SM PRIME

SHAPING A BETTER TOMORROW

2016 ANNUAL REPORT

Conrad Hotel

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.

About the Cover

The Mall of Asia (MOA) Complex, one of SM Prime's biggest investments, was planned with resiliency in mind. Special considerations were taken in the planning of this project to ensure that it can withstand major disasters that can come to the area.

Read more on page 29.

Contents

SM Prime at a Glance

Fast Facts

Malls

- 60 Malls in the Philippines
- 7 Malls in China
- 9.0 million sqm total Gross Floor Area

Residences

- 43 Residential Projects
- 102,424 Residential Units (since 2003)

Offices

- 6 Office Buildings
- 383,084 sqm total Gross Floor Area

Hotels & Convention Centers

- 6 Hotels
- 1,510 Hotel Rooms
- 4 Convention Centers and 3 Trade Halls

Consolidated Financial Highlights

Revenues	Operating Income
Php48.6 Billion* Grew by ↑ 9.1%	Php25.8 Billion Grew by ↑ 8.8%
Php208.5 Billion Total Investment Properties	
Php25.4 Billion* Grew by ↑ 12.6%	Php7.1 Billion Grew by ↑ 16.9%
Php110.5 Billion Total Assets	
Php2.7 Billion* Increased by ↑ 32.4%	Php2.1 Billion Grew by ↑ 56.9%
Php32.6 Billion Total Investment Properties	
Php3.2 Billion Increased by ↑ 31.5%	Php0.5 Billion Grew by ↑ 8.2%
Php10.4 Billion Total Investment Properties	

*Revenues per segment in 2015 have been reclassified to conform with 2016 presentation.

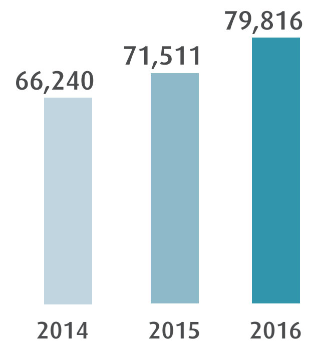
Financial Highlights

	2016	2015	2014
Balance Sheet Highlights (in PHP millions)			
Total Assets	465,560	434,966	388,840
Investment Properties	251,499	230,340	192,639
Total Debt	164,378	155,668	129,283
Net Debt	138,258	128,955	93,070
Total Stockholders' Equity	231,481	212,489	199,088
Income Statement Highlights (in PHP millions)			
Revenues	79,816	71,511	66,240
Cost and Expenses	44,551	40,072	38,554
Operating Income	35,265	31,439	27,687
Net Income*	23,806	20,892	18,390
EBITDA	42,517	37,815	33,760
Financial Ratios			
Debt to Equity	42:58	42:58	39:61
Net Debt to Equity	37:63	38:62	32:68
Return on Equity	0.11	0.10	0.10
Debt to EBITDA	3.87	4.12	3.83
EBITDA to Interest Expense	9.64	11.19	8.24
Operating Income to Revenues	0.44	0.44	0.42
EBITDA Margin	0.53	0.53	0.51
Net Income to Revenues	0.30	0.29	0.28
Revenue Profile**			
Malls	61%	62%	61%
Residences	32%	32%	34%
Offices	3%	3%	2%
Hotels and Conventions	4%	3%	3%
Asset Profile**			
Malls	67%	66%	65%
Residences	24%	25%	27%
Offices	7%	7%	6%
Hotels and Conventions	2%	2%	2%
Market Capitalization	818,726	626,679	492,100
Dividends Paid	6,642	6,065	5,286

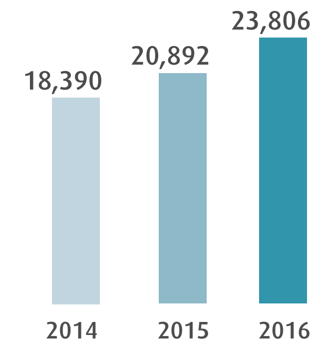
*Excluding one-time gain on sale of AFS in 2015

**Revenue and Asset Profile in 2014 and 2015 have been reclassified to conform with 2016 presentation

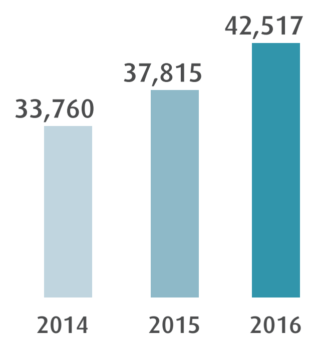
Financial Highlights



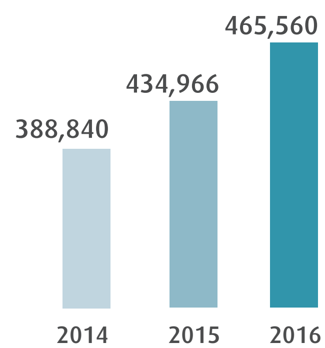
Revenues



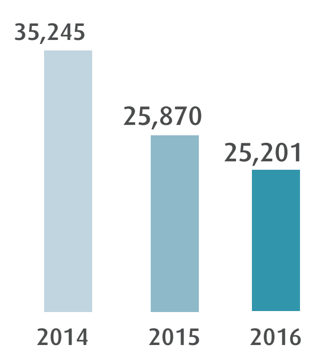
Net Income



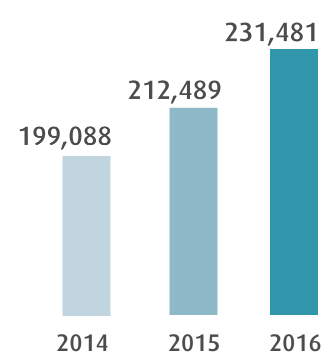
EBITDA



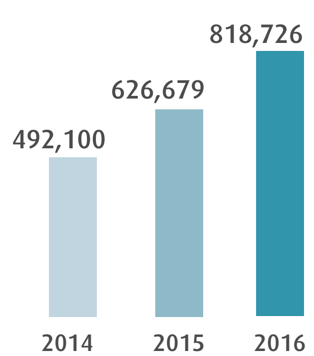
Assets



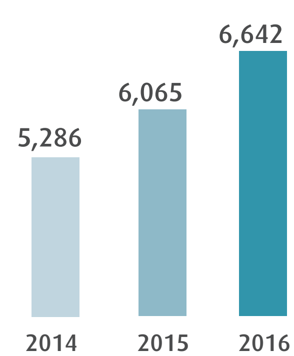
Cash and Cash Equivalents



Equity



Market Capitalization



Dividends Paid

Message to Shareholders

To Our Valued Shareholders,

On behalf of the Board of Directors and Management, I would like to thank you for your continued support in 2016.

SM Prime's strategy as an integrated property developer since our consolidation in 2013 has proven highly successful as demonstrated by the company's leading market position and overall financial performance in 2016. SM Prime's net income growth of 14% to Php23.8 billion reflects the success of our focus on increasing recurring income, supported by the solid performance of the residential business. SM Prime is now one of the highest profitable publicly listed companies in the Philippines and has emerged as the largest company in terms of market capitalization at Php818.7 billion as of 31 December 2016, reflecting investors' confidence in our business model and strategies.

Moving forward, SM Prime will continue to grow and create value by proactively identifying areas of growth opportunities, aligning our strategies and resources to these opportunities, and carefully executing our business plans. In the last few years, we have opened more malls in the provinces as we see increase in income and development in these areas. We will continue this strategy, even for our other businesses - hotels, BPOs and residences. This aligns well with the government's nationwide investment priorities and we expect to increase the momentum of our regional growth as a result.

In Metro Manila, we leverage our malls as anchors to integrated lifestyle developments. This synergy among our property businesses is most evident in the Mall of Asia Complex where we recently added the Conrad Hotel, a 347-room luxury hotel, in June 2016. Additional office and residential buildings are also on-going construction in the area, along with the expansion and

"SM Prime will continue to grow and create value by proactively identifying areas of growth opportunities, aligning our strategies and resources to these opportunities, and carefully executing our business plans."

redevelopment of SM Mall of Asia. Similar strategy is carried out in other malls like SM Megamall, SM North EDSA and SM Fairview to maximize utilization and value of available resources.

Our growth and expansion also continue in China as we remain optimistic about its economy. Every new mall we open, the seventh and most recent one being SM Tianjin which we opened last December 2016, adds to our understanding of the Chinese consumer and retail opportunities. This allows us to continue our cautious growth in China and to capture further opportunities as we seek to be an international property developer over time.

On our residential business, SM Development Corp (SMDC) will continue to deliver attractive urban lifestyles that meet the growing aspirations of young professionals and start-up families. In 2016, it posted high reservation sales growth of 21%, one of the highest among high-rise developers. We have also started to expand SMDC's product line-up to include mid-rise buildings and single detached house and lot developments recognizing the larger opportunity of broad housing needs across all segments in the Philippines.

In growing and expanding our businesses, we do realize that we create an impact to the environment. This is why we also prioritize efficient use of our resources and ensure that we develop our properties responsibly with the safety of the environment and betterment of host communities in mind. Energy and water usage, waste and emissions are monitored and managed using standard practices, best-in-class partnerships and innovative strategies across our property developments.

We would like to express our deepest appreciation to our former President, Mr. Hans T. Sy, who continues to guide our company as Chairman of the Executive Committee. For almost 12 years of his leadership, SM Prime significantly increased its presence and overall impact in the Philippines and spearheaded our expansion in China.

We also extend our appreciation to our Board of Directors for their wisdom and guidance. We commend the leadership of the management team and loyalty of our employees. We would also like to express our sincere gratitude to our shareholders, customers and business partners for their continued support and commitment. We look forward to another fruitful year of partnership.

Henry T. Sy, Jr.
Chairman

President's Report

We mark SM Prime's third year as a fully integrated property developer in the year 2016, and we continue to realize the benefits of this integration as shown in the 2016 consolidated operating results. Moreover, our strong balance sheet allows us to pursue our growth plans both in the medium and in the long-term for a sustained financial performance.

The overall positive performance of the Company can be attributed to the continued expansion of the malls business and strong sales take-up of residential units. In 2016, this translated to 12% higher consolidated revenues of Php79.8 billion compared to Php71.5 billion in 2015. The resulting consolidated operating income also increased by the same rate to Php35.3 billion from Php31.4 billion in the prior year. With the addition of 1.5 million square meters (sqm) in gross floor area (GFA) of retail spaces in the past two years, recurring net income of 2016 posted a healthy growth of 14% to Php23.8 billion from Php20.9 billion in 2015.

SM Prime's mall revenues of Php48.6 billion, a 9% increase from 2015 revenue, still accounted for most of the consolidated revenues at 61%. The growth in mall revenues was contributed by 10% improvement in mall rentals, due to additional retail spaces, and 7% growth in same-store-sales. On the other hand, cinema and event ticket sales were slightly down by 3% to Php4.7 billion in 2016. Overall, mall operating income improved by 9% to Php25.8 billion in 2016 from Php23.7 billion of 2015.

We ended 2016 with 67 shopping malls — 60 in the Philippines with 7.7 million sqm of GFA and seven in China with 1.3 million sqm of GFA. In the Philippines, 45% of our malls are located in Metro Manila, 35% in Luzon outside Metro Manila, 14% in Visayas and 6% in Mindanao.

"Your Company is well positioned to harness the strong synergies among its businesses, and capture the positive impact of government's higher infrastructure spending in the provincial areas that will further spur overall economic growth of the country."

SM Prime's residential group contributed Php25.4 billion or 32% of the consolidated revenues. This is up by 13% from Php22.5 billion in 2015 owing to higher reservations sales in 2016, that is 21% better in terms of sales value and 17% in terms of units. Sales take-up of ready for occupancy (RFO) units also improved. Operating income of the residential group grew by 17% to Php7.1 billion from Php6.1 billion.

SM Prime's Commercial Properties Group, which contributed 3% to consolidated revenues, recorded a 32% increase in revenues to Php2.7 billion from Php2.1 billion year-on-year. This brought operating income growth to 57% to Php2.1 billion from Php1.3 billion the previous year. The growth reflects additional rental revenues from FiveE-ComCenter. The Commercial Properties Group currently has six office buildings, with an estimated total GFA of 383,000 sqm.

Revenues from our Hotels and Convention Centers grew by 32% to Php3.2 billion from Php2.4 billion in 2015. Operating income expanded 8% to Php549.5 million from Php507.7 million. Overall revenue growth is attributable to improved occupancy rates and the opening of Park Inn Clark in December 2015 and Conrad Manila in June 2016. As of 2016, SM Prime operates six hotels with 1,510 rooms and four Convention Centers.

We expect SM Prime's success to continue over the years. Your Company is well positioned to harness the strong synergies among its businesses, and capture the positive impact of government's higher infrastructure spending in the provincial areas that will further spur overall economic growth of the country. With continued partnership with you, we will make SM Prime an integrated developer in key provincial cities where we can be the community's strategic partner in shaping a better future for their families.

Allow me to convey my deepest appreciation to our Directors and dedicated employees for their service and hard work towards maximizing the value of SM Prime. We would also like to express our sincere gratitude to our shareholders, business partners and customers for their continued confidence and support.

Jeffrey C. Lim
President

Malls

SM City Trece Martires

Php48.6B
Revenue

Php25.8B
Operating Income

9.0M sqm
Gross Floor Area

Fast Facts


SM City Trece Martires

	Malls	Cinema Seats	Parking Slots
Philippines	60	145,653	81,414
China	7	8,856	15,356

	Total GFA (sqm)	Mall Tenants	Average Daily Pedestrian Count
Philippines	7.7M	16,666	3.5M
China	1.3M	1,600	0.2M


SM City East Ortigas, Director's Club Cinema

Malls

Expanding the Mall Experience for a Better Tomorrow

SM Supermalls has long established itself as the dominant player in the country's retail business. In the span of three decades, it has developed 60 malls nationwide with a staggering total gross floor area of 7.7 million sqm, three of which are among the biggest in the world.

The largest shopping center operator in the Philippines continuously delivers on its brand promise of providing the ultimate in family fun mall experience by partnering with the best local and global retailers. The SM mall experience continues to be anchored on innovation and growth, new exciting global brands, revitalized and popular national brands, all within reach of the SM customer.

As the nation's economy continues to expand and consumers' tastes evolve with the times, SM Supermalls gears up for accelerated business expansion to meet growing market demands.

SM City San Jose del Monte

The year 2016 saw the opening of SM Supermall's 57th mall in April. The mall is located in San Jose del Monte, in the province of Bulacan, which has a population of 574,089 people–making it the 19th most populated city in the Philippines.

Occupying 101,407 sqm of the new mall showcases three levels of al fresco dining, two levels of covered parking, four state-of-the-art cinemas, and its own Cyberzone.

SM City San Jose del Monte also boasts of a view deck overlooking a scenic lagoon. This unique feature perfectly complements the captivating hillside landscape of the mall. Another welcome treat for shoppers is the mall's spectacular water fountain that is best viewed at night.

SM City San Jose del Monte

SM City East Ortigas

SM City East Ortigas

To cap off 2016 in grand style, SM City East Ortigas opened its doors to shoppers last December. The 60th SM Supermall is strategically located at the boundary of Pasig City and Cainta, Rizal, making it easily accessible to residents of Ortigas Center, Mandaluyong City, Marikina City, and the province of Rizal.

With a total floor area of 80,126.62 sqm, the mall offers a diverse tenant mix anchored by, The SM Store, SM Supermarket, SM Appliance Center, Ace Hardware, Watsons, and Uniqlo. SM City East Ortigas also houses state-of-the-art cinemas — four Digital Cinemas and four Director's Club theaters.

SM Supermalls' continued success is firmly rooted in providing the highest level of service and delight to its shoppers: well-curated brands in partnership with the world's best retailers; a delectable mix of dining tenants giving the market a taste of the best in the local and global scene; a wide array of entertainment options; new and ever-evolving architecture coupled with eco-friendly design and a warm ambience that allows shoppers from all walks of life to feel safe, comfortable, and happy.

SM City Trece Martires

Another mall that opened in 2016 is SM City Trece Martires in Cavite, one of the most industrialized and fastest growing provinces because of its close proximity to Metro Manila. With a population of 3,678,301 in 2015, it is the most populated province in the country. Since opening its doors to shoppers last May, the mall has made a mark with Caviteños with its wide array of shops and choices, as well as its landscaped gardens and convenient covered carpark.

Cherry Congressional

The year also marked the opening of Cherry Congressional. The iconic local brand, which has been in business since the early 1950s, and recently acquired by SM Prime, is considered one of the pioneers in the supermarket business. Anchored by SM Hypermarket and Ace Hardware, SM Supermalls' 59th mall also features a select array of casual dining restaurants, popular fast food chains, services, and IT stores.

