,235)	(3,599,308)
Interest paid	**(46,503)**	(95,258)	(45,936)
Cash provided by operating activities	**7,009,310**	23,818,522	6,587,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Deductions (additions) to:			
Investment properties (Note 16)	**(35,510,709)**	(24,553,198)	(22,413,476)
Available-for-sale investments	**(357,071)**	(2,396)	(914,339)
Property and equipment (Note 15)	**(158,016)**	(440,890)	(580,236)
Investments held for trading	**(65,416)**	–	–
Proceeds from pretermination of short-term investments (Note 8)	**887,900**	–	–
Proceeds from early redemption of available-for-sale investments	**–**	1,000,000	–
Proceeds from sale of:			
Held-for-trading investments	**150,000**	300,448	38,508
Investment properties	**–**	99,991	1,124,850
Available-for-sale-investments	**4,258**	397,977	282,420
Interest received	**418,076**	692,313	738,434
Dividends received	**333,980**	354,602	1,795,812
Investment in a joint venture and acquisition of a subsidiary - net of cash acquired (Notes 6 and 17)	**–**	(7,352,729)	–
Decrease (increase) in other noncurrent assets (Note 17)	**4,603,945**	(1,211,579)	(599,679)
Net cash used in investing activities	**(29,693,053)**	(30,715,461)	(20,527,706)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 18 and 20)	**48,121,250**	76,494,060	38,797,456
Payments of:			
Long-term debt (Note 20)	**(16,175,802)**	(20,812,576)	(13,123,309)
Dividends (Note 21)	**(5,586,728)**	(5,020,653)	(5,012,766)
Interest	**(4,137,458)**	(4,111,850)	(3,006,566)
Bank loans (Note 18)	**(9,070,000)**	(33,210,179)	(1,200)
Proceeds from reissuance of treasury shares (Note 21)	**17,645,687**	–	–
Proceeds from issuance of common and treasury shares	**–**	–	400,000
Proceeds from unwinding of derivatives	**–**	(22,071)	–
Payments of restructuring costs (Note 6)	**–**	(607,172)	–
Increase in non-controlling interests	**–**	(667)	(146,730)
Deposit for future subscription and others	**–**	–	187
Net cash provided by financing activities	**30,796,949**	12,708,892	17,907,072
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(9,506)**	30,187	(13,005)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,103,700**	5,842,140	3,954,057
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**27,141,506**	21,299,366	17,345,309
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱35,245,206**	₱27,141,506	₱21,299,366

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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, 2014, SMPH is 49.16% and 24.74% 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 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 6).

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on February 23, 2015.

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 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 2014	2013
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
SMDC and Subsidiaries(a)	- do -	**100.0**	100.0
Magenta Legacy, Inc.(a)	- do -	**100.0**	100.0
Associated Development Corporation(a)	- do -	**100.0**	100.0
HPI(a)	- do -	**100.0**	100.0
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)(a)	- do -	**100.0**	100.0
SM Arena Complex Corporation (SMACC)(a)	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)(a)	- do -	**100.0**	100.0
Prime Metro Estate, Inc. (PMI)(a)	- do -	**60.0**	60.0
Tagaytay Resort and Development Corporation (TRDC)(a)	- do -	**100.0**	100.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)(b)	- do -	**100.0**	100.0
Summerhills Home Development Corp. (SHDC)(c)	- 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

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.

Changes in Accounting Policies and Disclosures
The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1 2014. The nature and impact of each new standard and amendment are described below

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*). These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.   These amendments have no impact to the Company, since none of the entities within the Company qualifies to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments) clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments) remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments) provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact as the Company has not novated its derivatives during the current or prior periods.

- Philippine Interpretation IFRIC 21, Levies (IFRIC 21) clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)

- In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company.

Annual Improvements to PFRSs (2011-2013 cycle)

- In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

Future Changes in Accounting Policies

Standards and Interpretations
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective. The Company will adopt these standards and interpretations on their effective dates.

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

- 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. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010–2012 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after January 1, 2015 and are applied prospectively:

- 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.

  This amendment does not apply to the Company as it has no share-based payments.

- 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, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* (Amendments) 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.

The amendment affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method - Proportionate Restatement of Accumulated Depreciation and 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. The amendment has no impact on the Company's financial position or performance.

- 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. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011–2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company.

- 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 PFRS 9.

- 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 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 on the Company given that the Company has not used a revenue-based method to depreciate its non-current 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. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require the 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 on 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. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. 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 and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments), require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. 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.

- 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. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. 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.

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* (Amendments), 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 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*
  This amendment 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 – Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an impact on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments,* was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. 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 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC

- 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 fromcontracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising 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 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

3. Summary of Significant Accounting and Financial Reporting Policies

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

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 performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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 ₱2,600 million and ₱2,930 million as at December 31, 2014 and 2013, respectively (see Note 29). Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱59 million and ₱160 million as at December 31, 2014 and 2013, respectively (see Note 29).

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, short-term investments, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under "Prepaid expenses and other current assets" account) and bonds and 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 ₱8,342 million and ₱10,277 million as at December 31, 2014 and 2013, respectively (see Note 29).

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, 2014 and 2013.

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 ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 29).

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 12 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' 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 ₱133,237 million and ₱109,829 million as at December 31, 2014 and 2013, respectively (see Note 29).

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 29). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The 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 29).

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 29). 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, 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 recognize 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.

I*mpairment 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 interest method. Under the pooling of interest method:

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for 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
Land use rights	40–60 years
Buildings and improvements	20–35 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or terms 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.

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 "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 "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 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 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 include 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. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

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

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

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

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

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

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

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

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

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

<u>Business Segments</u>
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 5 to the consolidated financial statements.

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

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

<u>Contingencies</u>
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.

<u>Events after the Reporting Period</u>
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. 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.

<u>Judgments</u>
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 ₱22,152 million, ₱20,775 million and ₱22,576 million for the years ended December 31, 2014, 2013 and 2012, 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 investment property or land and development.

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.

Distinction between Land and Development, Investment Properties and Property and Equipment. 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 ₱246,897 million and ₱208,066 million as at December 31, 2014 and 2013, respectively (see Notes 12, 15 and 16).

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.

Rent income amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 27).

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 ₱1,187 million, ₱1,295 million and ₱926 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 27).

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, 2014, 2013 and 2012. The carrying values of AFS investments amounted to ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 13).

<u>Estimates and Assumptions</u>
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 year 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 ₱22,152 million, ₱20,775 million and ₱22,576 million for the years ended December 31, 2014, 2013, and 2012, respectively, while the cost of real estate sold amounted to ₱12,257 million, ₱11,921 million and ₱13,976 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 23).

Estimation of Allowance for Impairment Losses 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 doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the 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 losses amounted to ₱353 million and ₱323 million as at December 31, 2014 and 2013, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱39,029 million and ₱37,462 million as at December 31, 2014 and 2013, respectively (see Notes 10 and 17).

Net Realizable Value of Condominium 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 units for sale and land and development amounted to ₱7,579 million and ₱42,458 million as at December 31, 2014, respectively, and ₱6,103 million and ₱34,821 million as at December 31, 2013, respectively (see Notes 11 and 12).

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 ₱29,672 million and ₱23,369 million as at December 31, 2014 and 2013, respectively (see Note 13).

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 ₱204,439 million and ₱173,245 million as at December 31, 2014 and 2013, respectively (see Notes 15 and 16).

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 ₱204,439 million and ₱173,245 million as at December 31, 2014 and 2013, respectively (see Notes 15 and 16).

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 recognized in the consolidated balance sheets amounted to ₱1,100 million and ₱1,160 million as at December 31, 2014 and 2013, respectively, while the unrecognized deferred tax assets amounted to ₱101 million and ₱93 million as at December 31, 2014 and 2013, respectively (see Note 26).

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 29.

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 31).