Cherry Congressional

Events

SM Supermalls

30th Anniversary Campaign

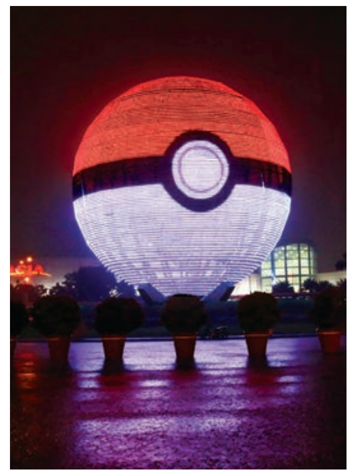
SM Supermalls reached another milestone as it celebrated 30 years of revolutionizing the shopping experience of Filipinos. Serving millions through the years, SM continues its brand promise of bringing the ultimate fun family mall experience to its patrons nationwide.

Viber Stickers Launch

The world's first partnership between Viber and a mall, #SMonViber featured fun shopping experiences through emotive stickers and a merchandise collection. The SM Supermalls Sticker Pack on Viber mobile app introduced shoppers to colorful ways to express their love for malling, dining, shopping, and chatting.

Grand Magical Christmas Parade

Shoppers were given a magical experience as hundreds of life-sized toy soldiers, teddy bears, ballerinas, Santa's elves, and other holiday icons toured the malls in the much-anticipated Grand Magical Christmas Parade.



Pokémon Go Nationwide Lure Party

Thousands of Pokémon fans gathered in SM Supermalls for the biggest Pokémon Go "Nationwide Lure Party" in the Philippines. The #GottaCatchEmAllAtSM Lure Party captured everyone's attention as it gave a unique twist to the mall experience. Photo shows the MOA Globe dressed-up as a gigantic Pokémon ball.

Hydro Summer Spree

Shoppers enjoyed the Giant Inflatable Hydro Maze, Slide, and Obstacles in SM City San Fernando Downtown, SM City Pampanga, and SM City Clark. The Hydro Summer Spree was part of the Pampanga Summer Bucketlist Campaign in North Luzon.

SM Seaside City Cebu Sky Park Launch

Sky Play by famous artist Kenneth Cobonpue, at SM Seaside City Cebu Sky Park, brought to life the colorful world of children's imaginations. The work aims to nurture a child's creative thoughts through the simple joys of outdoor play.

Events

Mall of Asia Arena

Madonna: Rebel Heart Tour

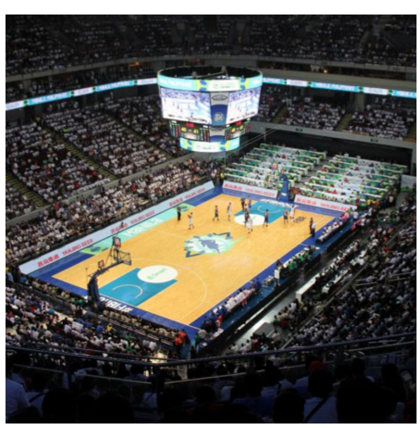
Over 20,000 fans witnessed the Queen of Pop Madonna as she performed in a two-day sold out show with her Rebel Heart Tour last February. This is also the first time that she visited and performed in the Philippines.

The Wonderful World of Disney On Ice

Disney on Ice moved to its new home at the Mall of Asia Arena. More than 120,000 people joined Mickey, Minnie, Donald, Goofy, and other Disney characters in the 18 shows throughout the holiday season.

FIBA Olympic Qualifying Tournament

Over 55,000 basketball fans trooped to the Mall of Asia Arena for the five-day tournament featuring top international teams, with France winning their Olympic Ticket in the Arena.

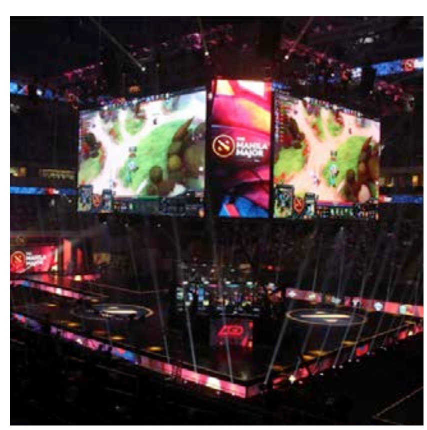


FIVB Women's Club World Championship

Over 30,000 volleyball fans witnessed the six-day championship tournament featuring top international women's volleyball teams. After 14 years from Manila's last hosting, FIVB returned to the city with its new home at the Mall of Asia Arena.

WWE Live

WWE Live returned to the Philippines after seven years to its new home at the Mall of Asia Arena. More than 10,000 fans cheered on to see favorite WWE Superstars in the three-hour spectacle.



The Manila Major

The Manila DOTA Major six-day tournament featured top teams of e-sports from all over the world and was shared through live streaming across 100 countries. Over 80,000 e-sports fans lined up and watched the 6-8 hour daily marathon.

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
Sangandaan
Cherry Shaw
Cherry Congressional
East Ortigas

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
Megacenter Cabanatuan
San Mateo
Cabanatuan
San Jose Del Monte
Trece Martires

Visayas

Cebu
Iloilo
Bacolod
Consolacion
Seaside Cebu

Mindanao

Davao
Cagayan de Oro
General Santos
Lanang

China
(In order of development)

Xiamen
Jinjiang
Chengdu
Suzhou
Chongqing
Zibo
Tianjin

Residences

Silk Residences, Chengdu China

Php25.4B
Revenue

Php7.1B
Operating Income

102,424
Residential Units
(since 2003)

Residences

Delivering Five-star Homes for A Better Tomorrow

In just 10 years, SMDC has established itself as one of the leading real estate companies in the country, and has consistently been number one in terms of volume of condominium units sold. The company has launched 29 condominium projects in prime locations in Metro Manila, Tagaytay City, and Bulacan; has sold more than 85,000 units in the Philippines and abroad; and turned over more than 50,000 units in 15 of SMDC's completed and ready-for-occupancy projects.

As the company celebrated its 10th year anniversary in 2016, this milestone was earmarked with successful launches of six new SMDC projects: Spring Residences in Bicutan, Parañaque; Coast Residences at Roxas Boulevard; S Residences and Shore 3 Residences in the MOA Complex; Vine Residences in Novaliches, Quezon City; and Cheer Residences in Marilao, Bulacan.

SMDC also turned over more than 11,000 units to enthusiastic homebuyers, looking forward to start living the StarLife in their new homes.

Given the significant year-on-year growth of SMDC's international market, the company launched its developments, and formally established SMDC's presence in relevant overseas markets like Dubai and Hong Kong through its signature SMDC Date Night events.

SMDC's entry in China's real estate industry was further emphasized in 2016, with the completion of the Silk Residences showroom in SM City Chengdu in China. This is a testament of the company's capability of building world-class developments, and the acceptance of its business model by the international market.

Vine Residences

Cheer Residences

This 2017 promises to be an even more exciting year for SMDC, as the company plans to introduce more mid-rise developments located within SM mall complexes across the country, providing more individuals the opportunity to own a home right beside prime lifestyle centers. SMDC will also launch a house and lot development, with its very own commercial establishment integrated into the community.

These developments will rise in growth areas outside of the metro like Rizal, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, and Bulacan. Together with the launches of new and expansion of existing projects in Metro Manila like Parañaque, Makati, the Mall of Asia Complex, Quezon City and Tagaytay City, SMDC will introduce approximately 15,000 to 18,000 residential units into the market. All of these projects are a testament to SMDC's commitment in making five-star homes attainable to more people.

The company's business goes beyond the construction of condominiums, it develops lifestyle cities that have happy, healthy, and thriving communities. These lifestyle cities include perfectly integrated commercial retail environment, giving its residents access to a truly cosmopolitan lifestyle.

In line with this, the company also mounted SMDC Run events this 2016 that brought together SMDC communities — its partners, employees, the general public, and also its unit owners to run as one. Another exciting event was the "10 Years of The Good Life, by The Good Guys," a concert held at the MOA Arena to celebrate the 10th year of SMDC, which delivered record-breaking sales. It was headlined by SMDC's endorsers James Reid, Nadine Lustre, Anne Curtis and Sarah Geronimo. Close to 5,000 guests attended the concert.

Coast Residences

Events

SM Development Corporation

SMDC Run 2016

Both casual and professional runners who are SMDC homeowners, partners, employees, and the general public, joined the 5K, 10K, and 21K races of the 1st and 2nd leg of the SMDC Run. The run's objective was to promote a happy and healthy lifestyle.

SMDC 10th Year Anniversary

SMDC ambassadors Anne Curtis, Sarah Geronimo, James Reid and Nadine Lustre, are joined by SMDC Executives on stage at the SMDC 10th Year Anniversary Concert. Thousands of guests attended the dinner concert event at the Mall of Asia Arena.

Live the Starlife with Sarah G.

SMDC Brand Ambassador, Sarah Geronimo, serenaded guests during the SMDC project launches in Dubai and HongKong. Overseas Filipino Workers who attended the dinner concert were delighted to see the "Popstar Princess" perform live in the exclusive shows.

SMDC Date Night Presents: Vice Ganda!

The phenomenal box office comedian and TV host Vice Ganda entertained SMDC guests in a fun and exciting musical comedy show at the SMX Convention Center in Mall of Asia Complex. The star attracted hundreds of guests in this spectacular SMDC Date Night event that delivered record-breaking sales.

Spring Residences Groundbreaking

SMDC executives, consultants, and technical partners attended the groundbreaking event for SMDC's new residential development, Spring Residences near SM City Bicutan in Parañaque. The development offers a fresh take on the modern, elegant, urban lifestyle.

Events

Costa Del Hamilo, Inc. & Highlands Prime, Inc.

Hamilo Coast Reef Check

Hamilo Coast conducts monthly regular monitoring of its coral reefs. The company's own Sustainability Team, along with volunteer divers, check the health of coral reefs and other underwater life at the Santelmo Cove, Hamilo Coast's main marine sanctuary.

Hamilo Coast Annual Coastal Cleanup

Hamilo Coast and WWF Philippines led the annual International Coastal Cleanup celebration with an underwater dive cleanup of Hamilo Coast's Santelmo Cove. This year, WWF Ambassadors Marc Nelson and Rovilson Fernandez, together with the WWF-Hamilo Team joined the activity.

Pico de Loro Cove Annual Coastal Cleanup

Hamilo Coast employees and other volunteer groups took part in environmental stewardship as they participated in the annual coastal cleanup at Pico de Loro Cove. Participants conducted shore cleanups as a way to inspire Filipinos to turn the tide on marine pollution.

Livelihood Training Program

Highlands Prime Inc., in partnership with Belle Kaagapay and SM Foundation, support local farmers from neighboring barangays through a livelihood training program. The program teaches sustainable farming technologies, as well as marketing and selling techniques.

Christmas Gift-Giving Party

Highlands Prime Inc., together with Belle Corporation's community relations arm, organized a Christmas gift-giving party to the students of Brgy. Calabuso, a local community near Tagaytay Highlands. Kids who participated enjoyed the activities in the event.

Residential Projects

(In order of development)

SM Development Corporation

Metro Manila

Chateau Elysee
Mezza
Berkeley
Grass
Sea
Field
Princeton
Sun
Jazz
Light
Blue
M Place at South Triangle
Shine
Mezza II
Green
Shell
Breeze
Grace
Shore
South
Trees
Air
Fame
Coast
Spring
S
Vine

Luzon

Wind
Cheer

Highlands Prime, Inc.

Luzon

Pueblo Real
Woodlands Point
(Phase 1 and 2)
Hillside
Horizon
Vireya
Woodridge Place (Linden Building)
Aspenhills
Woodridge Place (Mahogany Building)
Sierra Lago

Costa Del Hamilo, Inc.

Luzon

Carola
Jacana
Miranda
Myna

Offices

ThreeE-ComCenter

Php2.7B
Revenue

Php2.1B
Operating Income

0.4M sqm
Gross Floor Area

Prime Office Buildings Built for Global Standards

FiveE-ComCenter

SM Prime's Commercial Properties Group (CPG) continues to revolutionize the commercial office segment by delivering trailblazing architecture that meets global standards.

With strong demand from various industries fueling the growth of the country's economy, SM Prime has continued to provide more master planned developments to match the growing demand for office space in the country.

More than the buildings' prime locations, competitive rates, and world-class features, SM Prime successfully carved a distinct niche in the commercial offices sector for being part of the integrated and progressively growing "lifestyle city" of Mall of Asia.

For 2016, SM Prime continues to complete its ThreeE-ComCenter, the company's first Pre-LEED Gold Certified office building equipped with world-class green features fresh on the heels of FiveE-ComCenter's successful launch last 2015. Designed to provide the growing demand for office space from the outsourcing industry as well as shipping, logistics, and other businesses, ThreeE-ComCenter features a stunning semi-circular twin towers and sustainable features, such as the 100 percent use of LED lighting, gray water recycling, and the placement of bike racks which encourages sustainable commuting. These add up to the series of Mall of Asia Complex eco-friendly amenities and structures.

ThreeE-ComCenter is designed by Miami-based architectural firm, Arquitectonica — the same company behind the award-winning TwoE-Com and FiveE-Com Centers.

Additional building spaces will also be provided by FourE-ComCenter, which broke ground in 2016, with its 129,436 sqm GFA, and the SixE-ComCenter, which is included in the pipeline of Commercial Properties Group's projects.

FourE-ComCenter

Energy efficiency, Sustainability features, emphasized

In 2016, SM Prime's office buildings were given recognition in the Don Emilio Abello Energy Efficiency Awards for their energy and conservation programs. This includes Hall of Fame and Outstanding awards for SM Cyber Makati One, and a Special Award for SM Cyber Makati Two.

Energy-efficiency has always been a core component of developments pursued by SM Prime. This 2016, its exploration of properties equipped with green features has enabled the Commercial Properties Group to save 773,878 kWh with its energy efficiency programs.

With the continuous completion of office buildings in the Mall of Asia Complex, SM Prime keeps on innovating sustainable water conservation techniques and waste management strategies all throughout its properties.

Hotels & Convention Centers

Conrad Hotel

Php3.2B
Revenue

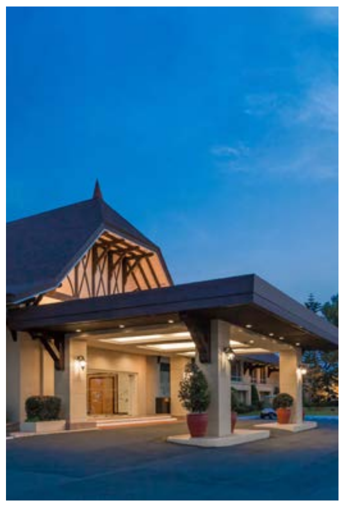
Php0.5B
Operating Income

1,510
Hotel Rooms

Events
Hotels

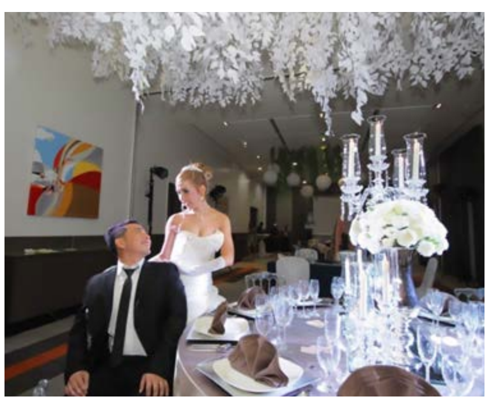
Taal Vista Hotel Four-star Accreditation

Taal Vista Hotel received a four-star accreditation from the Department of Tourism. The Star Ratings system is based on the new set of accreditation standards for hotels, resorts, and apartment hotels in accordance with the Tourism Act of 2009.



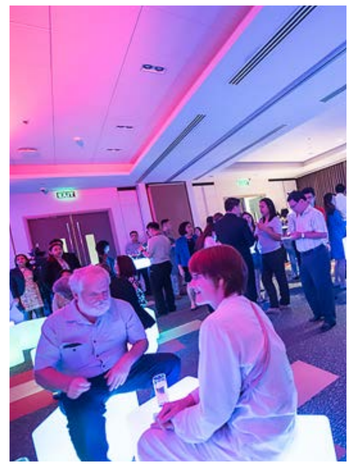
Bigger events at Park Inn by Radisson Davao

Park Inn by Radisson Davao launched a bigger space for guests' event requirements. The launch was attended by corporate clients, media, and in-house guests. The program started with live dioramas portraying a wedding, debut, meeting, and a birthday party.



Something Blu Bridal Fair

Radisson Blu Cebu hosted a two-day bridal fair at SM City Cebu. Fifty well-known names in the wedding industry came together in the event. Radisson Blu Cebu successfully closed 33 weddings with over Php8.6 million in revenue.



Park Inn by Radisson Clark celebrates its 1st Year

Park Inn by Radisson Clark celebrated its 1st Year Anniversary in an evening of fun attended by personalities from the local and national scene. The celebration highlighted the hotel's feats in its first year of operation, including being one of the leading hotels in the province.

Conrad Manila opens to the public

The inspired luxury of Conrad Hotels & Resorts makes its debut in the Philippines with the opening of Conrad Manila. The 347-room Conrad Manila is located at the forefront of the Mall of Asia complex, in the heart of the 42-hectare Bay City development.