5. 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

	2014					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱38,642,759**	**₱22,722,516**	**₱2,866,974**	**₱2,007,821**	**₱–**	**₱66,240,070**
Inter-segment	**57,767**	**916**	**71,996**	**3,229**	**(133,908)**	**–**
	₱38,700,526	**₱22,723,432**	**₱2,938,970**	**₱2,011,050**	**(₱133,908)**	**₱66,240,070**
Segment results:						
Income before income tax	**₱17,531,570**	**₱4,995,925**	**₱1,068,261**	**₱317,974**	**(₱239,594)**	**₱23,674,136**
Provision for income tax	**(4,193,180)**	**(246,225)**	**(273,729)**	**(64,513)**	**–**	**(4,777,647)**
Net income	**₱13,338,390**	**₱4,749,700**	**₱794,532**	**₱253,461**	**(₱239,594)**	**₱18,896,489**
Net income attributable to:						
Equity holders of the Parent	**₱12,864,812**	**₱4,749,700**	**₱794,532**	**₱253,461**	**(₱272,153)**	**₱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	**₱126,202,387**	**₱55,362,092**	**₱3,025,684**	**₱2,276,788**	**(₱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	**5,362,023**	**304,316**	**601,894**	**311,548**	**–**	**6,579,781**

	2013					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
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

	2012					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidate Balances
			(In Thousands)			
Revenue:						
External customers	₱30,595,666	₱22,511,830	₱2,557,119	₱1,295,199	₱255,280	₱57,215,094
Inter-segment	44,686	2,028	139,559	1,419	(187,692)	–
	₱30,640,352	₱22,513,858	₱2,696,678	₱1,296,618	₱67,588	₱57,215,094
Segment results:						
Income (loss) before income tax	₱14,181,346	₱5,079,307	₱985,632	(₱65,754)	₱253,363	₱20,433,894
Benefit from (provision for) income tax	(3,366,560)	(99,359)	(209,934)	10,346	(124,954)	(3,790,461)
Net income (loss)	₱10,814,786	₱4,979,948	₱775,698	(₱55,408)	₱128,409	₱16,643,433
Net income (loss) attributable to:						
Equity holders of the Parent	₱10,422,595	₱4,979,948	₱775,698	(₱55,408)	₱79,944	₱16,202,777
Non-controlling interests	392,191	–	–	–	48,465	440,656
Segment assets	₱162,121,497	₱88,090,399	₱24,414,846	₱6,080,086	₱3,945,288	₱284,652,116
Segment liabilities	₱85,650,780	₱44,717,364	₱4,652,192	₱1,685,697	(₱2,515,902)	₱134,190,131
Other information:						
Capital expenditures	₱21,114,932	₱11,403,994	₱1,725,722	₱30,244	₱–	₱34,274,892
Depreciation and amortization	3,984,526	151,171	641,267	349,837	–	5,126,801

For the years ended December 31, 2014, 2013 and 2012, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

6. 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 21).

  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 21).

- *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 SM Hotels and Conventions Corp. (SMHCC), SM Arena Complex Corporation (SMACC), Costa del Hamilo, Inc. (Costa), Prime Metro Estate, Inc. (PMI) and Tagaytay Resort and Development Corporation (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 21).

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 21).

Business Acquisitions
In January 2013, the Company entered into a Binding Share Purchases Agreement for the acquisition of 100% interest in CHAS Realty and Development Corporation and its subsidiaries (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 2014, 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 and cash and other assets amounting to ₱449. 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.

7. Cash and Cash Equivalents

This account consists of:

	2014	2013
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱3,002,606**	₱2,869,204
Temporary investments (see Note 22)	**32,242,600**	24,272,302
	₱35,245,206	₱27,141,506

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 ₱304 million, ₱529 million and ₱589 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

8. Short-term Investments

This account pertains to a time deposit amounting to ₱888 million as at December 31, 2013, with fixed interest rate of 3.24%, maturing in October 2014 (see Note 22). The time deposit was preterminated in February 2014.

Interest income earned from short-term investments amounted to ₱16 million, ₱29 million and ₱27 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

9. 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 5.88% to 8.64% and 4.90% to 8.64% in 2014 and 2013, respectively. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2015 to 2017.

The movements in this account are as follows:

	2014	2013
	(In Thousands)	
At beginning of the year	**₱1,151,464**	₱1,338,777
Disposals - net	**(84,583)**	(300,448)
Mark-to-market gains (loss) during the year	**(101,076)**	93,996
Unrealized foreign exchange gains	**1,706**	19,139
At end of the year	**₱967,511**	₱1,151,464

Mark-to-market gains (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 ₱26 million, ₱28 million and ₱43 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

10. Receivables

This account consists of:

	2014	2013
		(In Thousands)
Trade:		
Sale of real estate	**₱29,607,958**	₱28,012,712
Rent:		
Third parties	**3,878,656**	2,707,222
Related parties (see Note 22)	**2,294,805**	2,674,980
Others (see Note 22)	**55,237**	286,776
Due from related parties (see Note 22)	**365,874**	1,087,182
Nontrade	**90,317**	1,056,324
Receivable from a co-investor (see Note 17)	**269,161**	273,878
Accrued interest (see Note 22)	**142,878**	163,500
Others	**2,676,512**	1,522,100
	39,381,398	37,784,674
Less allowance for impairment	**352,847**	322,904
	39,028,551	37,461,770
Less noncurrent portion of receivables from sale of real estate (see Note 17)	**8,341,583**	10,277,336
	₱30,686,968	₱27,184,434

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 mainly to sale of condominiums and residential units, at various terms of payment.

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱3,751 million and ₱3,735 million for the years ended December 31, 2014 and 2013, respectively.

- 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 17).

- Accrued interest and other receivables are normally collected throughout the financial year.

Interest income earned totaled ₱45 million, ₱67 million and ₱106 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 24).

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

	2014	2013
		(In Thousands)
At beginning of the year	**₱322,904**	₱188,176
Provision for impairment	**29,943**	134,728
At end of the year	**₱352,847**	₱322,904

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

	2014	2013
		(In Thousands)
Neither past due nor impaired	**₱30,301,899**	₱32,689,037
Past due but not impaired:		
Less than 30 days	**2,499,328**	928,277
31–90 days	**1,888,204**	1,443,720
91–120 days	**585,374**	480,859
Over 120 days	**3,753,746**	1,919,877
Impaired	**352,847**	322,904
	₱39,381,398	₱37,784,674

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

11. Condominium and Residential Units for Sale

This account consists of:

	2014	2013
	(In Thousands)	
Condominium units for sale	**₱7,177,902**	₱5,788,429
Residential units and subdivision lots	**400,983**	314,224
	₱7,578,885	₱6,102,653

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱5,788,429**	₱2,589,917
Transfer from land and development (see Note 12)	**3,997,101**	7,329,622
Cost of real estate sold (see Note 23)	**(2,607,628)**	(4,131,110)
At end of year	**₱7,177,902**	₱5,788,429

Condominium units for sale pertain to the completed projects of SMDC, HPI and Costa. These are stated at cost as at December 31, 2014 and 2013.

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱314,224**	₱379,840
Transfer from land and development (see Note 12)	**156,231**	–
Cost of real estate sold (see Note 23)	**(69,472)**	(65,616)
At end of year	**₱400,983**	₱314,224

Residential units and subdivision lots for sale are stated at cost as at December 31, 2014 and 2013.

12. Land and Development

This account consists of :

	2014	2013
	(In Thousands)	
Land and development	**₱40,856,084**	₱33,302,111
Land held for future development	**1,601,748**	1,519,073
	42,457,832	34,821,184
Less noncurrent portion	**22,886,306**	21,539,938
	₱19,571,526	₱13,281,246

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

	2014	2013
	(In Thousands)	
At beginning of year	**₱33,302,111**	₱30,560,111
Development cost incurred	**14,677,138**	15,099,301
Land acquisitions	**6,883,083**	1,760,724
Capitalized borrowing cost	**690,462**	866,061
Cost of real estate sold (see Note 23)	**(9,579,932)**	(7,724,013)
Transfer to condominium and residential units for sale (see Note 11)	**(4,153,332)**	(7,329,622)
Reclassified to investment properties	**(886,597)**	–
Land cost transferred from land held for future development	**–**	80,131
Reclassified to property and equipment	**–**	(10,582)
Others	**(76,849)**	–
At end of year	**₱40,856,084**	₱33,302,111

Borrowing costs capitalized to land and development account amounted to ₱690 million and ₱866 million in 2014 and 2013, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.9% to 4.9% in 2014 and 3.8% to 5.1% in 2013.

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 ₱31,912 million and ₱32,645 million as at December 31, 2014 and 2013, respectively.

Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastracture projects amounted to ₱290 million and ₱400 million as at December 31, 2014 and 2013, respectively.

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

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱1,181 million and ₱1,364 million as at December 31, 2014 and 2013, respectively.

Land Held for Future Development
This represents the payment received by HPI from Belle Corporation (Belle) for its subscription to HPI's capital stock before the tender offer by SM Land and parcels of land subsequently acquired by HPI from Belle after its subscription. The movements in "Land held for future development" are as follows:

	2014	2013
	(In Thousands)	
At beginning of year	**₱1,519,073**	₱1,595,893
Acquisition and transferred-in costs and others	**82,675**	3,311
Transfer to land and development costs	–	(80,131)
At end of year	**₱1,601,748**	₱1,519,073

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

13. Available-for-sale Investments

This account consists of investments in:

	2014	2013
	(In Thousands)	
Shares of stock:		
Listed (see Note 22)	**₱29,668,445**	₱23,360,756
Unlisted	**3,293**	8,318
	29,671,738	23,369,074
Less noncurrent portion	**28,994,983**	23,369,074
	₱676,755	₱–

- Listed shares of stock pertain to investments in publicly-listed companies. A portion of investments amounting to nil and ₱3,594 million as at December 31, 2014 and 2013, respectively, were pledged as collateral for a portion of the Company's long-term loans (see Note 20).