Reef Strokes event at Pico de Loro Cove

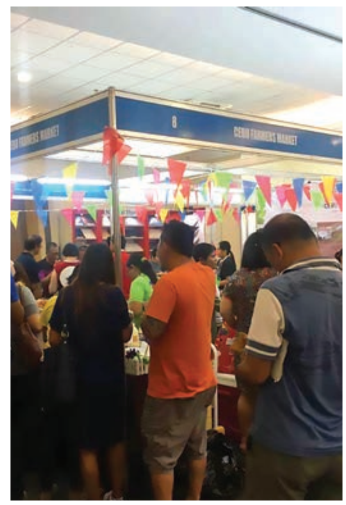
Top Filipino open water swimmers traversed the coastlines of Hamilo Coast, the apex of the Verde Island Passage, to raise awareness about ocean conservation. The Verde Island Passage forms part of the global Coral Triangle, the world's center of marine biodiversity.

Events

SMX

2016 Routes Asia at SMX Manila

SMX Convention Center Manila was the proud venue partner of the 2016 Routes Asia. Routes Asia is the largest aviation event for the Asia-Pacific region, bringing together a range of airlines, airports and tourism authorities, including some of the largest carriers from the whole Asian region.



World Food Expo at SMX Manila

The World Food Expo (WOFEX) is the biggest food exhibition in the Philippines. The event featured a food exhibition that was participated by international exhibitors, The Philippine Culinary Cup competition, baking and cooking demos, and technical and business seminars.

World Travel Expo at SMX Manila

The World Travel Expo (Travex) was held at the SMX Convention Center in Manila. It aims to be the marketing platform for the travel industry and become a medium between the international tour operators, airline companies, and travel authorities.

Power Mac Expo 2016 at Megatrade Hall

Power Mac held its 22nd anniversary sale at the SM Megatrade Hall. The event showcased deals from partner brands, provided free training on different topics specific to Mac apps, and offered free cleaning and consultation from Apple Authorized Service Provider.

Sky Hall Cebu launch

Located at the third level of SM Seaside City Cebu, the Sky Hall Cebu officially launched in October 2016. Managed and operated by the SMX Convention Center, the 1,856 square meters Sky Hall is a premier venue for special occasions such as birthdays, weddings, exhibitions and conventions.

Hotels and Convention Centers

Caring for the Environment

Pico Sands Hotel

SM Hotels and Conventions Corporation (SMHCC) is committed to lead the industry in minimizing the impact of its activities on the environment. It recognizes the growing importance of ecologically-sound business practices to support business growth, while at the same time preserving and protecting the natural resources.

To support this, most SMHCC properties are already implementing measures that cut its energy usage, save water, and reduce waste, with other properties following suit.

Constructing more sustainable buildings

Green initiatives promoted by the Philippine Green Building Council (PHILGBC), an organization that encourages the sharing of knowledge on green building practices, are implemented in all SMHCC properties.

All-glass structures allow natural light to come in. Motion sensors ensure that the escalators, toilets, faucets, are only turned on when in use. Occupancy sensors automatically switch-off lights and reduce ventilation rate in unoccupied rooms. Light Emitting Diodes or LEDs are used for lighting fixtures for energy efficiency.

Reducing footprint

Most restaurants use organic herb and vegetables from gardens when serving greens. Recycled water is used in watering gardens and flushing for bathrooms. Low-flow bathroom fixtures reduce the amount of water used.

Supporting conservation initiatives

SMHCC properties comply with all relevant laws that support the environment. It promotes reduce, reuse, and recycle internally and amongst its customers, and also encourages its suppliers to adopt this principle.

The staff also help drive its commitment on caring for the environment. Properties implement a training program for its staff to raise awareness of environmental issues, and enlist their support in improving the Company's performance.

In the long run, SMHCC properties aim to use energy as efficiently as is practicable, reduce pollution that energy consumption causes, and reduce its dependence on fossil fuels with onsite and renewable energy, where possible.

These efforts support not just the company, its employees, but also the community and the environment. SMHCC is committed to environmental stewardship, to ensure that future generations can experience diverse getaways and cultural destinations in the country.

Park Inn by Radisson Davao

Sustainability Report

Pico de Loro Residential Developments

To access the full **SM Prime Sustainability Report** scan the QR code or go to https://goo.gl/q0OZz6

Sustainability Report Summary

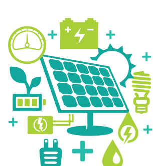
Economic Impact

At the core of SM Prime's Sustainability framework is economic value, which is realized by putting special attention to the different aspects of its businesses, and in turn creates ripples that are seen and felt in its positive economic, environmental, and social impacts.

Economic Value Generated, Distributed, and Retained	Value in Millions of Pesos		
	Total	Philippines	China
Direct Economic Value Generated	81,402	76,877	4,525
Revenues	81,402	76,877	4,525
Economic Value Distributed	63,391	58,510	4,881
Operating Costs	36,122	34,339	1,783
Employee wages and benefits	5,965	5,233	732
Payments to providers of capital	11,052	10,036	1,016
Payments to government (PH)	8,788	8,788	0
Payments to government (CN)	1,350	0	1,350
Economic Value Retained	18,011	18,367	(356)
Community Investments	114	114	0

Environmental Impact

In order to optimize efficiency, SM Prime constantly observes resource consumption and regularly audits its operations to identify areas for improvement. Through this, the Company ensures its commitment to preserving the environment in the long term. Continuous innovation and improvement has led to the company's savings in energy consumption for new and existing properties. SM Prime continuously optimizes its operational efficiency by implementing innovations and strategies in sustainability.



5,837MWh
Renewable Energy Generated

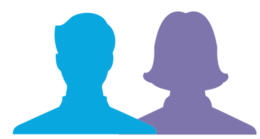
33%
Potable Water is reused for Cooling towers and Restrooms

1.38M Kgs
Waste Recycled

18,452
Seven-year old trees saved from Recycling Initiatives

Our People

SM Prime understands the importance of programs that support each employee's holistic development. The growth of the company translates in the increase of jobs especially for local communities where these new projects are located. The total employee headcount of SM Prime is 11,242. The bulk of the workforce is employed by Shopping Center Management Corporation (SCMC), the management company in-charge of the overall operation and administration of all malls, at 71% or 7,962 employees.



40% Male

60% Female

403,700
Total Training Hours

11,242
Total Employees

Our Community

Through the SM Foundation, and its corporate social responsibility arm, SM Cares, the company is dedicated to improve the quality of lives of the Filipinos. SM Prime understands the responsibility as one of the leading property developers in the country and the impact their projects have on the local communities. The CSR programs of SM Prime are aligned with the 17 Sustainable Development Goals and the Sendai Framework for Disaster Risk Reduction to ensure development and resiliency in the communities we operate in.

Feature Story

Mall of Asia (MOA) Complex

MOA Complex has incorporated various disaster resiliency measures to help cope with the shocks and stresses associated with climate change.

Feature Story

Building for Resilience: Mall of Asia Complex

Over the past decades, SM Prime has incorporated various disaster resiliency measures in its lifestyle cities. The Mall of Asia (MOA) Complex, one of SM Prime's biggest investments, was planned with resiliency in mind. It is situated on 1,727,000 sqm of reclaimed land, and was designed for the future of the business and its community.

SM Prime worked with a team of local and international specialists to assess the suitability of reclaimed land, ensure the fullest level of safety for everyone involved, and plan the next steps in the development of the complex. It was then developed by Jan de Nul Construction, a renowned and experienced land developer from the Netherlands.

Throughout the complex, the thorough planning efforts can be observed through the special considerations that were taken to anticipate soil consolidation and to minimize the effects of flooding during storm or extreme tides. These include:

1 Strengthening the land

Wick drains, also called strips or pre-fabricated vertical drains, are installed in the whole reclamation. These help speed up pre-construction soil consolidation. It drives water out of the layer underneath the uppermost layer and increases the strength of the soil so it can hold the structures built upon it. This feature is not required by the Philippine Reclamation Authority and the National Government, but it was added to strengthen the land and make the roads resilient to seismic events and erosion.

2 Protecting the complex from tides and waves

A three kilometer seawall stretches throughout the complex. Its design has three disaster resiliency features in itself.

Seawall Foundation

The seawall's foundation is deeply-rooted on the sea floor and can stand to a competent bearing capacity. In most areas, approximately eight meters of muck and silt were excavated before the seawall construction started. This method is more costly than laying a geotextile

blanket and leaving the muck in place, but it provides a greater degree of protection against liquefaction, where the soil loses its strength and stiffness, and subsequent failure of structures during a seismic event.

Wave Return

On top of the seawall dike is a meter-high inverted L-shaped wave return, giving waves a +4.00 Mean Lower Low Water (MLLW) level rating. This means that waves are prevented from toppling over the seawall during high waves or storm surges.

Drainage Channel

The drainage channel is located on the other side of the seawall on the road level at +3.00 MLLW. This drainage channel is a line of defense against waves that make it through the wave return. The water enters the drainage channel and passes through the pipe back to Manila Bay.

The wave return and drainage channel collectively prevent flooding due to storm surges and high waves in the MOA complex.

3 Elevation Levels

The main road of the complex is constructed +3.00 meters MLLW. All structures in the Mall of Asia Complex are +1.50 meters MLLW above the National Building Code. In total, the Mall of Asia and other structures are constructed +4.5 meters MLLW. These design considerations were also included in the building of the mall, where the foundation is reinforced by pilings that were driven down to improve its soil bearing capacity.

As a result of all these considerations, structures in the MOA Complex have withstood major material damages from effects of disaster which include flooding and strong winds, during typhoons and earthquakes.

SM Prime's commitment on disaster resilience is part of its core business strategy. The MOA Complex is a testament that investments in disaster resilience is not an additional expense, but is crucial to a project's success. Now a flourishing lifestyle city, the complex enriches the way people live, work, and play in this community.

SM Cares

Special Movie Screening for the Blind and Deaf

This Special screening gives the deaf and blind the chance to watch movies. An audio-descriptive movie allows descriptions to narrate what is happening. This makes it easy for the blind to understand the scenes. For the deaf, subtitles are placed so they can read the dialogue and musical score in scenes.

Global Youth Summit

The Global Youth Summit is an event by the Global Peace Foundation, SM Cares and AIESEC. It brings together youth leaders from the Philippines and abroad, showcasing their leadership potentials. Inspirational speakers provide motivation during the summit.

SM Cares Housing Project for Yolanda Survivors

The SM Cares Housing project completed the construction of 1,000 disaster-resilient homes. The villages completed in 2016 are located in Tacloban City with 400 units and Ormoc City with 200 units. The houses are given for free.

National Seafarer's and International Day of the Seafarer

SM Global Pinoy, together with MARINA, the Apostleship of the Sea and the Philippine Ports Authority celebrated two big events for the OFW and the Filipino Seafarer: **The International Day of the Seafarers** held in June and the **National Day of the Seafarer** held in September to advocate OFW welfare, encourage more seafarers and provide better opportunities.

Disaster Conference for PWDs and Senior Citizens

SM Cares, MMDA and PHIVOLCS held the 2nd Disaster Conference, providing information about potential earthquake scenarios, making PWDs and Senior Citizens better prepared for calamities.

SM Cares

Breastfeeding Month Celebration

Nursing mothers gathered for a simultaneous breastfeeding called **"The Big Latch On,"** in celebration of the National Breastfeeding Month. The event reiterated SM's policy to allow mothers to feed anywhere in the mall.

1M Pencils Campaign

In celebration of the National Children's Month, the Council for the Welfare of Children, SM Cares and AMSPEC targeted to raise one million pencils. The project, fully supported by DepEd and DSWD, raised 3,357,521 pencils for distribution to various provinces across the country.

Walk For Life for Senior Citizens

The SM Cares Program on Senior Citizens, together with the Department of Health and the Department of Social Welfare and Development celebrated the annual **Elderly Filipino Week** with the **"Walk for Life"** event, held across 11 SM Supermalls. The activity aimed to increase public awareness on various issues that affect the elderly sector.

Thanksgiving Dinner for the Donors of the SM Cares Housing Project

Donors of the SM Cares Housing Project for Yolanda survivors were given a Thanksgiving Dinner at the Conrad Manila. This was SM's way of showing appreciation for their support to the project.

The SM Bears of Joy Buy 1, Give 1 Charity Project

The annual SM Bears of Joy project allows our customers to buy a bear and share another. The project was able to raise 28,000 bears and shared with children in different communities.

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.

On February 20, 2017, the Board approved the revision of its Manual on Corporate Governance to align with the SEC issued circular promulgating the Revised Code of Corporate Governance for Publicly Listed Companies effective 01 January 2017. The new Code aims to increase the responsibilities of the Board, strengthen the protection of minority shareholders, and increase transparency in both financial and non-financial reporting.

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 formulate and ensure the achievement of the Company's vision and mission in a manner that upholds the values of focus, hard work, innovation, integrity, teamwork and sustainability.

Board Committees are set up to assist the Board in the performance of its functions particularly, with respect to audit, risk management, related party transactions and governance. The Board, through the work performed by its Committees, is of the opinion that the Company's systems of internal control and risk management are adequate and effective to address the financial, operational and compliance risks. The composition, duties and responsibilities of all Committees are publicly available in the corporate website.

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.

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

Board Composition

Director's Name	Directorship	Age	Date First Elected	Elected When (Annual/Special Meeting)	No. of Years as Director
Henry Sy, Sr.	Chairman Emeritus	92	April 1994	Annual	23
Jose L. Cuisia, Jr.	Lead Independent	72	April 1994	Annual	23
Gregorio U. Kilayko	Independent	61	April 2008	Annual	9
Joselito H. Sibayan	Independent	58	April 2011	Annual	6
Henry T. Sy, Jr.	Non-Executive	63	April 1994	Annual	23
Hans T. Sy	Non-Executive	61	April 1994	Annual	23
Herbert T. Sy	Non-Executive	60	April 1994	Annual	23
Jorge T. Mendiola	Non-Executive	57	December 2012	Annual	4
Jeffrey C. Lim*	Executive	55	April 2016	Annual	0

*On August 1, 2016, the Board has approved the appointment of Mr. Jeffrey C. Lim as President effective October 1, 2016, replacing Mr. Hans T. Sy. Mr Hans T. Sy continues to be involved in the Company's overall strategic direction as Director and Chairman of the Executive Committee.

Board Independence

The Board is composed of three independent directors that possess all the necessary qualifications and none of the disqualifications to hold the position. In February 2017, the Board also appointed Mr. Jose L. Cuisia, Jr. as the lead independent director primarily to reinforce proper mechanisms for disclosure, protection of the rights of shareholders, equitable treatment of shareholders, and the accountability of the Board and Management, in cases where Management has clear conflicts of interest. Directors with material interest in any transaction with the Company are also expected to abstain from deliberation of the same.

Board Diversity

The Board has adopted a board diversity policy which aims to create and maintain an atmosphere of constructive challenge and debate, requiring the right balance of skills, competence, experience, and perspectives among the Directors. Diversity at the Board level is an essential element of sound corporate governance, sustainable and balanced development, and effective business strategy. Diversity may refer to age, ethnicity, culture, skills, competence, knowledge, gender, among other things, in consideration of the selection of the Board's composition.

Board Performance and Attendance

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 makes certain that the meeting agenda focuses on strategic matters 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 Directors to study items for discussion and decision-making.

The Board of Directors had six (6) regular meetings in 2016 on the following dates: February 22, April 12, May 2, August 1, November 7 and December 5. All six meetings registered 100% attendance 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 Training and Orientation

SM Prime ensures that Directors are able to perform their functions effectively in this rapidly changing environment to cope with heightened regulatory requirements, foreign or local demands and growing complexity of business. Orientation programs are conducted for first-time Directors to ensure that they are appropriately apprised of their duties and responsibilities. This includes overview of the Company's operations, Code of Conduct, Corporate Governance framework and other relevant topics essential in the performance of their functions.

As a matter of continuous professional education, the Corporate Governance Committee facilitates the training opportunities provided by accredited or duly recognized institutions to update and refresh the Board's knowledge and skills. On August 3 and November 2, 2016, all Directors, including the Corporate Secretary and key officers, have attended the Annual Corporate Governance Training Program organized by the Institute of Corporate Directors (ICD). The program covers such topics as strategic IT governance; fraud, whistleblowing, anti-bribery and anti-corruption; and financial reporting.

Board Committees

The Board has established five (5) 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, structures and other relevant information.

BOARD COMMITTEES		
EXECUTIVE COMMITTEE		
MEMBERS	DESIGNATION	DIRECTORSHIP
Hans T. Sy	Chairman	Non-Executive
Henry T. Sy, Jr.	Member	Non-Executive
Jeffrey C. Lim	Member	Executive
Herbert T. Sy	Member	Non-Executive
Elizabeth T. Sy	Member	Non-Director
John Nai Peng C. Ong	Member	Non-Director

AUDIT COMMITTEE			**RISK OVERSIGHT COMMITTEE**		
MEMBERS	DESIGNATION	DIRECTORSHIP	MEMBERS	DESIGNATION	DIRECTORSHIP
Jose L. Cuisia, Jr.	Chairman	Independent	Gregorio U. Kilayko	Chairman	Independent
Joselito H. Sibayan	Member	Independent	Jose L. Cuisia, Jr.	Member	Independent
Jorge T. Mendiola	Member	Non-Executive	Jorge T. Mendiola	Member	Non-Executive
CORPORATE GOVERNANCE*			**RELATED PARTY TRANSACTIONS COMMITTEE**		
MEMBERS	DESIGNATION	DIRECTORSHIP	MEMBERS	DESIGNATION	DIRECTORSHIP
Joselito H. Sibayan	Chairman	Independent	Joselito H. Sibayan	Chairman	Independent
Gregorio U. Kilayko	Member	Independent	Gregorio U. Kilayko	Member	Independent
Jose L. Cuisia, Jr.	Member	Independent	Jorge T. Mendiola	Member	Non-Executive

*The Board of Directors approved on February 20, 2017 the creation of Corporate Governance Committee. This Committee assumed the functions of the Nomination Committee and Compensation and Remuneration Committee.

A. 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.

B. The Audit Committee

The Audit Committee assists and advises the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's accounting, financial reporting, auditing practices, risk management and internal control systems and adherence to over-all corporate governance best practice. The Committee also oversees the Company's process for monitoring compliance with laws, regulations, the Code of Ethics, and performs other duties as the Board may require. The Committee met four (4) times in 2016, with 100% attendance in all meetings.

C. The Risk Oversight Committee

The Risk Oversight Committee oversees the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. This Committee assists the Board in ensuring that there is an effective and integrated risk management process in place. The Committee had four (4) meetings in 2016, with 100% attendance in all meetings.

D. The Corporate Governance Committee

The Corporate Governance Committee assists the Board in the performance of its corporate governance responsibilities, including functions that were formerly assigned to the Nomination and Compensation and Remuneration Committees. The Committee believes that prudent and effective corporate governance practices constitute the foundation of the Company's strength and long-term existence to enhance and maximize long-term shareholder's value. The Committee met twice in 2016, with 100% attendance in both meetings.

E. The Related Party Transactions Committee

The Related Party Transactions Committee reviews all material related party transactions (RPTs) of the Company. The mandate for this Committee specifically includes the evaluation of the RPTs to ensure that these are undertaken upon terms not less favourable to the Company than those offered to any unaffiliated third party under the same or similar circumstances and overseeing the implementation and regular review of the related party policy. The Committee met twice in 2016, with 100% attendance in both meetings.

Board Remuneration

The Company 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 regularly in the annual report filed with the Securities and Exchange Commission.

Board Evaluation

Annually, the Corporate Governance 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 and Board Committee 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 trainings, continuing education programs or any other forms of assistance that the directors may need in the performance of their duties. The evaluation forms also include support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or Committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. Every three years, the Board evaluation is supported by an external facilitator.

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 Corporate Governance Committee in the assessment of potential candidates for the next election of the Board of Directors.

Corporate Governance Related Policies

Manual on Corporate Governance

SM Prime has complied with the SEC Code of Corporate Governance as embodied in its Revised Manual on Corporate Governance adopted on 20 February 2017. It institutionalizes the principles of good corporate governance by clearly defining the roles and responsibilities of the Board of Directors and Management, promoting disclosure and transparency, strengthening the internal control system and risk management framework and cultivating a synergic relationship with various stakeholders.

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.

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:

Insider Trading Policy

Directors and concerned 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 in accordance with the RPT Policy, to ensure these are conducted at arms' length.

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, interest in businesses of competitors, participation in other organization or activities and close personal relationships in the Company or its affiliates and subsidiaries. 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 and Travel Sponsored by Business Partners (Anti-Corruption Policy)

The Company prohibits the solicitation or acceptance of gifts and travel 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.

Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)

The Company aims to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Any Director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable policy, law or regulation. The policy provides for a conduct of investigation of the incident report. The policy also includes provisions for non-retaliation against the filer of the incident report. Upon receipt of the incident report, Management conducts an investigation on its merit, subject to due process, and impose applicable penalties and sanctions thereafter.

Creditors' Rights

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

Supplier Selection

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

Communication and Compliance

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

Disclosure and Transparency

SM Prime is committed to providing its stockholders and the public, timely and accurate information about the Company and its business. In accordance with this, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate Corporate Governance section that features, among others, the Revised Manual on Corporate Governance, Code of Ethics and other relevant policies, programs and important information. SM Prime also publishes a separate Environmental, Social and Corporate Governance Report, which highlights its policies and programs on corporate governance, social responsibility and environmental sustainability, among others.

Moreover, the Investor Relations Department is tasked with a program of proactive, uniform and appropriate communication through full disclosure in compliance with the regulatory bodies and serves as the main avenue of communication between the Company and its various stakeholders. 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.

Rights, Roles and Protection of Stakeholders

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

Rights of Shareholders

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

Inspection Right and Access to Information - All stockholders are given the right to inspect corporate books and records in accordance with the Corporation Code of the Philippines and be furnished with copies of the Company's Annual Report and financial statements. Stockholders may also request the Company to provide periodic reports about its directors and officers, as well as matters for which Management is accountable. Moreover, minority shareholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.

Right to Dividend - The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs and debt servicing requirements. The Company's dividend policy is to declare annual cash dividends equivalent to 30%-35% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within thirty (30) days from the date of declaration.

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.

Employee Welfare

All officers and employees are to be selected, engaged, and compensated based on qualification and performance. Employees are treated fairly and accorded with respect and dignity. The Company ensures that individual and collective rights are not violated. The Company also maintains a safe, productive and conducive workplace and complies with all applicable health, safety and environmental laws. In this regard, company employees are covered by rules against the use of prohibited drugs and working under the influence of liquor. Opportunities for career advancement are provided based on clear performance and qualifications criteria.

Business Continuity

The Company ensures that risk management and control structures and procedures are in place to safeguard its workforce, operations and customers against emergencies and natural and man-made disasters which includes the implementation of Business Continuity Management System (BCMS). The BCMS aims to maintain the reputation, meet the commitments, and ensure the continued operation of the organization especially the critical business functions with even greater speed, skill and confidence by effectively providing a framework in identifying the potential business threats, their impacts to the organization and implementing appropriate controls.

Training and Employee Development

The Company provides learning and development opportunities regularly for professional growth, covering topics such as Supervisory Development Skills, Coaching for Performance, Code of Ethics, and other values and leadership related programs.

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

Teresa Cecilia H. Reyes
Vice President - Enterprise Risk Management
and Corporate Governance
10th Floor, Mall of Asia Arena Annex Building, Coral Way,
Mall of Asia Complex, Pasay City, Philippines
E: corpgovernance@smprime.com

Board of Directors

From left standing: **Mr. Jeffrey C. Lim,** Director and President; **Mr. Jorge T. Mendiola,** Director; **Mr. Herbert T. Sy,** Director; and **Mr. Jose L. Cuisia, Jr.,** Vice Chairman and Lead Independent Director

Seated: **Mr. Henry Sy, Sr.,** Chairman Emeritus

Board Committees

Audit Committee

Jose L. Cuisia, Jr.	Chairman	Independent
Joselito H. Sibayan	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

Risk Oversight Committee

Gregorio U. Kilayko	Chairman	Independent
Jose L. Cuisia, Jr.	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

Corporate Governance*

Joselito H. Sibayan	Chairman	Independent
Gregorio U. Kilayko	Member	Independent
Jose L. Cuisia, Jr.	Member	Independent

*The Board of Directors approved on February 20, 2017 the creation of Corporate Governance Committee. This Committee assumed the functions of the Nomination Committee and Compensation and Remuneration Committee.

From left standing: **Mr. Gregorio U. Kilayko,** Independent Director; **Mr. Joselito H. Sibayan,** Independent Director; and **Mr. Hans T. Sy,** Director and Chairman of the Executive Committee

Seated: **Mr. Henry T. Sy, Jr.,** Chairman of the Board

Board Committees

Related Party Transactions Committee

Joselito H. Sibayan	Chairman	Independent
Gregorio U. Kilayko	Member	Independent
Jorge T. Mendiola	Member	Non-Executive

Executive Committee

Hans T. Sy	Chairman	Non-Executive
Henry T. Sy, Jr.	Member	Non-Executive
Jeffrey C. Lim	Member	Executive
Herbert T. Sy	Member	Non-Executive
Elizabeth T. Sy	Member	Non-Director
John Nai Peng C. Ong	Member	Non-Director

Board of Directors

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

MR. HENRY T. SY, JR.
Chairman
Mr. Henry T. Sy, Jr. has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is Vice Chairman of SMIC, Chairman and Chief Executive Officer of SM Development Corporation (SMDC), Chairman 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. JOSE L. CUISIA, JR.
Vice Chairman and Lead Independent Director
Mr. Jose L. Cuisia, Jr. has served as Vice Chairman of the Board of Directors of SMPH since 1994. He was appointed Lead Independent Director in February 2017. From 2011 to 2016, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company from 1993 to 2009. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He was also the former Chairman of the Board of Far East Bank and Trust Co. and Union Bank and President of Insular Bank of Asia & America. He graduated with a Bachelor's Degree in Commerce, Major in Accounting and Bachelor of Arts, Major in Social Sciences from De La Salle University and took his MBA at the prestigious Wharton School of the University of Pennsylvania. He was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011 and was conferred the Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015 and the Order of the Sikatuna with the rank of Grand Cross by President Benigno Aquino III in 2016.

MR. HANS T. SY
Director
Mr. Hans T. Sy is the Chairman of the Executive Committee of SM Prime and has been a Director since 1994. He previously held the position of President until September 2016. He has held key positions in businesses related to banking, real estate development, mall operations, as well as leisure and entertainment. In the SM Group, his other current positions include Adviser to the Board of SM Investments Corporation, Chairman of China Banking Corporation and Chairman of National University. Mr. Sy is a B.S. Mechanical Engineering Graduate of De La Salle University.

MR. GREGORIO U. KILAYKO
Independent Director
Mr. Gregorio U. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. He took his MBA at the Wharton School of the University of Pennsylvania. He was elected as an Independent Director in 2008.

MR. JOSELITO H. SIBAYAN
Independent Director
Mr. Joselito H. Sibayan has spent the past 29 years of his career in investment banking. From 1987 to 1994, and after taking his MBA from University of California in Los Angeles, he was Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman of Investment Banking - Philippines and Country Manager of Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director of SMPH in 2011.

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

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

MR. JEFFREY C. LIM
Director
Mr. Jeffrey C. Lim assumed presidency of SM Prime starting October 2016 and is a member of its Executive Committee, as well as the President of SMDC. He was elected to the Board of Directors of SM Prime in April 2016. He is also a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SMPH's subsidiaries. He is a member of the Management Board of the Asia Pacific Real Estate Association. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company in 1994, he worked for a multi-national company and SGV & Co.

Corporate Executives

From left: **Mr. Hans T. Sy,** Chairman of the Executive Committee; **Mr. Jeffrey C. Lim,** President; and **Mr. Henry Sy, Jr.,** Chairman of the Board

Henry Sy, Sr.
Chairman Emeritus

Henry T. Sy, Jr.
Chairman

Jeffrey C. Lim
President

John Nai Peng C. Ong
Chief Finance Officer and Compliance Officer

Christopher S. Bautista
Vice President - Internal Audit

Anna Maria S. Garcia
Head, Malls

Jose Mari H. Banzon
Head, Residential (Primary)

Shirley C. Ong
Head, Residential (Leisure)

Russel T. Sy
Head, Commercial

Ma. Luisa E. Angeles
Head, Hotels and Convention Centers

Elmer B. Serrano
Corporate Secretary

Marianne M. Guerrero
Assistant Corporate Secretary

Awards and Accolades

SM PRIME

Institutional Investors' Governance Awardee, 2016 Investors' Forum

Asia's Icon on Corporate Governance, Corporate Governance Asia Annual Recognition Awards 2016

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

Best Investor Relations Company, 6th Asian Excellence Awards 2016

Platinum Awardee - Excellence in Governance, The Asset Corporate Awards Corporate Social Responsibility and Investor Relations

Asia's Best Chief Executive Officer (Investor Relations), 6th Asian Excellence Awards 2016
Hans T. Sy

Asia's Best Chief Finance Officer (Investor Relations), 6th Asian Excellence Awards 2016
Jeffrey C. Lim

MOA ARENA

Best Venue Experience — Silver Award, Marketing Magazine

SM MALLS

Gold Award - Marketing Excellence for Emerging Digital Technology, ICSC - Asia Pacific Shopping Center Awards
SM Supermalls -
Download & Win Mobile App

Silver Award - Marketing Excellence for Sales Promotion, ICSC - Asia Pacific Shopping Center Awards
SM Supermalls -
Feb 30th Anniversary Sale

Silver Award - Marketing Excellence for Business to Business, ICSC - Asia Pacific Shopping Center Awards
SM Supermalls -
"Bricks Click" Partners Summit

Silver Award - Marketing Excellence for Public Relations and Events, ICSC - Asia Pacific Shopping Center Awards
SM Supermalls - "Floral Tiles Christmas@SM Lifestyle Center" project

Brand of the Year Award, World Branding Awards
SM Supermalls

Gold Award, International Council of Shopping Centers
SM Supermalls

Certificate of Merit - "Green Vision: The SM Mission" campaign, ICSC Foundation
SM City Baliwag
SM City Marilao

Most Popular Shopping Center, 2016 Xiamen New Business Landmark Awards
SM City Xiamen

Most Stylish High-class Shopping Center, 2016 Xiamen New Business Landmark Awards
Xiamen Lifestyle Center

Special Commendation (Commercial — Retail), Healthy Places Awards 2016 - ULI Philippines
SM Seaside City Cebu

Best Commercial Development (Philippines), Highly Commended, Southeast Asia Property Awards 2016
SM Seaside City Cebu

Best Retail Architectural Design (Philippines), Highly Commended, Southeast Asia Property Awards 2016
SM Seaside City Cebu

Best Retail Architectural Design, Winner, Philippines Property Awards 2016
SM Seaside City Cebu

Best Retail Development, Winner, Philippines Property Awards 2016
SM Seaside City Cebu

Best Landscape Architectural Design, Highly Commended, Philippines Property Awards 2016
SM Seaside City Cebu

Award of Recognition, 2016 Don Emilio Abello Energy Efficiency Awards
SM City Baguio
SM City General Santos
SM City North EDSA
SM Corporate Offices — Building C

ISO 22301:2012 (Business Continuity Management System) Certification
SM Mall of Asia
SM Megamall
SM City North EDSA
MOA Arena Annex Building

RESIDENCES

Special Recognition in CSR, Winner, Philippines Property Awards 2016
SM Development Corporation

Best Affordable Condo Development (Metro Manila), Highly Commended, Philippine Property Awards 2016
Trees Residences

Best Affordable Condo Development (Metro Manila), Highly Commended, Philippine Property Awards 2016
Grace Residences

Best Residential Landscape Architecture Philippines, Asia Pacific Property Awards 2016
Shell Residences

Best Interior Design Show Home Philippines, Asia Pacific Property Awards 2016
Fame Residences

Highly Commended Residential High-rise Development and Residential Landscape Architecture Philippines, Asia Pacific Property Awards 2016
Shore Residences

Highly Commended Residential High-rise Development Philippines, Asia Pacific Property Awards 2016
Breeze Residences

Highly Commended Residential Landscape Architecture Philippines, Asia Pacific Property Awards 2016
Jazz Residences

Highly Commended Retail Development Philippines, Asia Pacific Property Awards 2016
SMDC Light Mall

OFFICES

Best Office Development, Highly Commended, Philippine Property Awards 2016
FiveE-ComCenter

Best Office Architectural Design, Highly Commended, Philippine Property Awards 2016
FiveE-ComCenter

Hall of Fame, 2016 Don Emilio Abello Energy Efficiency Awards
Cyber Makati 1

Outstanding Building, 2016 Don Emilio Abello Energy Efficiency Awards
Cyber Makati 1
Mall of Asia
SM City Iloilo
SM North EDSA — Annex Building
The Podium

Special Award, 2016 Don Emilio Abello Energy Efficiency Awards
Cyber Makati 2
SM Corporate Offices

SM CARES

Gold Anvil, Anvil Awards
Casual Employment Program for Senior Citizens

Gold Anvil, Anvil Awards
Special Movie Screening for the Blind and Deaf

Silver Anvil, Anvil Awards
SM Cares Housing Project for Yolanda Survivors

Tanging Bayani ng Kalikasan Award, PMAP HR Foundation

HOTELS

Best Hotel Architectural Design (Southeast Asia), Winner, Southeast Asia Property Awards 2016
Conrad Manila

Best Hotel Interior Design (Philippines), Highly Commended, Southeast Asia Property Awards 2016
Conrad Manila

Best Hotel Architectural Design, Winner, Philippines Property Awards 2016
Conrad Manila

Best Hotel Development, Winner, Philippines Property Awards 2016
Conrad Manila

Best Hotel Interior Design, Winner, Philippines Property Awards 2016
Conrad Manila

Outstanding Marketing Campaign of the Year, Hotel Sales and Marketing Association Virtus Awards
Radisson Blu Cebu

PWD-Friendly Accommodation Award, Department of Tourism
Taal Vista Hotel

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, Brgy. 76, Zone 10, CBP-1A
Pasay City 1300 Philippines

Investor Relations

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

Stockholder Inquiries

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

Banco De Oro Unibank, Inc. —
Trust And Investments Group
15th Floor BDO Corporate Center South Tower, 7899 Makati Avenue, Makati City
T: (632) 840-7000 loc. 36975; 36976; 36978; 878-4052 to 54

External Auditor

SyCip Gorres Velayo & Co.