- 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.

Dividend income from investments in listed and unlisted shares of stock amounted to ₱334 million, ₱401 million and ₱145 million in 2014, 2013 and 2012, respectively.

Interest income earned from investment in corporate notes amounted to nil, ₱34 million and ₱68 million in 2014, 2013 and 2012, respectively.

In 2014, 2013 and 2012, shares with acquisition cost of ₱2 million, ₱101 million and ₱124 million were sold resulting to a realized gain, included in "Others - net" account in the consolidated statements of income, amounting to ₱3 million, ₱285 million and ₱158 million, respectively.

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

	2014	2013
	(In Thousands)	
At beginning of the year	**₱19,958,330**	₱19,781,021
Unrealized gain due to changes in fair value	**5,949,853**	462,438
Transferred to profit or loss -		
Realized gain from sale of AFS investments	**(2,743)**	(285,129)
At end of the year	**₱25,905,440**	₱19,958,330

14. Prepaid Expenses and Other Current Assets

This account consists of:

	2014	2013
	(In Thousands)	
Advances and deposits	**₱4,972,188**	₱4,034,093
Input and creditable withholding taxes	**3,203,920**	3,235,635
Prepaid taxes and other prepayments	**1,948,049**	1,845,150
Cash in escrow (see Note 22)	**667,778**	439,119
Supplies and inventories	**323,285**	271,045
Advances for project development	**16,467**	88,615
Others	**137,843**	22,463
	₱11,269,530	₱9,936,120

- 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. Deposits include advance payments for land acquisition amounting to ₱422 million and ₱809 million as at December 31, 2014 and 2013, respectively. 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 year.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent amounting to ₱238 million and ₱64 million as of December 31, 2014 and 2013, respectively, as required by the Housing and Land Use Regulatory Board (HLURB) in connection with the 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 2014 and 2013 payments of liability arising from acquisition of land amounting to P430 million and P375 million as of December 31, 2014 and 2013, respectively.

  Interest income earned from the cash in escrow amounted to P7 million, P5 million and P84 million in 2014, 2013 and 2012, respectively (see Note 24).

15. 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
				(In Thousands)			
Cost							
Balance at December 31, 2012	₱269,218	₱1,054,730	₱94,199	₱97,807	₱932,336	₱31,333	₱2,479,623
Additions	2,156	240,919	48,928	3,978	144,909	–	440,890
Disposals	–	(70,491)	(3)	(2,621)	(9,028)	–	(82,143)
Reclassifications	(503)	20,571	116	(165)	(3,007)	(31,333)	(14,321)
Balance at December 31, 2013	270,871	1,245,729	143,240	98,999	1,065,210	–	2,824,049
Additions	609	45,537	47,905	12,881	115,600	7,827	230,359
Disposals/retirements	–	(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
Accumulated Depreciation and Amortization							
Balance at December 31, 2012	₱94,431	₱394,989	₱37,746	₱48,627	₱306,764	₱–	₱882,557
Depreciation and amortization (see Note 23)	11,530	162,761	42,429	6,168	159,206	–	382,094
Disposals/retirements	–	(13,061)	(1)	(950)	(2,639)	–	(16,651)
Reclassifications	(29)	(1,999)	(97)	(13)	(706)	–	(2,844)
Balance at December 31, 2013	105,932	542,690	80,077	53,832	462,625	–	1,245,156
Depreciation and amortization (see Note 23)	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
Net Book Value							
As at December 31, 2013	₱164,939	₱703,039	₱63,163	₱45,167	₱602,585	₱–	₱1,578,893
As at December 31, 2014	**217,294**	**1,405,596**	**79,905**	**74,192**	**473,573**	**7,827**	**2,258,387**

As at December 31, 2014 and 2013, the carrying amount of fully depreciated property and equipment still in use amounted to ₱159 million and ₱82 million, respectively.

16. Investment Properties

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2012	₱34,679,375	₱110,369,581	₱21,600,843	₱16,674,860	₱183,324,659
Additions	5,390,076	7,107,692	1,497,287	12,828,715	26,823,770
Reclassifications	69,532	6,732,386	519,121	(6,731,378)	589,661
Translation adjustment	406,331	1,706,129	206,854	587,069	2,906,383
Balance as at December 31, 2013	40,545,314	125,915,788	23,824,105	23,359,266	213,644,473
Additions	10,104,016	8,054,234	1,719,211	17,379,564	37,257,025
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	₱50,584,634	₱132,389,872	₱25,006,748	₱38,616,275	₱246,597,529
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2012	₱990,821	₱23,794,873	₱10,684,676	₱–	₱35,470,370
Depreciation and amortization (see Note 23)	157,742	3,744,099	1,697,005	–	5,598,846
Reclassifications	29	521	380	–	930
Translation adjustment	47,656	783,816	76,446	–	907,918
Balance as at December 31, 2013	1,196,248	28,323,309	12,458,507	–	41,978,064
Depreciation and amortization (see Note 23)	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	₱1,700,358	₱28,636,739	₱14,079,766	₱–	₱44,416,863
Net Book Value					
Balance as at December 31, 2013	₱39,349,066	₱97,592,479	₱11,365,598	₱23,359,266	₱171,666,409
As at December 31, 2014	**48,884,276**	**103,753,133**	**10,926,982**	**38,616,275**	**202,180,666**

Included under "Land and Improvements and Land Use Rights" account are the 212,119 square meters of real estate properties with a carrying value of ₱488 million and ₱494 million as at December 31, 2014 and 2013, respectively, and a fair value of ₱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 "Investment properties" 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.

Portions of investment properties located in China with carrying value of ₱5,001 million and with estimated fair value of ₱20,109 million as at December 31, 2013, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Consolidated rent income from investment properties amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, respectively. Consolidated direct costs and expenses from investment properties which generate income amounted to ₱20,006 million, ₱17,075 million and ₱15,088 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱30,870 million and ₱18,279 million, and landbanking and commercial building constructions amounting to ₱7,746 million and ₱5,080 million as at December 31, 2014 and 2013, respectively.

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 ongoing expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

In 2013, shopping mall complex under construction mainly pertains to cost of land amounting to ₱2,149 million and costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱81,977 million and ₱82,058 million as at December 31, 2014 and 2013, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱17,272 million and ₱28,857 million as at December 31, 2014 and 2013, respectively (see Note 19).

Interest capitalized to the construction of investment properties amounted to ₱51 million, ₱77 million and ₱130 million in 2014, 2013 and 2012, respectively. Capitalization rates used range from 4.61% to 5.99%, 5.83% to 7.20% and 5.75% to 6.13% for the years ended December 31, 2014, 2013 and 2012, respectively.

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 fair value of the investment properties was not determined as at December 31, 2014 and 2013, the Company's management believes that there were no conditions present in 2014 and 2013 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.

17. Other Noncurrent Assets

This account consists of:

	2014	2013
	(In Thousands)	
Receivables from sale of real estate - net of current portion (see Note 10)	**₱8,341,583**	₱10,277,336
Investments in associate and joint ventures	**6,050,884**	5,756,294
Bonds and deposits	**4,228,568**	4,964,606
Time deposits (see Note 22)	**1,956,800**	–
Advances for project development (see Note 22)	**48,270**	3,607,169
Others (see Notes 14, 22 and 25)	**3,614,364**	4,669,305
	₱24,240,469	₱29,274,710

Investment in Associate and 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 19 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.

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 TRC amounting to ₱22 million (¥3 million) for the difference between cash invested and 50% equity of FHREC and ₱224 million (¥34 million) representing the difference between the current market value and cost of the investment properties of FHREC (see Note 10).

As at December 31, 2012, TRC owns 50% equity interest in FHREC. Management assessed that SMPH lost control over FHREC by virtue of agreement with the shareholders of THL. Consequently, FHREC became an associate of SMPH. Gain on dilution of equity interest over FHREC as a result of issuance of new shares to THL, included under "Others - net" account in the consolidated statements of income, amounted to ₱224 million in 2012.

Below are the financial information of the Company's interests in all individually immaterial associate and joint ventures that are accounted for using the equity method:

Associate
The carrying value of investment in associate amounted to ₱749 million and ₱576 million as at December 31, 2014 and 2013, respectively. This consists of the acquisition cost amounting to ₱276 million and ₱281 million as at December 31, 2014 and 2013, respectively, and cumulative equity in net earnings amounting to ₱473 million and ₱295 million as at December 31, 2014 and 2013, respectively. The share in profit and total comprehensive income amounted to ₱183 million and ₱295 million for the years ended December 31, 2014 and 2013, respectively.