Financial Reports 2016

Contents

Management's Discussion and Analysis or Plan of Operation

2016

SM Prime's Recurring Net Income up by 14% in 2016 to P23.8 billion from P20.9 billion

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

	Twelve months ended Dec 31				
	2016	**% to Revenues**	**2015**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	79,816	100%	71,511	100%	12%
Costs and expenses	44,551	56%	40,072	56%	11%
Operating Income	35,265	44%	31,439	44%	12%
Net Income	23,806	30%	20,892	29%	14%
EBITDA	42,517	53%	37,815	53%	12%

	Dec 31 2016	**% to Total Assets**	**Dec 31 2015**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	465,560	100%	434,966	100%	7%
Investment Properties	251,499	54%	230,340	53%	9%
Total Debt	164,378	35%	155,668	36%	6%
Net Debt	138,258	30%	128,955	30%	7%
Total Equity	231,481	50%	212,489	49%	9%

	Dec 31	
Financial Ratios	**2016**	**2015**
Debt to Equity	0.42 : 0.58	0.42 : 0.58
Net Debt to Equity	0.37 : 0.63	0.38 : 0.62
Return on Equity	0.11	0.10
Debt to EBITDA	3.87	4.12
Interest Coverage Ratio	9.64	11.19
Operating Income to Revenues	0.44	0.44
EBITDA Margin	0.53	0.53
Net Income to Revenues*	0.30	0.29

**Above financial data reflects core operating income and excludes one-time trading gain on sale of marketable securities amounting to ₱7.41 billion in 2015.*

Revenue

SM Prime recorded consolidated revenues of ₱79.82 billion in the year ended 2016, an increase of 12% from ₱71.51 billion in the year ended 2015, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱45.69 billion in 2016, an increase of 12% from ₱40.74 billion in 2015. The increase in rental revenue was primarily due to the new malls and expansions opened in 2015 and 2016, namely, SM Seaside City Cebu, SM City Cabanatuan, SM City San Mateo, SM Center Sangandaan, SM San Jose Del Monte, SM Trece Martires, SM City Iloilo Expansion, S Maison in SM Mall of Asia and SM Center Molino Expansion with a total gross floor area of 1 million square meters. In addition, retail podiums of Light, Shine, Shell and Green Residences also opened in 2015 and 2016. Out of the total rental revenues, 90% is contributed by the malls and the rest from office and hotels and convention centers. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased due to the opening of Five E-Com Center, and the expansion of SM Clark office tower in 2015. Room rentals from hotels and convention centers contributed to the increase due to the opening of Park Inn Clark in December 2015 and Conrad Manila in June 2016 and the improvement in average room rates and occupancy rates.

Real Estate Sales

SM Prime recorded a 13% increase in real estate sales in 2016 from ₱22.19 billion to ₱25.00 billion primarily due to higher construction accomplishments of projects launched in 2013 up to 2015 namely Shore 2, Grass, Air and South Residences and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely Princeton, Jazz, M Place and Mezza II Residences due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized in the books based on percentage of completion.

Management's Discussion and Analysis or Plan of Operation

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales slightly decreased to ₱4.67 billion in 2016 from ₱4.80 billion in 2015 due to fewer local blockbuster movies shown in 2016 compared to 2015. The major blockbusters screened in 2016 were "Captain America: Civil War", "The Super Parental Guardians", "Batman vs. Superman: Dawn of Justice", "X-Men: Apocalypse" and "Suicide Squad" accounting for 23% of gross ticket sales. The major blockbusters shown in 2015 were "Avengers: Age of Ultron", "Jurassic World", "A Second Chance", "Fast & Furious 7", and "Star Wars: The Force Awakens" accounting for 23% of gross ticket sales.

Other Revenues

Other revenues increased by 18% to ₱4.46 billion in 2016 from ₱3.79 billion in 2015. The increase was mainly due to opening of new amusement centers as a result of new malls and expansions, increase in merchandise sales and hotels' food and beverages income due to opening of Park Inn Clark and Conrad Manila. This account is mainly composed of amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱44.55 billion for the year ended 2016, an increase of 11% from ₱40.07 billion in 2015, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 9% to ₱13.12 billion in 2016 from ₱12.04 billion in 2015 primarily due to costs related to higher recognized real estate sales. Gross profit margin for residential improved to 48% in 2016 compared to 46% in 2015 as a result of improving cost efficiencies, tighter monitoring and control of construction costs.

Operating Expenses

SM Prime's consolidated operating expenses increased by 12% to ₱31.43 billion in 2016 compared to last year's ₱28.03 billion. Out of the total operating expenses, 73% is contributed by the malls where same-store mall growth in operating expenses is 1%. Contributors to the increase are administrative expenses, depreciation and amortization, taxes and licenses and marketing and selling expenses, in line with related increase in revenues from same-store as well as the opening of new malls and expansions.

Other Income (Charges)

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

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

Interest Expense

SM Prime's consolidated interest expense increased by 30% to ₱4.41 billion in 2016 compared to ₱3.38 billion in 2015 due to the ₱20.0 billion retail bond issued in November 2015, ₱10.0 billion retail bond issued in July 2016 and new bank loans availed for working capital and capital expenditure requirements net of the capitalized interest on proceeds spent for construction of investment properties.

Interest and Dividend Income

Interest and dividend income decreased by 5% to ₱1.11 billion in 2016 from ₱1.17 billion in 2015. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and AFS investments. The increase in interest income is due to higher average balance of cash and cash equivalents in 2016 as compared to last year which was offset by the decrease in dividend income due to less dividends received on available-for-sale investments held compared to last year.

Other income (charges) - net

Other charges — net decreased by 43% to ₱0.98 billion in 2016 from ₱1.73 billion in 2015 due to increase in unrealized mark-to-market gain on investments held for trading, income from forfeitures of residential units and other incidental income.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 10% to ₱6.62 billion in 2016 from ₱6.02 billion in 2015 due to the related increase in taxable income.

Management's Discussion and Analysis or Plan of Operation

Net income

SM Prime's consolidated net income in the year ended December 31, 2016 increased by 14% to ₱23.81 billion in 2016 as compared to ₱20.89 billion in 2015 as a result of the foregoing and excluding one-time gain on sale of AFS in 2015.

Balance Sheet Accounts

Cash and cash equivalents decreased by 3% from ₱25.87 billion to ₱25.20 billion as of December 31, 2015 and 2016, respectively, mainly due to payments for capital expenditure projects during the period, net of proceeds from the retail bond issuance and loans drawn in 2016.

Investments held for trading increased by 9% from ₱843 million to ₱919 million as of December 31, 2015 and 2016, respectively, mainly due to increase in market prices of the listed shares.

Receivables slightly increased from ₱32.49 billion to ₱32.83 billion as of December 31, 2015 and 2016, respectively, mainly due to increase in rental receivables due to new malls and expansions in 2016 and increase in sales of residential projects. Out of the total receivables, 73% pertains to sale of real estate and 22% from leases of shopping mall and commercial spaces.

Condominium and residential units for sale decreased by 36% from ₱8.16 billion to ₱5.21 billion as of December 31, 2015 and 2016, respectively, mainly due to sales take up of RFO units.

Land and development increased by 9% from ₱42.92 billion to ₱46.70 billion as of December 31, 2015 and 2016, respectively, mainly due to landbanking and construction accomplishments for the period, net of cost of sold units and transfers of RFO units to condominium and residential units for sale.

Prepaid expenses and other current assets increased by 5% from ₱11.30 billion to ₱11.90 billion as of December 31, 2015 and 2016, respectively, mainly due to deposits and advances to contractors related to construction projects and various prepayments.

Investment properties increased by 9% from ₱230.34 billion to ₱251.50 billion as of December 31, 2015 and 2016, respectively, primarily due to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines and the ongoing expansions and renovations of SM Mall of Asia, SM City Sucat and SM Xiamen. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects, including the Commercial group's Three E-Com and Four E-Com Centers and the recently opened Conrad Manila.

AFS investments increased by 4% from ₱20.33 billion to ₱21.21 billion as of December 31, 2015 and 2016, respectively, due to unrealized gain on changes in fair values under this portfolio.

Derivative assets increased by 96% from ₱2.60 billion to ₱5.10 billion as of December 31, 2015 and 2016, respectively, to hedge the Company's foreign exchange and interest rate risk. These are the $270 million interest rate swap transaction and $380 million principal only swap transaction entered into in 2016 and the $350 million cross currency swap transaction in 2013.

Deferred tax assets increased by 34% from ₱0.85 billion to ₱1.14 billion as of December 31, 2015 and 2016, respectively, mainly due to NOLCO.

Other noncurrent assets, which includes the noncurrent portion of receivable from sale of real estate, increased by 11% from ₱35.49 billion to ₱39.40 billion as of December 31, 2015 and 2016, due to additional bonds and deposits for real estate acquisitions and construction accomplishments of sold units as well as new sales for the period.

Loans payable decreased by 82% from ₱4.68 billion to ₱0.84 billion as of December 31, 2015 and 2016, respectively, due to payment of maturing loans.

Long-term debt increased by 8% from ₱150.99 billion to ₱163.54 billion as of December 31, 2015 and 2016, respectively, due to net loan availments to fund capital expenditures and for working capital requirements.

Tenants' and customers' deposits increased by 12% from ₱13.22 billion to ₱14.81 billion as of December 31, 2015 and 2016, respectively, due to the new malls and expansions and increase in customers' deposits from residential buyers.

Liability for purchased land decreased by 42% from ₱2.08 billion to ₱1.21 billion as of December 31, 2015 and 2016, respectively, due to payments made. Other noncurrent liabilities increased by 22% from ₱4.75 billion to ₱5.82 billion as of December 31, 2015 and 2016, respectively, due to increase in retention payable and output VAT on residential sales.

Management's Discussion and Analysis or Plan of Operation

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

Interest-bearing debt to equity remains steady at 0.42:0.58 as of December 31, 2016 and 2015 while net interest-bearing debt to equity slightly decreased to 0.37:0.63 as of December 31, 2016 from 0.38:0.62 as of December 31, 2015.

ROE increased to 11% as of December 31, 2016 from 10% as of December 31, 2015.

Debt to EBITDA improved to 3.87:1 as of December 31, 2016 from 4.12:1 as of December 31, 2015 due to increase in consolidated operating income. Interest coverage ratio decreased to 9.64:1 as of December 31, 2016 from 11.19:1 as of December 31, 2015 as a result of increase in interest expense from additional borrowings. EBITDA margin is steady at 53% as of December 31, 2016 and 2015.

Consolidated operating income to revenues remains steady at 44% as of December 31, 2016 and 2015. Consolidated net income to revenues improved to 30% as of December 31, 2016 from 29% as of December 31, 2015.

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 2017, the Company expects to incur capital expenditures of approximately ₱50 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has sixty shopping malls in the Philippines with 7.7 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area. For 2017, SM Prime will open at least four new mall in the Philippines. By end 2017, the malls business unit will have at least sixty four malls in the Philippines and seven malls in China, with an estimated combined gross floor area of 9.3 million square meters.

SM Prime currently has thirty-three residential projects in the market, thirty-one of which are in Metro Manila and two in Tagaytay. For 2017, SM Prime's residential unit will launch between 15,000 to 18,000 residential condominium units in total located in Metro Manila (Parañaque, Makati, Pasay, Quezon City) and Provincial (Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, Bulacan, Tagaytay). This is a combination of new projects and expansion of existing projects.

SM Prime's Commercial Properties Group has six office buildings with an estimated gross floor area of 383,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2020, respectively.

SM Prime's hotels and convention centers business unit currently has a portfolio of six hotels with 1,510 saleable rooms, including Conrad Manila in the Mall of Asia Complex in Pasay City which opened in June 2016, four convention centers and three trade halls with 37,481 sq. m. of leasable space.

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

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

Henry T. Sy, Jr.
Chairman

Jeffrey C. Lim
President

John Nai Peng C. Ong
Chief Finance Officer

Signed this 20th of February, 2017

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Report of the Audit Committee

The Audit 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, and compliance with pertinent laws, rules and regulations. The Committee likewise oversees special investigations as may be necessary and review its respective Charter annually.

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

- The Audit Committee is composed of three (3) members, namely, independent director Mr. Joselito H. Sibayan and non-executive director Mr. Jorge T. Mendiola, and Committee Chairman, Mr. Jose L. Cuisia, Jr., who is also an independent director.

- We met four (4) times in 2016 on the following dates: February 22, May 2, August 1 and November 7. All meetings registered 100% attendance of all members.

- Each member of the committee possesses adequate knowledge and competence in Finance and Accounting processes;

  Profile/Qualifications of the Members of Audit Committee:

  MR. JOSE L. CUISIA, JR. (Chairman, Lead Independent Director) - Mr. Cuisia has served as Vice Chairman of the Board of Directors of SMPH since 1994. He was appointed Lead Independent Director in February 2017. From 2011 to 2016, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company from 1993 to 2009. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He was also the former Chairman of the Board of Far East Bank and Trust Co. and Union Bank and President of Insular Bank of Asia & America. He graduated with a Bachelor's Degree in Commerce, Major in Accounting and Bachelor of Arts, Major in Social Sciences from De La Salle University and took his MBA at the prestigious Wharton School of the University of Pennsylvania. He was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011 and was conferred the Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015 and the Order of the Sikatuna with the rank of Grand Cross by President Benigno Aquino III in 2016.

  MR. JOSELITO H. SIBAYAN (Member, Independent Director) - Mr. Sibayan has spent the past 29 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration (MBA) from University of California in Los Angeles, he was Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman of Investment Banking - Philippines and Country Manager of Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director of SM Prime in 2011.

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

- We have reviewed and approved the following with regard to our independent auditor, SGV & Co., and our Internal Auditor:

  - Their respective audit plans, scope, risk-based methods and timetables;
  - Their assessment of internal controls, including controls over financial reporting; and
  - The results of their examinations and Management's action plans to address pending audit issues;

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

- We have reviewed and approved the results of all audit services provided by SGV & Co. and related audit fees;

- We have reviewed the internal control system of the Company based on the assessments completed and reported by internal and external auditors and found that the system is adequate and effective;

- We have discussed with SGV & Co. matters required to be discussed by prevailing applicable Philippine Auditing Standards, received written disclosures and the management 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, 2016, second quarter ended June 30, 2016, and third quarter ended September 30, 2016;

- 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, 2016; and

- 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 2016. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as external auditors for 2017.

JOSE L. CUISIA, JR.
Chairman

JOSELITO H. SIBAYAN
Member

JORGE T. MENDIOLA
Member

Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Revenue and cost recognition on sale of real estate

The Company derives a significant portion of its revenues and costs from the sale of condominium and residential units under pre-completed construction contracts. These are accounted for using the percentage-of-completion (POC) method based on the estimated completion of a physical proportion of the contract work. The assessment of the physical stage of completion and the assessment of the total estimated costs require technical determination by management's specialists. For each buyer's contract, the Company requires a certain payment milestone to be met as one of the criteria to initiate revenue and cost recognition. This payment milestone is the level of the buyer's payment over the total selling price (buyer's equity) that management assessed is probable that economic benefits will flow to the Company because of the buyer's continuing commitment with the sales agreement. The assessments of the stage of completion, total estimated costs and level of buyer's equity involve significant management judgment as disclosed in Note 2 to the consolidated financial statements.

Audit response

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

Other Information

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Sherwin V. Yason.