Joint Ventures
The aggregate carrying values of investments in joint ventures amounted to ₱5,302 million and ₱5,180 million as at December 31, 2014 and 2013, respectively. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱187 million and ₱65 million as at December 31, 2014 and 2013, respectively. The aggregate share in profit and total comprehensive income amounted to ₱122 million and ₱65 million for the years ended December 31, 2014 and 2013, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associate and joint ventures as at December 31, 2014 and 2013.

Bonds and Deposits
Bonds and deposits consist of deposits to contractors and suppliers to be applied throughout construction and advances and deposits paid for leased properties to be applied at the last term of the lease.

Time Deposits
Time deposits amounting to US$44.4 million with various maturities over one year, with peso equivalent of ₱1,957 million as of December 31, 2014 were used as collateral for use of credit lines obtained by the Company from Directors, Officers, Stockholders, and Related Interests banks. Interest income earned amounted to ₱45 million. (see Note 24)

18. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱2,670 million and ₱3,250 million as at December 31, 2014 and 2013, respectively, with due dates of less than one year. These loans bear interest rates ranging from 2.00% to 4.15% in 2014 and 2.25% to 4.00% in 2013.

Interest expense incurred from loans payable amounted to ₱106 million, ₱275 million and ₱105 million in 2014, 2013 and 2012, respectively (see Note 24).

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
	(In Thousands)	
Trade:		
Third parties (see Note 16)	**₱18,893,293**	₱16,533,994
Related parties (see Note 22)	**30,281**	55,550
Accrued operating expenses:		
Third parties	**4,392,748**	4,583,840
Related parties (see Note 22)	**677,047**	1,222,079
Liability for purchased land	**4,774,116**	5,262,432
Customers' deposits	**2,519,661**	3,575,836
Nontrade	**1,018,539**	429,171
Payable to government agencies	**616,300**	528,374
Accrued interest (see Note 22)	**591,056**	535,949
Deferred output VAT	**210,778**	834,520
Due to related parties (see Note 22)	**147,432**	9,552,978
Others	**3,678,423**	3,301,302
	37,549,674	46,416,025
Less noncurrent portion of liability for purchased land	**1,170,855**	1,117,809
	₱36,378,819	₱45,298,216

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 22.

- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial year. Accrued operating expenses - third parties consist of:

	2014	2013
	(In Thousands)	
Utilities	**₱3,762,036**	₱3,689,105
Marketing and advertising	**424,155**	724,956
Others	**206,557**	169,779
	₱4,392,748	₱4,583,840

- 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.

- 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 year.

20. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance 2014	2013
					(In Thousands)	
Parent Company						
U.S. dollar-denominated loans:						
Five-year term loans	May 6, 2011 – September 12, 2014	March 21, 2016 – April 14, 2019	London Interbank Offered Rate (LIBOR) + spread; semi-annual	Unsecured	**₱43,825,600**	₱34,184,150
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	**4,472,000**	4,439,500
Other U.S. dollar loans	November 20, 2013	November 20, 2018	LIBOR + spread; semi-annual	Unsecured	**1,118,000**	1,109,875
Philippine peso-denominated loans:						
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**	–
Five-year and ten-year floating and fixed rate notes	June 19, 2012	June 20, 2017 - June 19, 2022	PDST-F + margin; 6.22%-6.81%; quarterly	Unsecured	**7,301,000**	7,375,500
Five-year, seven-year and ten-year corporate notes	December 20, 2010 - June 13, 2011	December 21, 2015 – December 20, 2020	PDST-F + margin; Fixed 5.79%-6.65%; quarterly	Unsecured	**6,528,000**	6,596,000
Five-year floating rate notes	March 18, 2011 – June 17, 2011	March 19, 2016 - June 18, 2016	PDST-F + margin; quarterly	Unsecured	**4,850,000**	4,900,000
Five-year, seven-year and ten-year fixed and floating rate notes	January 12, 2012	January 13, 2017 – January 12, 2022	PDST-F + margin; 5.86%-6.10%; quarterly	Unsecured	**4,272,800**	4,316,400
Ten-year corporate notes	April 14, 2009	April 14, 2019	10.11%; quarterly	Unsecured	**–**	1,100,000
Five-year term loans	September 10, 2009 – April 13, 2010	September 10, 2014 – April 13, 2015	5.00%-5.69%; quarterly	Secured	**–**	1,600,000
Other bank loans	August 15, 2006 – June 29, 2010	October 16, 2014 – August 15, 2016	PDST-F + margin; 9.75%; semi-annual and quarterly	Unsecured	**1,985,280**	6,993,460
Subsidiaries						
Philippine peso-denominated loans:						
Fixed rate term loans	December 27, 2012 – December 29, 2014	December 23, 2015 – June 25, 2023	4.00%-5.88%; semi-annual and quarterly	Unsecured	**23,323,000**	19,390,000
Fixed rate corporate notes	June 3, 2013 – June 28, 2014	June 3, 2020 – June 3, 2023	5.25%-5.88%; semi-annual	Unsecured	**8,691,800**	8,200,000
Five-year floating rate notes	November 28, 2014	November 28, 2019	PDST-F + margin; quarterly	Unsecured	**800,000**	–
Five-year bilateral loans	February 2, 2010 – October 24, 2011	February 2, 2015 – October 24, 2016	PDST-F + margin; 5.00%; quarterly	Unsecured	**538,800**	617,600
China yuan renminbi-denominated loans:						
Five-year loan	August 26, 2009 – August 27, 2010	July 14, 2014 – August 4, 2015	Central Bank of China (CBC) rate less 10%; quarterly	Secured	**–**	2,235,771
Three-year loan	March 28, 2011	March 27, 2014	CBC rate less 5%;; quarterly	Secured	**–**	961,827
					127,706,280	104,020,083
Less debt issue cost					**1,093,253**	957,093
					126,613,027	103,062,990
Less current portion					**11,006,880**	7,387,260
					₱115,606,147	₱95,675,730

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 28 and 29).

- 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 28 and 29).

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.

Philippine Peso-denominated Five-Year Term Loans

- This represents a ₱1,600 million loan obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 5.69%. Portion of the loans is collateralized by AFS investments (see Note 13). The Company prepaid the loans amounting to ₱1,582 million, ₱9 million and ₱9 million in 2014, 2013 and 2012, respectively (see Note 28).

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loans
This consists of the following:

- A ¥350 million loan obtained on August 26, 2009 to finance the construction of shopping malls. The loan is payable in semi-annual installments until July 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013 (see Notes 16 and 28).

- A ¥150 million loan obtained on August 27, 2010 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made in 2013 and already prepaid in June 2014. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013 (see Notes 16 and 28).

China Yuan Renminbi-denominated Three-Year Loan
A ¥187 million out of ¥250 million loan facility obtained on March 28, 2011 to finance the construction of shopping malls. The Company prepaid the loans amounting to ¥132 million in 2014, ¥37 million in 2013 and ¥18 million in 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5%. The loan bears interest rate of 6.20% in 2014 and 2013 (see Notes 16 and 28).

The China yuan renminbi-denominated loans are secured by the investment properties in China (see Note 16).

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 0.50:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.70:0.25 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control. As at December 31, 2014 and 2013, 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.

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱957,093**	₱506,636
Additions	**450,804**	775,938
Amortization	**(314,644)**	(325,481)
Balance at end of year	**₱1,093,253**	₱957,093

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
		(In Thousands)	
2015	₱11,006,880	(₱343,107)	₱10,663,773
2016	24,101,200	(266,708)	23,834,492
2017	8,664,300	(232,462)	8,431,838
2018	28,064,600	(128,307)	27,936,293
2019	14,292,600	(68,972)	14,223,628
2020	21,541,060	(24,130)	21,516,930
2021	6,930,820	(15,501)	6,915,319
2022	6,083,260	(7,739)	6,075,521
2023	4,419,860	(4,369)	4,415,491
2024	2,601,700	(1,958)	2,599,742
	₱127,706,280	(₱1,093,253)	₱126,613,027

21. 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, 2014 and 2013, 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:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**27,817,554**	27,808,916
Acquisition of non-controlling interest	**1,583**	8,638
Sale of treasury shares	**1,060,000**	–
Balance at end of year	**28,879,137**	27,817,554

On April 24, 2012, the BOD and stockholders approved the declaration of stock dividends equivalent to 25% based on the par value per share in favor of stockholders of record as at May 24, 2012, payable on or before June 20, 2012. Accordingly, retained earnings amounting to ₱3,474 million were transferred to capital stock.

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 2,514 and 2,544 as at December 31, 2014 and 2013, respectively.

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

	2014	2013
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,177,063**	₱16,155,292
Net equity adjustments from common control business combinations (see Note 6)	**9,068,132**	9,068,132
Arising from acquisition of non-controlling interests	**(2,943,001)**	(2,919,988)
As presented in the consolidated balance sheets	**₱39,302,194**	₱22,303,436

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 engaged 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 SMPH 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 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. This was paid on June 10, 2014. In 2013, the BOD approved the declaration of cash dividend of ₱0.27 per share or ₱4,691 million. In 2012, the BOD approved the declaration of cash dividends of ₱0.29 per share or ₱4,031 million.

The BOD of SMPH previously approved the appropriation of retained earnings amounting to ₱20,000 million and ₱7,000 million, respectively, for future corporate expansion programs. As at December 31, 2014 and 2013, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million. Appropriated retained earnings also include appropriations for landbanking and commercial buildings construction scheduled from 2014 to 2017 amounting to ₱15,200 million.

In 2015, the Company expects to incur around ₱70,000 million for its capital expenditures in the Philippines and in China.

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱39,793 million and ₱32,308 million as at December 31, 2014 and 2013, respectively, representing the cost of shares held in treasury (₱3,356 million and ₱3,980 million as at December 31, 2014 and 2013, respectively) and accumulated equity in net earnings of SMPH subsidiaries totaling ₱36,437 million and ₱28,328 million as at December 31, 2014 and 2013, 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.

Treasury Stock
As at December 31, 2014 and 2013, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱3,356 million and ₱3,980 million, respectively. The movement of the treasury stock of the Company are as follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**5,394,370**	5,403,008
Acquisition of non-controlling interest	**(1,583)**	(8,638)
Sale of treasury shares	**(1,060,000)**	–
Balance at end of year	**4,332,787**	5,394,370

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties maybe 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, 2014 and 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. 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)]			
	2014	2013	2012	**2014**	2013	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱44,329**	₱115,048	₱113,641	**–**	–	30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable	**–**	–	–	**₱16,005**	₱4,424		
Sponsorship income	**–**	3,898	14,494	**–**	–	Noninterest-bearing	Unsecured; not impaired
Service income	**44,200**	53,040	62,028	**–**	–	Noninterest-bearing	Unsecured; not impaired
Trade receivable - others	**–**	–	–	**–**	14,868		
Interest income	**–**	3,339	18,493	**–**	–	Interest-bearing at 6.17%	Unsecured; not impaired
Due from related parties	**488**	295	632,210	**783**	295	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	**87,276**	189,214	294,664	**–**	–	Noninterest-bearing	Unsecured
Accrued rent payable	**–**	–	–	**(1,561)**	(7,417)	Noninterest-bearing	Unsecured
Administrative expenses	**–**	9,578	3,922	**–**	–	Noninterest-bearing	Unsecured
Accounts payable - others	**–**	–	–	**–**	(3,561)	Noninterest-bearing	Unsecured
Due to related parties	**–**	2,199,471	262,835	**(31,459)**	(9,538,271)	On demand; noninterest-bearing	Unsecured
Trade payable	**–**	–	–	**(2,024)**	(3,440)	Noninterest-bearing	Unsecured
AFS investments	**–**	–	–	**78,750**	69,205	Noninterest-bearing	Unsecured; not impaired
Dividend income	**1,007**	4,597	8,000	**–**	–	Noninterest-bearing	Unsecured
Interest expense	**–**	–	16,944	**–**	–	8.40% interest rate	Unsecured
Gain on disposal of land	**–**	–	199,500	**–**	–	–	–
Banking and Retail Group							
Cash and cash equivalents	**183,027,363**	5,289,545	4,588,985	**29,377,591**	21,912,510	Interest bearing based on prevailing rates	Unsecured; not impaired
Short-term investments	**–**	–	–	**–**	887,900	Interest bearing at fixed rate of 3.24%	Unsecured; not impaired
Investments held for trading	**65,416**	112,234	195,473	**659,676**	691,711	Noninterest-bearing	Unsecured; not impaired
Rent income	**11,379,209**	10,393,358	9,276,991	**–**	–	30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable	**–**	–	–	**2,278,800**	2,670,556		
Service income	**2,351**	–	–	**–**	–	Noninterest-bearing	Unsecured; not impaired
Management fee income	**7,412**	–	–	**–**	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	**–**	–	–	**31,437**	–		
Deferred rent income	**–**	–		**(83,548)**	(103,567)	Noninterest bearing	Unsecured
Sponsorship income	**–**	3,508	19,919	**–**	–	Noninterest bearing	Unsecured; not impaired
Interest income	**238,595**	559,419	726,847	**–**	–	Interest at 5.6% per annum	Unsecured; not impaired
Accrued interest receivable	**–**	–	–	**104,836**	114,832	Noninterest-bearing	Unsecured; not impaired
Marketing fee income	**–**	28,463	11,842	**–**	–	Noninterest-bearing	Unsecured; not impaired
Trade receivables - others	**–**	–	–	**–**	28,463	12% -15% of selling price of lots sold	Unsecured; not impaired
Due from related parties	**7,261**	–	–	**8,907**	1,646	On demand; noninterest-bearing	Unsecured; not impaired
Receivable financed	**5,122,763**	3,735,340	1,975,400	**3,382,669**	48,307	Without recourse	Unsecured
Time deposits	**1,957**	–	–	**1,957**	–		
Loans payable and long-term debt	**6,915,000**	15,006,500	446,833	**(1,230,000)**	(7,130,000)	Interest-bearing	Combination of secured and unsecured
Interest expense	**658,400**	363,738	245,875	**–**	–	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable				**(5,668)**	(1,868)	Noninterest-bearing	Unsecured
Rent expense	**288**	–	–	**–**	–	Noninterest-bearing	Unsecured
Other operating expenses	**–**	–	3,991	**–**	–	Noninterest-bearing	Unsecured
Trade payable	**–**	–	2,459	**(1,265)**	(23,336)	Noninterest-bearing	Unsecured
Due to related parties	**793**	–	–	**(793)**	–	Noninterest-bearing	Unsecured
Management fee expense	**2,135**	–	–	**–**	–	Noninterest-bearing	Unsecured
Accrued management fee	**–**	–	–	**(519)**	–	Noninterest-bearing	Unsecured
AFS investments	**52,886**	–	3,323,683	**11,843,233**	8,904,881	Noninterest-bearing	Unsecured; not impaired
Escrow fund	**–**	763,869	–	**667,778**	862,865	Interest bearing based on prevailing rates	Unsecured; not impaired
Tenants' deposits	**–**	–	660	**–**	–	Noninterest-bearing	Unsecured
Acquisition of land	**–**	–	165,988	**–**	(6,184)	Noninterest-bearing	Unsecured
Dividend income	**241,712**	240,037	74,500	**–**	–	Noninterest-bearing	Unsecured
Other Related Parties							
Service income	**–**	25,315	4,866	**–**	–	30 days; noninterest-bearing	Unsecured; not impaired
Service fee receivable				**–**	25,200		
Due from related parties	**–**	367,510	102,589	**356,184**	1,087,182	On demand; noninterest-bearing	Unsecured; not impaired
Management fee income	**10,912**	4,723	–	**–**	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable				**11,017**	4,723		
Trade receivable – others	**–**	11,716	–	**–**	11,716	Noninterest-bearing	Unsecured
Rent expense	**3,927**	–	–	**–**	–		
Due to related parties	**56,138**	(104,500)	119,304	**(115,180)**	(14,707)	Noninterest-bearing	Unsecured
Accrued expenses	**–**	352,434	286,153	**(573,192)**	(1,109,453)	Noninterest-bearing	Unsecured
Management fee expense	**1,110,626**	963,126	860,535	**–**	–	Noninterest-bearing	Unsecured
Accrued management fee				**(101,775)**	(105,209)	Noninterest-bearing	Unsecured
Administrative expenses	**–**	971	–	**–**	–	Noninterest-bearing	Unsecured
Accounts payable - others	**–**	–	–	**–**	(638)	Noninterest-bearing	Unsecured
Advances for project development	**–**	518,122	1,971,200	**–**	3,607,122	Noninterest-bearing	Unsecured; not impaired
Trade payable	**–**	–	–	**(26,992)**	(28,774)	Noninterest-bearing	Unsecured
AFS investments	**–**	–	–	**3,602,136**	3,615,246	Noninterest-bearing	Unsecured; not impaired
Sponsorship income	**–**	7,406	–	**–**	–	Noninterest-bearing	Unsecured
Interest income	**–**	21,972	282	**–**	–	Noninterest-bearing	Unsecured
Dividend income	**14,769**	–	–	**–**	–		
Gain on disposal of land	**–**	33,314	–	**–**	–	–	–

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 have 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, SM Lifestyle Entertainment, Inc. and Family Entertainment Center, 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 and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8, 9 and 13).

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 18 and 20).