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 5908780, January 3, 2017, Makati City

February 20, 2017

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 28 and 29)	**₱25,200,982**	₱25,869,908
Investments held for trading (Notes 7, 21, 28 and 29)	**918,702**	843,256
Receivables (Notes 8, 15, 16, 21, 28 and 29)	**32,833,330**	32,492,132
Condominium and residential units for sale (Note 9)	**5,205,511**	8,164,981
Land and development (Note 10)	**27,228,525**	19,814,615
Available-for-sale investments (Notes 11, 21, 28 and 29)	**664,606**	642,274
Prepaid expenses and other current assets (Notes 12, 21, 28 and 29)	**11,898,900**	11,302,871
Total Current Assets	**103,950,556**	99,130,037
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	**22,833,079**	22,080,000
Available-for-sale investments - net of current portion (Notes 11, 21, 28 and 29)	**20,548,119**	19,689,781
Property and equipment - net (Note 13)	**1,619,601**	1,680,382
Investment properties - net (Notes 14 and 19)	**251,499,064**	230,340,399
Land and development - net of current portion (Note 10)	**19,472,641**	23,105,553
Derivative assets (Notes 28 and 29)	**5,102,735**	2,600,799
Deferred tax assets - net (Note 26)	**1,137,729**	846,111
Other noncurrent assets (Notes 16, 21, 25, 28 and 29)	**39,396,608**	35,493,223
Total Noncurrent Assets	**361,609,576**	335,836,248
	₱465,560,132	₱434,966,285
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 28 and 29)	**₱840,000**	₱4,675,000
Accounts payable and other current liabilities (Notes 18, 21, 28 and 29)	**40,324,504**	39,957,002
Current portion of long-term debt (Notes 19, 21, 28 and 29)	**7,154,151**	25,041,044
Income tax payable	**1,102,621**	955,533
Total Current Liabilities	**49,421,276**	70,628,579
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	**156,383,534**	125,952,441
Tenants' and customers' deposits - net of current portion (Notes 18, 27, 28 and 29)	**14,812,280**	13,218,264
Liability for purchased land - net of current portion (Notes 18, 28 and 29)	**1,211,658**	2,081,708
Deferred tax liabilities - net (Note 26)	**2,552,812**	2,488,990
Other noncurrent liabilities (Notes 16, 18, 25, 28 and 29)	**5,815,028**	4,753,456
Total Noncurrent Liabilities	**180,775,312**	148,494,859
Total Liabilities	**230,196,588**	219,123,438
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 5, 20 and 30)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 5 and 20)	**39,545,625**	39,304,027
Cumulative translation adjustment	**1,400,373**	1,005,978
Net unrealized gain on available-for-sale investments (Note 11)	**17,502,410**	16,621,547
Net fair value changes on cash flow hedges (Note 29)	**811,625**	428,799
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**39,687**	(50,458)
Retained earnings (Note 20):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**100,170,486**	83,168,103
Treasury stock (Notes 20 and 30)	**(3,355,474)**	(3,355,474)
Total Equity Attributable to Equity Holders of the Parent	**231,481,032**	212,488,822
Non-controlling Interests (Note 20)	**3,882,512**	3,354,025
Total Equity	**235,363,544**	215,842,847
	₱465,560,132	₱434,966,285

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		
	2016	2015	2014
REVENUE			
Rent (Notes 21 and 27)	**₱45,693,269**	₱40,742,657	₱36,497,242
Sales:			
Real estate	**24,999,811**	22,185,915	22,151,618
Cinema and event ticket	**4,666,686**	4,797,510	4,268,531
Others (Notes 21 and 22)	**4,456,465**	3,785,205	3,322,679
	79,816,231	71,511,287	66,240,070
COSTS AND EXPENSES (Note 23)	**44,551,175**	40,072,460	38,553,561
INCOME FROM OPERATIONS	**35,265,056**	31,438,827	27,686,509
OTHER INCOME (CHARGES)			
Interest expense (Notes 21, 24, 28 and 29)	**(4,409,614)**	(3,379,104)	(4,099,499)
Interest and dividend income (Notes 7, 11, 21 and 24)	**1,114,931**	1,168,610	731,884
Gain on sale of available-for-sale-investments (Notes 11 and 21)	**—**	7,410,711	2,743
Others - net (Notes 7, 15, 19, 21 and 29)	**(981,696)**	(1,728,205)	(647,501)
	(4,276,379)	3,472,012	(4,012,373)
INCOME BEFORE INCOME TAX	**30,988,677**	34,910,839	23,674,136
PROVISION FOR INCOME TAX (Note 26)			
Current	**6,335,370**	5,698,086	4,697,753
Deferred	**285,683**	320,160	79,894
	6,621,053	6,018,246	4,777,647
NET INCOME	**₱24,367,624**	₱28,892,593	₱18,896,489
Attributable to			
Equity holders of the Parent (Notes 20 and 30)	**₱23,805,713**	₱28,302,092	₱18,390,352
Non-controlling interests (Note 20)	**561,911**	590,501	506,137
	₱24,367,624	₱28,892,593	₱18,896,489
Basic/Diluted earnings per share (Note 30)	**₱0.826**	₱0.982	₱0.660

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		
	2016	2015	2014
NET INCOME	**₱24,367,624**	₱28,892,593	₱18,896,489
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income transferred to profit or loss (net of tax):			
Realized gain on sale of available-for-sale investments (Note 11)	**—**	(7,410,711)	(2,743)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Unrealized gain (loss) due to changes in fair value of available-for-sale investments (Note 11)	**880,863**	(1,873,182)	5,949,853
Net fair value changes on cash flow hedges (Note 29)	**382,826**	179,467	(179,817)
Cumulative translation adjustment	**394,395**	165,548	(540,838)
	1,658,084	(8,938,878)	5,226,455
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) - Remeasurement income (loss) on defined benefit obligation (Note 25)	**82,202**	91,277	(143,144)
TOTAL COMPREHENSIVE INCOME	**₱26,107,910**	₱20,044,992	₱23,979,800
Attributable to			
Equity holders of the Parent (Notes 20 and 30)	**₱25,542,289**	₱19,454,280	₱23,474,512
Non-controlling interests (Note 20)	**565,621**	590,712	505,288
	₱26,107,910	₱20,044,992	₱23,979,800

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

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

	Equity Attributable to			
	Capital Stock (Notes 5, 20 and 30)	**Additional Paid-in Capital - Net** (Notes 5 and 20)	**Cumulative Translation Adjustment**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 11)**
At January 1, 2016, as previously reported	**₱33,166,300**	**₱39,304,027**	**₱1,005,978**	**₱16,621,547**
Effect of common control business combination (Note 5)	**—**	**241,598**	**—**	**—**
At January 1, 2016, as adjusted	**33,166,300**	**39,545,625**	**1,005,978**	**16,621,547**
Net income for the year	**—**	**—**	**—**	**—**
Other comprehensive income	**—**	**—**	**394,395**	**880,863**
Total comprehensive income for the year	**—**	**—**	**394,395**	**880,863**
Cash dividends (Note 20)	**—**	**—**	**—**	**—**
Cash dividends received by a subsidiary	**—**	**—**	**—**	**—**
Cash dividends received by non-controlling interests	**—**	**—**	**—**	**—**
Acquisition of subsidiaries (Note 20)	**—**	**—**	**—**	**—**
At December 31, 2016	**₱33,166,300**	**₱39,545,625**	**₱1,400,373**	**₱17,502,410**
At January 1, 2015	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440
Net income for the year	—	—	—	—
Other comprehensive income (loss)	—	—	165,548	(9,283,893)
Total comprehensive income (loss) for the year	—	—	165,548	(9,283,893)
Cash dividends (Note 20)	—	—	—	—
Cash dividends received by a subsidiary	—	—	—	—
Cash dividends received by non-controlling interests	—	—	—	—
Acquisition of non-controlling interests (Note 20)	—	1,833	—	—
At December 31, 2015	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547
At January 1, 2014	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330
Net income for the year	—	—	—	—
Other comprehensive income (loss)	—	—	(540,838)	5,947,110
Total comprehensive income (loss) for the year	—	—	(540,838)	5,947,110
Cash dividends (Note 20)	—	—	—	—
Cash dividends received by a subsidiary	—	—	—	—
Cash dividends received by non-controlling interests	—	—	—	—
Reissuance of treasury shares (Note 20)	—	17,021,771	—	—
Acquisition of non-controlling interests (Note 20)	—	(23,013)	—	—
At December 31, 2014	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent							
Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20) Appropriated	Unappropriated	Treasury Stock (Notes 20 and 30)	Total	Non-controlling Interests (Note 20)	Total Equity
₱428,799	**(₱50,458)**	**₱42,200,000**	**₱83,168,103**	**(₱3,355,474)**	**₱212,488,822**	**₱3,354,025**	**₱215,842,847**
—	**11,653**	**—**	**(171,600)**	**—**	**81,651**	**38,382**	**120,033**
428,799	**(38,805)**	**42,200,000**	**82,996,503**	**(3,355,474)**	**212,570,473**	**3,392,407**	**215,962,880**
—	**—**	**—**	**23,805,713**	**—**	**23,805,713**	**561,911**	**24,367,624**
382,826	**78,492**	**—**	**—**	**—**	**1,736,576**	**3,710**	**1,740,286**
382,826	**78,492**	**—**	**23,805,713**	**—**	**25,542,289**	**565,621**	**26,107,910**
—	**—**	**—**	**(6,642,223)**	**—**	**(6,642,223)**	**—**	**(6,642,223)**
—	**—**	**—**	**10,493**	**—**	**10,493**	**—**	**10,493**
—	**—**	**—**	**—**	**—**	**—**	**(505,291)**	**(505,291)**
—	**—**	**—**	**—**	**—**	**—**	**429,775**	**429,775**
₱811,625	**₱39,687**	**₱42,200,000**	**₱100,170,486**	**(₱3,355,474)**	**₱231,481,032**	**₱3,882,512**	**₱235,363,544**
₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
—	—	—	28,302,092	—	28,302,092	590,501	28,892,593
179,467	91,066	—	—	—	(8,847,812)	211	(8,847,601)
179,467	91,066	—	28,302,092	—	19,454,280	590,712	20,044,992
—	—	—	(6,064,618)	—	(6,064,618)	—	(6,064,618)
—	—	—	9,581	—	9,581	—	9,581
—	—	—	—	—	—	(387,200)	(387,200)
—	—	—	—	56	1,889	—	1,889
₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
₱429,149	₱771	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525
—	—	—	18,390,352	—	18,390,352	506,137	18,896,489
(179,817)	(142,295)	—	—	—	5,084,160	(849)	5,083,311
(179,817)	(142,295)	—	18,390,352	—	23,474,512	505,288	23,979,800
—	—	—	(5,285,636)	—	(5,285,636)	—	(5,285,636)
—	—	—	8,668	—	8,668	—	8,668
—	—	—	—	—	—	(309,760)	(309,760)
—	—	—	—	623,916	17,645,687	—	17,645,687
—	—	—	—	932	(22,081)	—	(22,081)
₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱30,988,677**	₱34,910,839	₱23,674,136
Adjustments for:			
Depreciation and amortization (Note 23)	**7,814,344**	6,966,952	6,579,781
Interest expense (Note 24)	**4,409,614**	3,379,104	4,099,499
Interest and dividend income (Notes 7, 11 and 24)	**(1,114,931)**	(1,168,610)	(731,884)
Loss (gain) on:			
Unrealized foreign exchange	**556,343**	166,435	173,510
Mark-to-market on investments held for trading (Note 7)	**(61,424)**	101,087	101,076
Sale of available-for-sale investments (Note 11)	**—**	(7,410,711)	(2,743)
Maturity of derivatives - net	**—**	(40,691)	—
Disposal of investments held for trading (Note 7)	**—**	693	—
Fair value changes on derivatives - net	**—**	—	(21,340)
Equity in net earnings of associates and joint ventures (Note 15)	**(471,081)**	(542,905)	(304,434)
Operating income before working capital changes	**42,121,542**	36,362,193	33,567,601
Decrease (increase) in:			
Receivables	**(231,996)**	(695,616)	(3,559,562)
Condominium and residential units for sale	**6,475,919**	5,439,068	2,667,246
Land and development	**(7,575,273)**	(6,807,357)	(13,906,967)
Prepaid expenses and other current assets	**(470,119)**	(2,012,614)	(910,972)
Increase (decrease) in:			
Accounts payable and other liabilities	**1,669,684**	3,652,508	(9,230,430)
Tenants' and customers' deposits	**1,606,956**	1,486,421	3,019,113
Cash generated from operations	**43,596,713**	37,424,603	11,646,029
Income tax paid	**(6,186,690)**	(5,486,465)	(4,894,650)
Net cash provided by operating activities	**37,410,023**	31,938,138	6,751,379
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	**2,529**	7,466,528	4,258
Investments held for trading (Note 7)	**—**	35,000	150,000
Interest received	**766,565**	647,572	418,076
Dividends received	**377,385**	552,397	333,980
Additions to:			
Investment properties (Note 14)	**(30,376,621)**	(42,478,023)	(35,510,709)
Property and equipment (Note 13)	**(337,071)**	(235,913)	(158,016)
Available-for-sale investments	**(2,045)**	—	(357,071)
Investments held for trading	**—**	—	(65,416)
Proceeds from pretermination of short-term investments	**—**	—	887,900
Investments in associates and joint venture and acquisition of a subsidiary - net of cash acquired (Notes 5 and 15)	**(331,000)**	(15,443,151)	—
Decrease (increase) in other noncurrent assets (Note 16)	**(3,098,749)**	(5,774,646)	4,908,379
Net cash used in investing activities	**(32,999,007)**	(55,230,236)	(29,388,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 17 and 19)	**₱34,380,938**	₱45,993,435	₱48,121,250
Payments of:			
Long-term debt (Note 19)	**(23,917,979)**	(11,288,366)	(16,175,802)
Dividends (Note 20)	**(7,137,021)**	(6,442,237)	(5,586,728)
Bank loans (Note 17)	**(4,880,000)**	(11,100,000)	(9,070,000)
Interest	**(4,049,935)**	(3,159,806)	(4,183,961)
Proceeds from:			
Maturity of derivatives	**—**	12,468	—
Reissuance of treasury shares (Note 20)	**—**	—	17,645,687
Net cash provided by (used in) financing activities	**(5,603,997)**	14,015,494	30,750,446
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**524,055**	(98,694)	(9,506)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(668,926)**	(9,375,298)	8,103,700
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**25,869,908**	35,245,206	27,141,506
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱25,200,982**	₱25,869,908	₱35,245,206

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. 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, 2016, SMPH is 49.70% and 25.71% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 20, 2017.

2. BASIS OF PREPARATION

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

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

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

Company	Country of Incorporation	Percentage of Ownership 2016	Percentage of Ownership 2015
Malls			
First Asia Realty Development Corporation (FARDC)	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp. (PSC)	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)	- 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	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0
Rushmore Holdings, Inc. (Rushmore)**	Philippines	**100.0**	—
Prime Commercial Property Management Corporation and Subsidiaries (PCPMC)*	- do -	**100.0**	100.0
Mindpro Incorporated (Mindpro)	- do -	**70.0**	—
A. Canicosa Holdings, Inc. (ACHI)**	- do -	**70.0**	—
AD Canicosa Properties, Inc. (ADCPI)**	- do -	**70.0**	—
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	**100.0**	100.0
Highlands Prime Inc. (HPI)	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)	- do -	**100.0**	100.0
Commercial			
Magenta Legacy, Inc.	- do -	**100.0**	100.0
Associated Development Corporation	- do -	**100.0**	100.0
Prime Metro Estate, Inc. and Subsidiary (PMI)	- do -	**60.0**	60.0
Tagaytay Resort and Development Corporation (TRDC)	- do -	**100.0**	100.0
SM Arena Complex Corporation (SMACC)	- do -	**100.0**	100.0
MOA Esplanade Port, Inc. (MEPI)	- do -	**100.0**	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)	- do -	**100.0**	100.0

**Acquired in 2016 which was accounted for as common control business combination using pooling of interest method (see Note 5).*
***Acquired in 2016 which was accounted for as acquisition of assets - single-asset entity (see Note 14).*

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

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

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

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

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

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

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

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

Revenue Recognition. The Company's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale. This may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing of the buyer and location of the property. The completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage. Revenue from real estate sales amounted to ₱25,000 million, ₱22,186 million and ₱22,152 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

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

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

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

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

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

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

The Company considers each property separately in making its judgment.

The aggregate carrying values of land and development, investment properties and property and equipment amounted to ₱299,820 million and ₱274,941 million as at December 31, 2016 and 2015, respectively (see Notes 10, 13 and 14).

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

Rent income amounted to ₱45,693 million, ₱40,743 million and ₱36,497 million for the years ended December 31, 2016, 2015 and 2014, 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 ₱1,451 million, ₱1,317 million and ₱1,187 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Notes 23 and 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, 2016, 2015 and 2014. The carrying values of AFS investments amounted to ₱21,213 million and ₱20,332 million as at December 31, 2016 and 2015, respectively (see Note 11).

<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 period are discussed below.

Revenue and Cost Recognition. The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue and cost 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 ₱25,000 million, ₱22,186 million and ₱22,152 million for the years ended December 31, 2016, 2015 and 2014, respectively, while the cost of real estate sold amounted to ₱13,117 million, ₱12,039 million and ₱12,257 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 23).

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

Allowance for impairment amounted to ₱966 million as at December 31, 2016 and 2015. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱43,360 million and ₱40,455 million as at December 31, 2016 and 2015, respectively (see Notes 8 and 16).

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

The carrying values of condominium and residential units for sale and land and development amounted to ₱5,206 million and ₱46,701 million as at December 31, 2016, respectively, and ₱8,165 million and ₱42,920 million as at December 31, 2015, respectively (see Notes 9 and 10).

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

The carrying values of AFS investments amounted to ₱21,213 million and ₱20,332 million as at December 31, 2016 and 2015, respectively (see Note 11).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱253,119 million and ₱232,021 million as at December 31, 2016 and 2015, respectively (see Notes 13 and 14).

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

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱253,119 million and ₱232,021 million as at December 31, 2016 and 2015, respectively (see Notes 13 and 14).

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

Deferred tax assets - net recognized in the consolidated balance sheets amounted to ₱1,138 million and ₱846 million as at December 31, 2016 and 2015, respectively, while the unrecognized deferred tax assets amounted to ₱56 million and ₱58 million as at December 31, 2016 and 2015, 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).

Reclassification of Accounts
The Company changed the presentation of its consolidated balance sheet as at December 31, 2015 to appropriately present customers' deposits. The Company did not present a consolidated balance sheet as at the beginning of the earliest comparative period since the reclassifications do not have a material impact on the consolidated balance sheets as at December 31, 2015 and January 1, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities, and* PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment and PAS 38, Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- Annual Improvements to PFRS 2012—2014 Cycle
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRS* 2014—2016 Cycle), clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments will not have any impact on the Company's consolidated financial statements.

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

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses,* clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. The amendments will not have any impact on the Company's consolidated financial statements.

Effective beginning on or after January 1, 2018

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

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The amendments will not have any impact on the Company's consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard.

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

  The adoption of PFRS 9 will have an effect on the classification and measurement of the 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 and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRS* 2014—2016 Cycle), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. These amendments are not applicable to the Company since the Company is not an investment entity nor does it have investment entity associates or joint ventures.

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, Leases, under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

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

Deferred effectivity

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

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

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.

Determination of Fair Value
Fair value is the estimated 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 unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱6,021 million and ₱3,444 million as at December 31, 2016 and 2015, 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, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under "Prepaid expenses and other current assets" account) and time deposits (included under "Other noncurrent assets" account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱10,527 million and ₱7,963 million as at December 31, 2016 and 2015, 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, 2016 and 2015.

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 ₱21,213 million and ₱20,332 million as at December 31, 2016 and 2015, 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 twelve months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' and customers' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱176,598 million and ₱144,593 million as at December 31, 2016 and 2015, 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. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated as accounting hedges.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated statements of income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges (see Note 29).

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 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 primarily derecognized (i.e., removed from the Company's consolidated balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company 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 or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the 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 expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

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 sheet if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Any excess of the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share in the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

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

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

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

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

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

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

Customers' Deposits
Customers' deposits mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statements of income as the related obligations to the real estate buyers are fulfilled.

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

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

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

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

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

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

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

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

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

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

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

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Interest and dividend income" 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.

<u>Management Fees</u>
Management fees are recognized as expense in accordance with the terms of the agreements.

<u>Cost and Expenses</u>

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.

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" and "Accounts payable and other current liabilities" accounts in the consolidated balance sheets.

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

Events after the Reporting Period

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

Inter-segment Transactions

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

Business Segment Data

	2016					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱48,527,870**	**₱25,418,929**	**₱2,668,059**	**₱3,201,373**	**₱—**	**₱79,816,231**
Inter-segment	**72,562**	**—**	**68,879**	**16,321**	**(157,762)**	**—**
	₱48,600,432	**₱25,418,929**	**₱2,736,938**	**₱3,217,694**	**(₱157,762)**	**₱79,816,231**
Segment results:						
Income before income tax	**₱22,389,603**	**₱6,455,501**	**₱2,096,048**	**₱579,574**	**(₱532,049)**	**₱30,988,677**
Provision for income tax	**(5,473,398)**	**(655,333)**	**(347,946)**	**(144,376)**	**—**	**(6,621,053)**
Net income	**₱16,916,205**	**₱5,800,168**	**₱1,748,102**	**₱435,198**	**(₱532,049)**	**₱24,367,624**
Net income attributable to:						
Equity holders of the Parent	**₱16,356,409**	**₱5,798,053**	**₱1,748,102**	**₱435,198**	**(₱532,049)**	**₱23,805,713**
Non-controlling interests	**559,796**	**2,115**	**—**	**—**	**—**	**561,911**
Segment assets	**₱311,310,987**	**₱110,461,400**	**₱33,195,556**	**₱11,748,400**	**(₱1,156,211)**	**₱465,560,132**
Segment liabilities	**₱176,037,532**	**₱52,504,057**	**₱2,190,109**	**₱621,101**	**(₱1,156,211)**	**₱230,196,588**
Other information:						
Capital expenditures	**₱24,126,694**	**₱14,421,200**	**₱3,921,999**	**₱1,200,868**	**₱—**	**₱43,670,761**
Depreciation and amortization	**6,847,363**	**178,205**	**384,758**	**404,018**	**—**	**7,814,344**

	2015					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱44,518,043	₱22,563,483	₱1,989,115	₱2,440,646	₱—	₱71,511,287
Inter-segment	27,504	—	78,577	5,690	(111,771)	—
	₱44,545,547	₱22,563,483	₱2,067,692	₱2,446,336	(₱111,771)	₱71,511,287
Segment results:						
Income before income tax	₱20,640,566	₱5,631,428	₱1,336,827	₱534,543	₱6,767,475	₱34,910,839
Provision for income tax	(5,033,854)	(582,125)	(236,920)	(165,347)	—	(6,018,246)
Net income	₱15,606,712	₱5,049,303	₱1,099,907	₱369,196	₱6,767,475	₱28,892,593
Net income attributable to:						
Equity holders of the Parent	₱15,016,211	₱5,049,303	₱1,099,907	₱369,196	₱6,767,475	₱28,302,092
Non-controlling interests	590,501	—	—	—	—	590,501
Segment assets	₱288,016,835	₱108,039,083	₱29,232,120	₱10,804,808	(₱1,126,561)	₱434,966,285
Segment liabilities	₱162,413,919	₱53,836,027	₱3,357,590	₱642,463	(₱1,126,561)	₱219,123,438
Other information:						
Capital expenditures	₱37,242,806	₱15,783,600	₱993,320	₱2,845,821	₱—	₱56,865,547
Depreciation and amortization	6,099,781	190,584	336,757	339,830	—	6,966,952

	2014					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱40,328,214	₱22,509,041	₱1,401,354	₱2,001,461	₱—	₱66,240,070
Inter-segment	78,430	916	113,261	3,229	(195,836)	—
	₱40,406,644	₱22,509,957	₱1,514,615	₱2,004,690	(₱195,836)	₱66,240,070
Segment results:						
Income before income tax	₱18,493,450	₱4,859,574	₱629,183	₱298,384	(₱606,455)	₱23,674,136
Provision for income tax	(4,292,583)	(267,677)	(152,874)	(64,513)	—	(4,777,647)
Net income	₱14,200,867	₱4,591,897	₱476,309	₱233,871	(₱606,455)	₱18,896,489
Net income attributable to:						
Equity holders of the Parent	₱13,694,730	₱4,591,897	₱476,309	₱233,871	(₱606,455)	₱18,390,352
Non-controlling interests	506,137	—	—	—	—	506,137
Segment assets	₱253,348,710	₱104,394,002	₱21,971,042	₱9,391,400	(₱264,995)	₱388,840,159
Segment liabilities	₱129,543,841	₱53,858,400	₱2,813,162	₱651,548	(₱264,995)	₱186,601,956
Other information:						
Capital expenditures	₱33,460,747	₱21,660,390	₱2,642,319	₱1,274,294	₱—	₱59,037,750
Depreciation and amortization	5,582,183	236,518	436,127	324,953	—	6,579,781

For the years ended December 31, 2016, 2015 and 2014, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

5. BUSINESS COMBINATIONS

Common Control Business Acquisitions
In December 2016, the Parent Company, through PCPMC, acquired 90% each of the outstanding common stock of Shopping Center Management Corporation and SM Lifestyle Entertainment Inc. The companies involved are all under the common control by the Sy Family. Thus, the acquisitions were considered as common control business combinations and were 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. No restatement of prior period was made as a result of the acquisitions due to immateriality. Had the Company restated its prior period financial statements, net income for the year ended December 31, 2015 would have increased by ₱53 million. The excess of the cost of business combination over the net carrying amounts amounting to ₱242 million is included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets.

Other Business Acquisitions
In September 2016, the Company entered into a Binding Share Purchases Agreement for the acquisition of 70% interest in Mindpro for a total purchase consideration of ₱550 million. Mindpro is engaged in the business of shopping mall operations which owns The Mindpro Citimall in Zamboanga.

Total identifiable assets acquired amounted to ₱843 million, which mainly consist of investment properties amounting to ₱750 million and cash and other assets amounting to ₱93 million. Total identifiable liabilities acquired amounted to ₱68 million. No goodwill is recognized upon completion of the acquisition. Non-controlling interest at acquisition date amounted to ₱225 million which represents its proportionate share in the recognized amounts of MindPro's identifiable net assets. The net cash outflow and impact to the Company's consolidated revenue and net income for the year ended December 31, 2016 had the acquisition took place on January 1, 2016 are immaterial.

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2016	2015
	(In Thousands)	
Cash on hand and in banks (see Note 21)	**₱1,657,565**	₱2,943,394
Temporary investments (see Note 21)	**23,543,417**	22,926,514
	₱25,200,982	₱25,869,908

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 ₱652 million, ₱468 million and ₱258 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

7. INVESTMENTS HELD FOR TRADING

This account consists of investments in Philippine government and corporate bonds and listed common shares. The Philippine government and corporate bonds have yields ranging from 2.58% to 7.22% and 3.40% to 8.50% in 2016 and 2015, respectively. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities in 2017.

The movements in this account are as follows:

	2016	2015
	(In Thousands)	
At beginning of the year	**₱843,256**	₱967,511
Mark-to-market gain (loss) during the year	**61,424**	(101,087)
Unrealized foreign exchange gain	**14,022**	12,525
Disposals - net	**—**	(35,693)
At end of the year	**₱918,702**	₱843,256

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

Interest income earned from investments held for trading amounted to ₱18 million, ₱18 million and ₱26 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

Dividend income earned from investments held for trading amounted to ₱15 million, ₱14 million and ₱13 million for the years ended December 31, 2016, 2015 and 2014, respectively.

8. RECEIVABLES

This account consists of:

	2016	2015
	(In Thousands)	
Trade:		
Sale of real estate	**₱34,390,089**	₱32,211,234
Rent:		
Third parties	**4,553,363**	4,387,765
Related parties (see Note 21)	**2,495,732**	2,422,175
Others (see Note 21)	**143,754**	146,823
Receivable from a co-investor (see Note 15)	**267,390**	270,674
Due from related parties (see Note 21)	**166,818**	101,069
Accrued interest (see Note 21)	**115,680**	108,998
Nontrade	**19,145**	31,265
Others (see Note 21)	**2,174,413**	1,740,603
	44,326,384	41,420,606
Less allowance for impairment	**966,427**	965,859
	43,359,957	40,454,747
Less noncurrent portion of receivables from sale of real estate (see Note 16)	**10,526,627**	7,962,615
	₱32,833,330	₱32,492,132

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

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

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱3,297 million and ₱2,842 million for the years ended December 31, 2016 and 2015, respectively (see Note 21).

  The Company also assigned receivables from real estate on a with recourse basis to local banks amounting to nil and ₱406 million for the years ended December 31, 2016 and 2015, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates ranging from 3.50% to 4.00% in 2015. The fair value of the assigned receivables and liability from assigned receivables approximates its cost.

- Receivables from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 15).

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

Interest income earned from receivables totaled ₱51 million, ₱70 million and ₱45 million for the years ended December 31, 2016, 2015 and 2014, 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:

	2016	2015
	(In Thousands)	
At beginning of the year	**₱965,859**	₱352,847
Provision for impairment	**568**	613,012
At end of the year	**₱966,427**	₱965,859

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

	2016	2015
	(In Thousands)	
Neither past due nor impaired	**₱35,829,127**	₱31,702,463
Past due but not impaired:		
Less than 30 days	**2,260,969**	2,666,853
31 - 90 days	**1,696,319**	2,153,625
91 - 120 days	**550,941**	733,877
Over 120 days	**3,022,601**	3,197,929
Impaired	**966,427**	965,859
	₱44,326,384	₱41,420,606

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

9. CONDOMINIUM AND RESIDENTIAL UNITS FOR SALE

This account consists of:

	2016	2015
	(In Thousands)	
Condominium units for sale	**₱4,923,079**	₱7,780,550
Residential units and subdivision lots	**282,432**	384,431
	₱5,205,511	₱8,164,981

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

	2016	2015
	(In Thousands)	
At beginning of the year	**₱7,780,550**	₱7,177,902
Transfer from land and development (see Note 10)	**3,484,149**	5,720,176
Cost of real estate sold (see Note 23)	**(6,341,620)**	(5,117,528)
At end of the year	**₱4,923,079**	₱7,780,550

Condominium units for sale pertains to completed projects and are stated at cost as at December 31, 2016 and 2015.

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

	2016	2015
	(In Thousands)	
At beginning of the year	**₱384,431**	₱400,983
Transfer from land and development (see Note 10)	**32,300**	304,988
Cost of real estate sold (see Note 23)	**(134,299)**	(321,540)
At end of the year	**₱282,432**	₱384,431

Residential units and subdivision lots for sale are stated at cost as at December 31, 2016 and 2015.

10. LAND AND DEVELOPMENT

This account consists of:

	2016	2015
	(In Thousands)	
Land and development	**₱44,855,411**	₱41,053,508
Land held for future development	**1,845,755**	1,866,660
	46,701,166	42,920,168
Less noncurrent portion	**19,472,641**	23,105,553
	₱27,228,525	₱19,814,615

Land and Development

The movements in “Land and development” account are as follows:

	2016	2015
	(In Thousands)	
At beginning of the year	**₱41,053,508**	₱40,856,084
Development cost incurred	**12,709,974**	11,165,617
Land acquisitions	**1,119,820**	1,203,487
Capitalized borrowing cost	**37,060**	407,549
Cost of real estate sold (see Note 23)	**(6,641,222)**	(6,600,008)
Transfer to condominium and residential units for sale (see Note 9)	**(3,516,449)**	(6,025,164)
Reclassified from property and equipment (see Note 13)	**—**	1,327
Others	**92,720**	44,616
At end of the year	**₱44,855,411**	₱41,053,508

Borrowing costs capitalized to land and development account amounted to ₱37 million and ₱408 million in 2016 and 2015, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.52% to 4.25% in 2016 and from 2.0% to 5.2% in 2015.

- SMDC
  Land and development pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱41,071 million and ₱23,440 million as at December 31, 2016 and 2015, respectively.

- Costa
  Land and development consist of condominium buildings and macro-infrastructure at Hamilo Coast in Nasugbu, Batangas. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱185 million and ₱214 million as at December 31, 2016 and 2015, respectively.

  As at December 31, 2016, the development of macro-infrastructure is still ongoing.

- HPI
  Estimated cost to complete HPI’s ongoing projects amounted to ₱1,112 million and ₱831 million as at December 31, 2016 and 2015, respectively.

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

	2016	2015
	(In Thousands)	
At beginning of the year	**₱1,866,660**	₱1,601,748
Acquisition and transferred-in costs and others	**(20,905)**	264,912
At end of year	**₱1,845,755**	₱1,866,660

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

11. AVAILABLE-FOR-SALE INVESTMENTS

This account consists of investments in:

	2016	2015
	(In Thousands)	
Shares of stock:		
Listed (see Note 21)	**₱21,202,713**	₱20,323,495
Unlisted	**10,012**	8,560
	21,212,725	20,332,055
Less noncurrent portion	**20,548,119**	19,689,781
	₱664,606	₱642,274

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

On February 25, 2015, the Company sold a portion of its listed shares of stock to SMIC based on a 5% discount to 30-day volume-weighted average price as of trade date resulting to a realized gain amounting to ₱7,410 million (see Note 21). In 2014, shares with acquisition cost of ₱2 million were sold resulting to a gain of ₱3 million.

Dividend income from investments in listed and unlisted shares of stock amounted to ₱327 million, ₱541 million and ₱322 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

	2016	2015
	(In Thousands)	
At beginning of the year	**₱16,621,547**	₱25,905,440
Unrealized gain (loss) due to changes in fair value	**880,863**	(1,873,182)
Realized gain on sale of AFS investments	**—**	(7,410,711)
At end of the year	**₱17,502,410**	₱16,621,547

12. PREPAID EXPENSES AND OTHER CURRENT ASSETS

This account consists of:

	2016	2015
	(In Thousands)	
Advances and deposits	**₱5,429,448**	₱4,829,512
Input and creditable withholding taxes	**3,292,430**	3,467,461
Prepaid taxes and other prepayments	**2,478,393**	2,108,087
Supplies and inventories	**478,415**	402,347
Cash in escrow (see Notes 21 and 28)	**209,974**	437,639
Others	**10,240**	57,825
	₱11,898,900	₱11,302,871

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

Also included in cash in escrow are deposits made in 2016 and 2015 for payments of liability arising from acquisition of land.