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, 2014, 2013 and 2012 consist of short-term employee benefits amounting to ₱340 million, ₱260 million and ₱247 million, respectively, and post-employment benefits (pension benefits) amounting to ₱27 million, ₱27 million and ₱10 million, respectively.

23. Costs and Expenses

This account consists of:

	2014	2013	2012
		(In Thousands)	
Cost of real estate sold (see Notes 11 and 12)	**₱12,257,032**	₱11,920,739	₱13,975,766
Depreciation and amortization (see Notes 15 and 16)	**6,579,781**	5,980,940	5,126,801
Administrative (see Notes 22 and 25)	**6,707,326**	5,858,726	5,798,119
Marketing and selling expenses	**3,400,983**	3,232,536	2,929,161
Business taxes and licenses	**3,125,697**	2,748,088	2,367,654
Film rentals	**2,308,946**	2,041,830	1,877,919
Rent (see Notes 22 and 27)	**1,186,622**	1,294,925	926,119
Management fees (see Notes 22 and 27)	**1,145,319**	1,050,548	892,458
Insurance	**418,581**	353,019	332,603
Others (see Note 10)	**1,423,274**	1,177,514	918,677
	₱38,553,561	₱35,658,865	₱35,145,277

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

24. Interest Income and Interest Expense

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

	2014	2013	2012
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 7)	**₱259,576**	₱528,780	₱589,364
Short-term investments (see Note 8)	**15,527**	29,274	27,203
Investments held for trading (see Note 9)	**25,791**	28,310	43,068
Available-for-sale investments (see Note 13)	**–**	34,038	67,700
Time deposits (Note 17)	**44,612**	–	–
Others (see Notes 10 and 14)	**51,948**	71,911	190,054
	₱397,454	₱692,313	₱917,389
Interest expense on:			
Long-term debt (see Note 20)	**₱3,824,165**	₱3,218,400	₱2,933,757
Loans payable (see Note 18)	**105,742**	274,534	105,469
Others	**169,592**	193,669	25,599
	₱4,099,499	₱3,686,603	₱3,064,825

25. 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, 2014.

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")

	2014	2013	2012
		(In Thousands)	
Current service cost	**₱72,808**	₱51,692	₱53,078
Curtailment	**(302)**	–	–
Net interest income	**(5,967)**	(2,010)	(589)
Net transitional liability and others	**–**	–	2,409
	₱66,539	₱49,682	₱54,898

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

	2014	2013
	(In Thousands)	
Defined benefit obligation	**₱215,462**	₱347,082
Fair value of plan assets	**(272,771)**	(421,502)
Effect of asset ceiling limit	**5,469**	7,773
Net pension asset	**(₱51,840)**	(₱66,647)

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

	2014	2013
	(In Thousands)	
Defined benefit obligation	**₱381,892**	₱14,665
Fair value of plan assets	**(273,355)**	(3,320)
Net pension liability	**₱108,537**	₱11,345

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱361,747**	₱346,052
Actuarial gain - changes in actuarial assumptions	**–**	(4,499)
Actuarial loss - changes in financial assumptions	**124,435**	(44,774)
Actuarial gain - changes in demographic assumptions	**(16,190)**	(2,542)
Actuarial loss - experience	**46,852**	5,976
Current service cost	**72,808**	51,692
Interest cost	**22,696**	21,479
Benefits paid from assets	**(4,579)**	(11,103)
Transfer to (from) the plan	**556**	(80)
Curtailment gain and others	**(10,971)**	(454)
Balance at end of year	**₱597,354**	₱361,747

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

	2014	2013
	(In Thousands)	
Related to pension asset	**₱215,462**	₱347,082
Related to pension liability	**381,892**	14,665
	₱597,354	₱361,747

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱424,822**	₱316,399
Contributions	**87,015**	82,015
Interest income	**29,143**	23,530
Benefits paid	**(4,579)**	(11,103)
Actuarial gains	**9,169**	21,508
Transfer to the plan and others	**556**	(7,527)
Balance at end of year	**₱546,126**	₱424,822

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

	2014	2013
	(In Thousands)	
Related to pension asset	**₱272,771**	₱421,502
Related to pension liability	**273,355**	3,320
	₱546,126	₱424,822

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

	2014	2013
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱7,773**	₱1,577
Remeasurement loss (gain)	**(2,784)**	6,155
Interest cost	**480**	41
	₱5,469	₱7,773

The carrying amounts and fair values of the plan assets as at December 31, 2014 and December 31, 2013 are as follows:

	2014		2013	
	Carrying mount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱30,262**	**₱30,262**	₱13,927	₱13,927
Investments in:				
Debt and other securities	**123,278**	**123,278**	77,035	77,035
Common trust funds	**213,852**	**213,852**	157,415	157,415
Equity securities	**17,208**	**17,208**	6,824	6,824
Government securities	**157,839**	**157,839**	162,799	162,799
Other financial assets	**3,687**	**3,687**	6,822	6,822
	₱546,126	**₱546,126**	₱424,822	₱424,822

- 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 4.38% 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 3.50% to 10.69% and have maturities ranging from 2015 to 2037; 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:

	2014	2013
	(In Thousands)	
Cash and cash equivalents	**₱30,262**	₱13,927
Interest income from cash and cash equivalents	**1,714**	534
Investments in common trust funds	**213,852**	157,415
Income from investments in common trust funds	**135,347**	1,040

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

	2014	2013	2012
Discount rate	**4.5%–5.6%**	4.7%–6.4%	6.0%–6.4%
Future salary increases	**3.0%–10.0%**	3.0%–10.0%	10.0%–11.0%

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

	2014	2013	2012
		(In Thousands)	
Actuarial loss (gain)	**₱145,928**	(₱67,347)	₱32,190
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**(2,784)**	6,155	898
	₱143,144	(₱61,192)	₱33,088

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2014 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱36,826)
	(50)	40,535
Future salary increases	100	74,246
	(100)	(63,328)

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, 2014:

Year	Amount
	(In Thousands)
2015	₱23,835
2016	30,589
2017-2018	78,705
2019-2025	525,945

The Company expects to contribute about ₱67 million to its defined benefit pension plan in 2015.

The weighted average duration of the defined benefit obligation is 20 years and 19 years as of December 31, 2014 and 2013, respectively.

26. Income Tax

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

	2014	2013
	(In Thousands)	
Deferred tax assets:		
Unrealized foreign exchange loss and others	**₱438,231**	₱499,975
NOLCO	**302,679**	122,119
Accrued marketing and rent expenses	**181,792**	248,574
MCIT	**21,066**	106,243
Provision for doubtful accounts	**106,817**	134,177
Deferred rent income	**40,241**	44,071
Unamortized past service cost	**9,137**	4,823
	1,099,963	1,159,982
Deferred tax liabilities:		
Undepreciated capitalized interest ,unrealized foreign exchange gains and others	**(₱1,499,054)**	(₱1,516,112)
Unrealized gross profit on sale of real estate	**(783,354)**	(760,303)
Pension asset	**(15,953)**	(16,483)
Others	**(85,623)**	(199,098)
	(2,383,984)	(2,491,996)
Net deferred tax liabilities	**(₱1,284,021)**	(₱1,332,014)

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

	2014	2013
	(In Thousands)	
Deferred tax assets	**₱650,153**	₱690,525
Deferred tax liabilities	**(1,934,174)**	(2,022,539)
	(₱1,284,021)	(₱1,332,014)

As at December 31, 2014 and 2013, unrecognized deferred tax assets amounted to ₱101 million and ₱93 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:

	2014	2013	2012
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associate	**(0.4)**	(0.1)	(6.2)
Availment of income tax holiday	**(3.2)**	(4.0)	(5.9)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.9)**	(1.5)	(1.4)
Nondeductible expenses	**(5.3)**	(5.2)	2.0
Effective tax rates	**20.2%**	19.2%	18.5%

27. 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:

	2014	2013
	(In Millions)	
Within one year	**₱1,224**	₱1,277
After one year but not more than five years	**4,180**	4,427
After more than five years	**637**	1,367
	₱6,041	₱7,071

Consolidated rent income amounted to ₱36,497 million, ₱32,195 million and ₱28,952 million for the years ended December 31, 2014, 2013 and 2012, 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:

	2014	2013
	(In Millions)	
Within one year	**₱744**	₱735
After one year but not more than five years	**3,138**	3,261
After five years	**25,867**	27,330
Balance at end of year	**₱29,749**	₱31,326

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,187 million, ₱1,295 million and ₱926 million for the years ended December 31, 2014, 2013 and 2012, respectively.

28. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, short-term investments, 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 29).

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 7, 9 and 20.

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, 2014 and 2013, after taking into account the effect of interest rate swaps, approximately 67% and 64%, respectively, of its long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 29).

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, 2014 and 2013:

	2014								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
				(In Thousands)					
Fixed Rate									
Philippine peso-denominated corporate notes	₱976,700	₱16,700	₱16,700	₱16,700	₱16,700	₱9,376,300	₱10,419,800	(₱51,841)	₱10,367,959
Interest rate	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%			
Philippine peso-denominated fixed rate notes	₱2,073,600	₱5,463,600	₱2,485,100	₱4,559,900	₱3,662,200	₱11,270,400	29,514,800	(125,555)	29,389,245
Interest rate	4.72%-6.81%	4.32%-6.81%	4.00%-6.81%	4.90%-6.81%	5.00%-6.81%	5.00%-6.81%			
Philippine peso-denominated fixed rate retail bonds	₱–	₱–	₱–	₱–	₱–	₱20,000,000	20,000,000	(166,362)	19,833,638
Interest rate						5.10%-5.74%			
Other bank loans	₱38,800	₱1,200,000	₱412,500	₱–	₱412,500	₱–	2,063,800	(2,549)	2,061,251
Interest rate	5.00%	9.75%	4.50%		5.07%-5.10%				
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$270,000	$–	$500,000	$210,000	$–	43,825,600	(637,943)	43,187,657
Interest rate		LIBOR + spread		LIBOR + spread	LIBOR + spread				
U.S. dollar-denominated bilateral loans	$50,000	$–	$50,000	$–	$–	$–	4,472,000	(39,699)	4,432,301
Interest rate	LIBOR + spread		LIBOR + spread						
Other U.S. dollar loans	$–	$–	$–	$25,000	$–	$–	1,118,000	(17,654)	1,100,346
Interest rate				LIBOR + spread					
Philippine peso-denominated corporate notes	₱4,800,000	₱–	₱–	₱–	₱–	₱–	4,800,000	(10,749)	4,789,251
Interest rate	PDST-F+margin%								
Philippine peso-denominated floating rate notes	₱96,500	₱4,846,500	₱3,514,000	₱10,000	₱810,000	₱930,000	10,207,000	(39,134)	10,167,866
	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Philippine peso-denominated five-year bilateral loans	₱–	₱500,000	₱–	₱–	₱–	₱–	500,000	(1,036)	498,964
Interest rate		PDST-F+margin%							
Other bank loans	₱785,280	₱–	₱–	₱–	₱–	₱–	785,280	(731)	784,549
Interest rate	PDST-F+margin%								
							₱127,706,280	(₱1,093,253)	₱126,613,027

	2013								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
				(In Thousands)					
Fixed Rate									
Philippine peso-denominated corporate notes	₱18,000	₱968,000	₱8,000	₱8,000	₱8,000	₱10,036,000	₱11,046,000	(₱65,512)	₱10,980,488
Interest rate	5.79%-6.65%	5.79%-6.65%	6.65%	6.65%	6.65%	5.57%-10.11%			
Philippine peso-denominated fixed rate notes	₱81,800	₱2,219,400	₱5,409,800	₱1,925,300	₱9,568,100	₱7,391,600	26,596,000	(133,928)	26,462,072
Interest rate	5.86%-8.27%	4.72%-8.27%	4.32%-6.81%	4.00%-6.81%	4.77%-6.81%	5.88%-6.81%			
Other bank loans	₱1,381,750	₱218,250	₱1,200,000	₱–	₱–	₱–	2,800,000	(3,932)	2,796,068
Interest rate	5.00%-5.69%	5.00%	9.75%						
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$270,000	$–	$500,000	$–	34,184,150	(614,882)	33,569,268
Interest rate			LIBOR + spread		LIBOR + spread				
U.S. dollar-denominated bilateral loans	$–	$–	$–	$–	$25,000	$–	1,109,875	(5,994)	1,103,881
Interest rate					LIBOR + spread				
Other U.S. dollar loans	$–	$50,000	$–	$50,000	$–	$–	4,439,500	(55,869)	4,383,631
Interest rate		LIBOR + spread		LIBOR + spread					
Philippine peso-denominated corporate notes	₱50,000	₱4,800,000	₱–	₱–	₱–	₱–	4,850,000	(17,906)	4,832,094
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated floating rate notes	₱96,500	₱96,500	₱4,846,500	₱3,514,000	₱10,000	₱940,000	9,503,500	(49,722)	9,453,778
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Philippine peso-denominated five-year bilateral loans	₱–	₱–	₱500,000	₱–	₱–	₱–	500,000	(1,547)	498,453
Interest rate			PDST-F+margin%						
Other bank loans	₱3,008,180	₱2,785,280	₱–	₱–	₱–	₱–	5,793,460	(7,801)	5,785,659
Interest rate	PDST-F+margin%	PDST-F+margin%							
China yuan renminbi-denominated loans	¥375,168	¥60,900	¥–	¥–	¥–	¥–	3,197,598	–	3,197,598
Interest rate	5.76%-6.20%	5.76%							
							₱104,020,083	(₱957,093)	₱103,062,990

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)
2014	**100**	**(₱77,004)**
	50	**(38,502)**
	(100)	**₱77,004**
	(50)	**38,502**
2013	100	(₱108,914)
	50	(54,457)
	(100)	108,914
	(50)	54,457

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. 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 and liabilities amounted to ₱33,948 million (US$759 million) and ₱34,184 million (US$764 million), respectively, as at December 31, 2014, and ₱24,463 million (US$551 million) and ₱24,586 million (US$554 million), respectively, as at December 31, 2013.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱44.72 to US$1.00 and ₱44.40 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2014 and 2013, 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, 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)
2014	**1.50**	**₱1,983**
	1.00	**1,322**
	(1.50)	**(1,983)**
	(1.00)	**(1,322)**
2013	1.50	₱1,043
	1.00	696
	(1.50)	(1,043)
	(1.00)	(696)

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.

The 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, export credit agency-guaranteed facilities 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, short-term investments and investments held for trading and current AFS investments amounting to ₱35,245 million, nil, ₱968 million and ₱677 million, respectively, as at December 31, 2014, and ₱27,142 million, ₱888 million, ₱1,151 million and nil , respectively, as at December 31, 2013 (see Notes 7, 8, 9 and 13). 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:

	2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Loans payable	**₱–**	**₱2,670,000**	**₱–**	**₱–**	**₱2,670,000**
Accounts payable and other current liabilities*	**1,523,919**	**32,707,639**	**–**	**–**	**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' deposits	**–**	**–**	**13,082,936**	**168,590**	**13,251,526**
Other noncurrent liabilities**	**–**	**–**	**3,208,432**	**–**	**3,208,432**
	₱1,523,919	**₱50,638,763**	**₱106,233,723**	**₱45,400,289**	**₱203,796,694**

	2013				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Loans payable	₱–	₱3,250,000	₱–	₱–	₱3,250,000
Accounts payable and other current liabilities*	6,818,290	37,117,032	–	–	43,935,322
Long-term debt (including current portion)	–	9,321,766	94,038,282	9,552,723	112,912,771
Derivative liabilities	–	–	159,974	–	159,974
Liability for purchased land - net of current portion	–	–	1,117,809	–	1,117,809
Tenants' deposits	–	–	10,082,397	166,395	10,248,792
Other noncurrent liabilities**	–	–	2,786,666	–	2,786,666
	₱6,818,290	₱49,688,798	₱108,185,128	₱9,719,118	₱174,411,334

***Excluding nonfinancial liabilities amounting to ₱2,147 million and ₱1,363 million as at December 31, 2014 and 2013, respectively.*
***Excluding nonfinancial liabilities amounting to ₱573 million and ₱469 million as at December 31, 2014 and 2013, respectively.*

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 29.

Since 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, 2014 and 2013, 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 10). 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, 2014 and 2013, the credit quality of the Company's financial assets is as follows:

	2014			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	**₱35,148,896**	**₱–**	**₱–**	**₱35,148,896**
Short-term investments	**–**	**–**	**–**	**–**
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**
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	**29,602,802**	**68,936**	**–**	**29,671,738**
	₱83,371,966	**₱15,014,597**	**₱8,726,652**	**₱107,113,215**

*** Excluding cash on hand amounting to ₱96 million*
*** Excluding nonfinancial assets amounting to ₱4 million*

	2013			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	₱27,076,823	₱–	₱–	₱27,076,823
Short-term investments	887,900	–	–	887,900
Receivables**	13,612,072	8,798,104	4,772,733	27,182,909
Cash in escrow (included under "Prepaid expenses and other current assets" and "Other noncurrent assets")	862,865	–	–	862,865
Real estate receivable - noncurrent (included under "Other noncurrent assets")	–	10,277,336	–	10,277,336
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	1,151,464	–	–	1,151,464
Derivative assets	1,778,810	–	–	1,778,810
AFS Investments				
Shares of stocks	23,303,431	65,643	–	23,369,074
	₱68,673,365	₱19,161,493	₱4,772,733	₱92,587,181

*** Excluding cash on hand amounting to ₱65 million*
*** Excluding nonfinancial assets amounting to ₱2 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, 2014 and 2013) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2014	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	+9%	**₱2,815**
	-9%	**(2,815)**

	2013	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+9%	₱1,765
	-9%	(1,765)

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, short-term investments and investments held for trading.

As at December 31, 2014 and 2013, the Company's gearing ratios are as follows:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2014	2013
	(In Thousands)	
Loans payable	**₱2,670,000**	₱3,250,000
Current portion of long-term debt	**11,006,880**	7,387,260
Long-term debt - net of current portion	**115,606,147**	95,675,730
Total interest-bearing debt (a)	**129,283,027**	106,312,990
Total equity attributable to equity holders of the parent	**199,087,690**	163,266,540
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱328,370,717**	₱269,579,530
Gearing ratio (a/b)	**39%**	39%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2014	2013
	(In Thousands)	
Loans payable	**₱2,670,000**	₱3,250,000
Current portion of long-term debt	**11,006,880**	7,387,260
Long-term debt - net of current portion	**115,606,147**	95,675,730
Less cash and cash equivalents, short-term investments and investments held for trading	**(36,212,717)**	(29,180,870)
Total net interest-bearing debt (a)	**93,070,310**	77,132,120
Total equity attributable to equity holders of the parent	**199,087,690**	163,266,540
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱292,158,000**	₱240,398,660
Gearing ratio (a/b)	**32%**	32%

29. Financial Instruments

Fair Values
The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values as at December 31:

	2014		**2013**	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱967,511**	**₱967,511**	₱1,151,464	₱1,151,464
Derivative assets	**1,632,814**	**1,632,814**	1,778,810	1,778,810
	2,600,325	**2,600,325**	2,930,274	2,930,274
Loans and receivables -				
Noncurrent portion of receivable from sale of real estate	**8,341,583**	**8,255,073**	10,277,336	9,393,239
AFS investments -				
Listed shares of stocks	**29,668,445**	**29,668,445**	23,360,756	23,360,756
	₱40,610,353	**₱40,523,843**	₱36,568,366	₱35,684,269

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱58,705**	**₱58,705**	₱159,974	₱159,974
Other financial liabilities:				
Liability for purchased land - net of current portion	**1,170,855**	**1,158,712**	1,117,809	1,090,824
Long-term debt - net of current portion	**115,606,147**	**118,510,996**	95,675,730	96,254,926
Tenants' deposits	**13,251,526**	**12,972,502**	10,248,792	9,874,345
Other noncurrent liabilities*	**3,208,432**	**3,171,783**	2,786,666	2,679,120
	133,236,960	**135,813,993**	109,828,997	109,899,215
	₱133,295,665	**₱135,872,698**	₱109,988,971	₱110,059,189

**Excluding nonfinancial liabilities amounting to ₱573 million and ₱469 million as at December 31, 2014 and 2013, 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 5.2% and 5.0% as at December 31, 2014 and 2013, 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 3.54% to 5.32% and 1.39% to 4.76% as at December 31, 2014 and 2013, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.70% to 1.97% and 1.7% to 1.96% as at December 31, 2014 and 2013, respectively.

Tenants' 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 2.69% to 5.22% and 1.93% to 3.52% as at December 31, 2014 and 2013, respectively.

The Company assessed that the carrying values of cash and cash equivalents, short-term investments, 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 value.

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:

	2014		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	**₱307,835**	**₱–**	**₱–**
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**
AFS investments -			
Shares of stocks	**29,668,445**	**–**	**–**
	₱30,635,956	**₱1,632,814**	**₱8,255,073**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱58,705**	**₱–**
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' deposits	**–**	**–**	**12,972,502**
Other noncurrent liabilities*	**–**	**–**	**3,171,783**
	–	**–**	**135,813,993**
	₱–	**₱58,705**	**₱135,813,993**

**Excluding nonfinancial liabilities amounting to ₱573 million as at December 31, 2014.*

	2013		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	₱459,754	₱–	₱–
Shares	691,710	–	–
Derivative assets	–	1,778,810	–
	1,151,464	1,778,810	–
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	–	–	9,393,239
AFS investments -			
Shares of stocks	23,360,756	–	–
	₱24,512,220	₱1,778,810	₱9,393,239
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	₱–	₱159,974	₱–
Other financial liabilities:			
Liability for purchased land - net of current portion	–	–	1,090,824
Long-term debt - net of current portion	–	–	96,254,926
Tenants' deposits	–	–	9,874,345
Other noncurrent liabilities*	–	–	2,679,120
	–	–	109,899,215
	₱–	₱159,974	₱109,899,215

**Excluding nonfinancial liabilities amounting to ₱469 million as at December 31, 2013.*

During the years ended December 31, 2014 and 2013, 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

<u>Derivative Financial Instruments</u>
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 20). 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 (₱8,134 million and ₱6,165 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, 2014.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		**Interest Rate**	**Maturity Date**
	(In Thousands)			
Unsecured loan	US$200,000	₱8,944,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,708,000	6-month US LIBOR + 1.70%	March 25, 2018

The table below provides the details of SMPH's outstanding cross-currency swaps as at December 31, 2014:

	Notional Amounts		**Receive**	**Pay**	**US$:₱ Rate**	**Maturity**	**Fair Value Gain**
	(In Thousands)						*(In Thousands)*
Floating-to-Fixed	US$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	₱711,066
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	243,897
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	210,575
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	219,438
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	217,356

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 ₱1,602 million gain and ₱1,668 million as at December 31, 2014 and December 31, 2013, 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, 2014 and 2013. Foreign currency translation loss arising from the hedged loan amounting to ₱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 <1 Year	>1-<2 Years	>2-<5 Years	Receive	Pay	Aggregate Fair Value 2014	2013
			(In Thousands)					*(In Thousands)*	
Floating-to-Fixed									
2013	June 2015	Quarterly	₱174,720	–	–	3MPDST-F	3.65%	(₱941)	(₱4,511)
2013	June 2015	Quarterly	₱174,720	–	–	3MPDST-F	4.95%	(941)	(4,512)
2011	March 21, 2015	Semi-annual	$145,000	–	–	6 months LIBOR+margin%	2.91%–3.28%	(37,535)	(113,601)
2011	November 30, 2014	Semi-annual	$20,000	–	–	6 months LIBOR+margin%	3.53%	–	(10,431)
2010	November 30, 2015	Semi-annual	$30,000	–	–	6 months LIBOR+margin%	3.18%	(19,288)	(35,941)
Fixed-to-Floating									
2010	June 2015	Quarterly	₱785,280	–	–	5.44%	3MPDST-F	₱16,728	₱59,633
2010	June 2015	Quarterly	₱785,280	–	–	7.36%	3MPDST-F	13,754	59,800

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 20). As at December 31, 2014 and 2013, these swaps have negative fair values of ₱2 million and ₱9 million, respectively.

In 2011, the 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 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swaps have aggregate negative fair value of ₱38 million and ₱114 million, respectively.

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 20). 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 20). As at December 31, 2014 and 2013, the floating to fixed interest rate swap has a negative fair value of ₱19 million and ₱36 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The consolidated net cash flows of the two swaps effectively converts the Philippine peso denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at December 31, 2014 and 2013, the interest rate swaps has a positive fair value of ₱31 million and ₱119 million, respectively.

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 (see Note 20). 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 2014 and 2013, the 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, ₱32 million gain and ₱67 million gain in 2014, 2013 and 2012, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2014	2013
	(In Thousands)	
Balance at beginning of year	**₱1,618,836**	(₱134,351)
Net changes in fair value during the year	**(293,786)**	1,648,143
Fair value of settled derivatives	**249,059**	105,044
Balance at end of year	**₱1,574,109**	₱1,618,836

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.

In 2013, the net changes in fair value amounting to ₱1,648 million include net of interest paid on interest rate swap and cross currency swap contracts amounting to ₱125 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 ₱1,668 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 ₱105 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:

	2014	2013
	(In Thousands)	
Derivative assets	**₱1,632,814**	₱1,778,810
Derivative liabilities	**(58,705)**	(159,974)
	₱1,574,109	₱1,618,836

30. EPS Computation

Basic/diluted EPS is computed as follows:

	2014	2013	2012
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱18,390,352**	₱16,274,820	₱16,202,777
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 21)	**5,291,243**	5,394,370	5,403,008
Weighted average number of common shares outstanding (b)	**27,875,057**	27,771,930	27,763,292
Earnings per share (a/b)	**₱0.660**	₱0.586	₱0.584

31. 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 Injuction 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 23, 2015.

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 23, 2015.

On June 5, 2013, BCDA and Casanova filed a Motion to Inhibit the Honorable Presiding Chairman. The Company filed an Opposition to this Motion and this remains pending as at February 23, 2015.

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. This remains pending as at February 23, 2015.

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