Interest income earned from the cash in escrow amounted to ₱3 million, ₱8 million and ₱7 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

13. PROPERTY AND EQUIPMENT

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2014	₱217,317	₱2,312,344	₱237,491	₱154,709	₱1,136,860	₱7,827	₱4,066,548
Additions	207	42,180	65,308	87,199	66,112	2,755	263,761
Disposals	—	(3,553)	(10)	(3,097)	(33,662)	—	(40,322)
Reclassifications	—	(727,330)	(133,075)	8,725	(551,122)	(10,582)	(1,413,384)
Balance at December 31, 2015	217,524	1,623,641	169,714	247,536	618,188	—	2,876,603
Additions	1,368	156,730	28,532	105,158	66,090	—	357,878
Disposals/retirements	—	(1,512)	(287)	(1,224)	(28,891)	—	(31,914)
Reclassifications (see Note 14)	—	(134,337)	—	—	—	—	(134,337)
Balance at December 31, 2016	₱218,892	₱1,644,522	₱197,959	₱351,470	₱655,387	₱—	₱3,068,230
Accumulated Depreciation and Amortization							
Balance at December 31, 2014	₱23	₱906,748	₱157,586	₱80,517	₱663,287	₱—	₱1,808,161
Depreciation and amortization (see Note 23)	73	128,812	33,417	25,486	83,645	—	271,433
Disposals/retirements	—	(716)	(199)	(1,866)	(9,693)	—	(12,474)
Reclassifications	—	(422,637)	(83,659)	15,590	(380,193)	—	(870,899)
Balance at December 31, 2015	96	612,207	107,145	119,727	357,046	—	1,196,221
Depreciation and amortization (see Note 23)	142	101,421	33,812	41,653	88,008	—	265,036
Disposals/retirements	—	—	(55)	(1,224)	(9,828)	—	(11,107)
Reclassifications (see Note 14)	—	(1,521)	—	—	—	—	(1,521)
Balance at December 31, 2016	₱238	₱712,107	₱140,902	₱160,156	₱435,226	₱—	₱1,448,629
Net Book Value							
As at December 31, 2015	₱217,428	₱1,011,434	₱62,569	₱127,809	₱261,142	₱—	₱1,680,382
As at December 31, 2016	**218,654**	**932,415**	**57,057**	**191,314**	**220,161**	**—**	**1,619,601**

As at December 31, 2016 and 2015, the carrying amount of fully depreciated property and equipment still in use amounted to ₱255 million and ₱226 million, respectively.

14. INVESTMENT PROPERTIES

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2014	₱40,778,555	₱132,389,872	₱25,006,748	₱38,616,275	₱236,791,450
Additions	18,391,404	14,508,309	1,811,820	9,190,394	43,901,927
Reclassifications (see Note 13)	281,629	14,761,945	2,284,279	(15,920,011)	1,407,842
Translation adjustment	64,091	99,036	12,795	78,218	254,140
Disposals	(310,664)	(362,481)	(101,076)	—	(774,221)
Balance as at December 31, 2015	59,205,015	161,396,681	29,014,566	31,964,876	281,581,138
Effect of common control business combination (Note 5)	34,819	—	102,634	—	137,453
Additions	5,638,320	7,002,148	3,580,221	13,212,070	29,432,759
Reclassifications (see Notes 13 and 16)	(1,523,350)	21,476,766	354,248	(20,575,261)	(267,597)
Translation adjustment	(18,575)	(271,994)	(30,712)	(162,890)	(484,171)
Disposals	(173,291)	(10,535)	(29,063)	—	(212,889)
Balance as at December 31, 2016	₱63,162,938	₱189,593,066	₱32,991,894	₱24,438,795	₱310,186,693
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2014	₱1,435,566	₱28,636,739	₱14,079,766	₱—	₱44,152,071
Depreciation and amortization (see Note 23)	217,002	4,204,068	2,274,449	—	6,695,519
Reclassifications (see Note 13)	9,908	397,325	459,452	—	866,685
Translation adjustment	4,041	16,752	5,437	—	26,230
Disposals	(41,085)	(360,637)	(98,044)	—	(499,766)
Balance as at December 31, 2015	1,625,432	32,894,247	16,721,060	—	51,240,739
Effect of common control business combination (Note 5)	20,972	89,402	—	—	110,374
Depreciation and amortization (see Note 23)	192,761	4,891,150	2,465,397	—	7,549,308
Reclassifications (see Notes 13 and 16)	(53,910)	82,369	(67,651)	—	(39,192)
Translation adjustment	(5,838)	(42,625)	(13,615)	—	(62,078)
Disposals	(78,986)	(10,535)	(22,001)	—	(111,522)
Balance as at December 31, 2016	₱1,700,431	₱37,904,008	₱19,083,190	₱—	₱58,687,629
Net Book Value					
As at December 31, 2015	₱57,579,583	₱128,502,434	₱12,293,506	₱31,964,876	₱230,340,399
As at December 31, 2016	**61,462,507**	**151,689,058**	**13,908,704**	**24,438,795**	**251,499,064**

Portions of investment properties located in China were mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Consolidated rent income from investment properties amounted to ₱45,693 million,₱40,743 million and ₱36,497 million for the years ended December 31, 2016, 2015 and 2014, respectively. Consolidated costs and expenses from investment properties which generate income amounted to ₱24,577 million, ₱23,461 million and ₱20,006 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In 2016, the Company acquired several parcels of land through acquisition of certain single - asset entities totaling ₱1,239 million (see Note 2).

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱24,439 million and ₱31,965 million as at December 31, 2016 and 2015, respectively.

In 2016, shopping mall complex under construction mainly pertains to cost of land amounting to ₱2,765 million, and costs incurred for the development of SM Cagayan de Oro Premier, SM Puerto Princesa, SM Olongapo 2, SM Center Luna Tuguegarao and the ongoing redevelopment of SM Mall of Asia, SM Sucat and SM Xiamen.

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

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱109,324 million and ₱106,136 million as at December 31, 2016 and 2015, 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 ₱20,059 million and ₱24,304 million as at December 31, 2016 and 2015, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,921 million, ₱2,039 million and ₱51 million for the years ended December 31, 2016, 2015 and 2014, respectively. Capitalization rates used range from 2.35% to 4.82%, from 2.06% to 6.07%, and from 4.61% to 5.99% for the years ended December 31, 2016, 2015 and 2014, respectively. Foreign exchange loss amounting to ₱528 million and ₱642 million were also capitalized to the construction of investment property for the years ended December 31, 2016 and 2015, respectively.

The fair value of investment properties amounted to ₱800,445 million as at December 31, 2015 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	8.00% - 11.00%
Capitalization rate	5.75% - 8.50%
Average growth rate	2.34% - 12.08%

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at December 31, 2016, the Company's management believes that there were no conditions present in 2016 that would significantly reduce the fair value of the investment properties from that determined on December 31, 2015.

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

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in Associates
This pertains mainly to investments in the following companies:

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

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

As at December 31, 2016, OHI's total assets, total liabilities and total equity amounted to ₱22,017 million, ₱17,866 million and ₱4,151 million, respectively. The carrying value of investment in OHI amounted to ₱15,604 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱13,943 million.

As at December 31, 2015, OHI's total assets, total liabilities and total equity amounted to ₱23,664 million, ₱19,944 million and ₱3,720 million, respectively. The carrying value of investment in OHI amounted to ₱15,460 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱13,799 million.

The share in profit and total comprehensive income of OHI amounted to ₱144 million and ₱27 million for the years ended December 31, 2016 and 2015, respectively.

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

The carrying value of investment in FHREC amounted to ₱1,156 million and ₱1,109 million as at December 31, 2016 and 2015, respectively. This consists of the acquisition cost amounting to ₱274 million and ₱277 million as at December 31, 2016 and 2015, respectively, and cumulative equity in net earnings amounting to ₱882 million and ₱822 million as at December 31, 2016 and 2015, respectively. The share in profit and total comprehensive income amounted to ₱60 million, ₱356 million and ₱183 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 23 malls across Metro Manila and Luzon. The investment in Waltermart is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

The aggregate carrying values of investment in Waltermart amounted to ₱5,773 million and ₱5,501 million as at December 31, 2016 and 2015, respectively. These consist of the acquisition costs totaling ₱5,145 million and ₱5,115 million and cumulative equity in net earnings totaling ₱628 million and ₱386 million as at December 31, 2016 and 2015, respectively. The aggregate share in profit and total comprehensive income and others amounted to ₱242 million, ₱199 million and ₱122 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In June 2016, SMDC entered into a shareholder's agreement through ST 6747 Resources Corporation (STRC) for the development of a high-end luxury residential project. Under the provisions of the agreement, each party shall have 50% ownership interest and is required to maintain each party's equal equity interest in STRC.

As at December 31, 2016, the development of the high-end luxury residential project has not yet started. The carrying value of investment in STRC amounted to ₱250 million as at December 31, 2016. The investment in STRC is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

In 2016, PSC entered into a joint venture agreement through Metro Rapid Transit Services, Inc. (MRTSI) for the establishment and operation of a high quality public transport system. The investment in MRTSI is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

As at December 31, 2016, the carrying values of investment in MRTSI amounted to ₱39 million, which consist of the acquisition costs totaling ₱51 million and share in net loss totaling ₱12 million.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2016 and 2015.

16. OTHER NONCURRENT ASSETS

This account consists of:

	2016	2015
	(In Thousands)	
Bonds and deposits	**₱11,757,626**	₱9,454,397
Receivables from sale of real estate - net of current portion (see Note 8)	**10,526,627**	7,962,615
Land use rights	**9,727,575**	9,563,565
Time deposits (see Notes 21 and 29)	**3,955,706**	4,561,849
Deferred input tax	**1,793,284**	2,805,664
Others (see Note 25)	**1,635,790**	1,145,133
	₱39,396,608	₱35,493,223

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

Land use rights
Included under "Land use rights" account are certain parcels of real estate properties 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) in March 2007. The value of these real estate properties were not part of the consideration paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets. Portions of land use rights were mortgaged as collaterals to secure the domestic borrowings in China (see Note 19).

Time Deposits
Time deposits with various maturities within one year were used as collateral for use of credit lines obtained by the Company from related party banks. Interest income earned amounted to ₱50 million, ₱49 million and ₱47 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

17. LOANS PAYABLE

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱840 million and ₱4,675 million as at December 31, 2016 and 2015, respectively, with due dates of less than one year. These loans bear interest rates ranging from 2.50% to 3.00% in 2016 and 2015.

Interest expense incurred from loans payable amounted to ₱22 million, ₱261 million and ₱106 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

18. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

This account consists of:

	2016	2015
	(In Thousands)	
Trade:		
Third parties	**₱18,307,072**	₱17,485,188
Related parties (see Note 21)	**66,577**	61,283
Tenants' and customers' deposits (see Note 27)	**20,751,201**	18,779,424
Accrued operating expenses:		
Third parties	**9,546,512**	9,647,340
Related parties (see Note 21)	**574,278**	692,897
Liability for purchased land	**4,279,327**	5,602,380
Deferred output VAT	**1,426,140**	1,289,236
Accrued interest (see Note 21)	**1,118,214**	767,172
Payable to government agencies	**570,947**	630,989
Nontrade	**370,827**	321,988
Due to related parties (see Note 21)	**66,356**	88,869
Others	**541,007**	864,100
	57,618,458	56,230,866
Less noncurrent portion	**17,293,954**	16,273,864
	₱40,324,504	₱39,957,002

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.

- The terms and conditions relating to due to related parties are further discussed in Note 21.

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

	2016	2015
	(In Thousands)	
Utilities	**₱4,572,637**	₱3,870,702
Marketing and advertising	**581,957**	650,491
Payable to contractors and others	**4,391,918**	5,126,147
	₱9,546,512	₱9,647,340

- Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue. Tenants' deposits refers to security deposits received from various tenants upon inception of the respective lease contracts on the Company's investment properties. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any.

- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.

- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.

19. LONG-TERM DEBT

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance 2016	2015
					(In Thousands)	
Parent Company						
U.S. dollar-denominated loans	May 6, 2011—April 23, 2014	March 21, 2016—April 14, 2019	LIBOR + spread; semi-annual	Unsecured	**₱27,346,000**	₱53,883,700
Philippine peso-denominated loans	August 15, 2006—July 26, 2016	March 19, 2016—July 26, 2026	Floating PDST-R2 + margin; 4.20%—9.75%	Unsecured	**77,201,000**	64,300,700
Subsidiaries						
U.S. dollar-denominated loans	April 23, 2014—March 21, 2016	April 14, 2019—January 29, 2021	LIBOR + spread; semi-annual	Unsecured	**27,895,172**	—
Philippine peso-denominated loans	October 24, 2011—August 30, 2016	October 4, 2016—June 27, 2023	Floating PDST-R2 + margin; 3.13%—5.94%	Unsecured	**31,612,567**	33,826,600
China yuan renminbi-denominated loans	July 28, 2015—December 29, 2016	December 31, 2019—June 1, 2020	CBC rate less 10%; quarterly	Secured	**524,743**	32,249
					164,579,482	152,043,249
Less debt issue cost					**1,041,797**	1,049,764
					163,537,685	150,993,485
Less current portion					**7,154,151**	25,041,044
					₱156,383,534	₱125,952,441

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

Parent Company

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

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

- This represents a ₱10 billion fixed rate bonds issued on July 26, 2016. The issue consists of the ten-year or Series F Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 4.2005% per annum due on July 26, 2026.

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

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

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

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

Subsidiaries

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

- This represents a US$270 million syndicated loan obtained on March 21, 2016. The loans bear an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with maturity on January 29, 2021. Loan amounting to US$270 million is hedged against interest rate risks using interest rate swap contracts and a portion of the loan amounting to US$180 million is hedged against foreign exchange risks using principal only swap contracts (see Notes 28 and 29).

China Yuan Renminbi-denominated Five-Year Loans

- This represents a ¥90 million, out of ¥400 million loan facility obtained on July 28, 2015 to finance the construction of shopping malls. The loan is payable in quarterly installments until June 1, 2020. The loan has a floating rate with a quarterly re-pricing at prevailing rate dictated by People's Bank of China. The loan carries interest rates ranging from 4.75% to 5.25% and is secured by a portion of investment properties and land use rights in China (see Note 14).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.75:0.25 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control. As at December 31, 2016 and 2015, the Company is in compliance with the terms of its loan covenants.

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

Interest expense incurred from long-term debt amounted to ₱4,353 million, ₱3,038 million and ₱3,824 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 24).

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

	2016	2015
	(In Thousands)	
Balance at beginning of the year	**₱1,049,764**	₱1,093,253
Additions	**405,271**	290,082
Amortization	**(413,238)**	(333,571)
Balance at end of the year	**₱1,041,797**	₱1,049,764

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)	
Within 1 year	₱7,154,151	(₱362,028)	₱6,792,123
More than 1 year to 5 years	116,003,471	(596,811)	115,406,660
More than 5 years	41,421,860	(82,958)	41,338,902
	₱164,579,482	(₱1,041,797)	₱163,537,685

20. EQUITY

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

As at December 31, 2016 and 2015, 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:

	2016	2015
	(In Thousands)	
Balance at beginning of the year	**₱28,833,608**	₱28,833,513
Acquisition of non-controlling interest	**—**	95
Balance at end of the year	**₱28,833,608**	₱28,833,608

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 2,451 and 2,487 as at December 31, 2016 and 2015, respectively.

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

	2016	2015
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,177,063**	₱33,177,063
Net equity adjustments from common control business combinations (see Note 5)	**9,309,730**	9,068,132
Arising from acquisition of non-controlling interests	**(2,941,168)**	(2,941,168)
As presented in the consolidated balance sheets	**₱39,545,625**	₱39,304,027

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

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

Retained Earnings
In 2016, the BOD approved the declaration of cash dividend of ₱0.23 per share or ₱6,642 million to stockholders of record as of April 29, 2016, ₱10 million of which was received by SMDC. This was paid on May 12, 2016. In 2015, the BOD approved the declaration of cash dividend of ₱0.21 per share or ₱6,065 million to stockholders of record as of May 14, 2015, ₱10 million of which was received by SMDC. This was paid on June 9, 2015. In 2014, the BOD approved the declaration of cash dividend of ₱0.19 per share or ₱5,286 million to stockholders of record as of May 15, 2014, ₱9 million of which was received by SMDC.

As at December 31, 2016 and 2015, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2017, the Company expects to incur capital expenditures of at least ₱50 billion.

The retained earnings account is restricted for the payment of dividends to the extent of ₱56,724 million and ₱49,592 million as at December 31, 2016 and 2015, respectively, representing the cost of shares held in treasury (₱3,355 million as at December 31, 2016 and 2015) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱53,369 million and ₱46,237 million as at December 31, 2016 and 2015, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock
As at December 31, 2016 and 2015, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱3,355 million. The movement of the treasury stock of the Company are as follows:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱4,332,692**	₱4,332,787
Acquisition of non-controlling interest	**—**	(95)
Balance at end of year	**₱4,332,692**	₱4,332,692

21. RELATED PARTY TRANSACTIONS

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

Terms and Conditions of Transactions with Related Parties
There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2016 and 2015, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash.

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

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2016	2015	2014	**2016**	2015	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱47,870**	₱48,344	₱44,329	**₱—**	₱—	Noninterest-bearing	
Rent receivable	**—**	—	—	**57,942**	22,108	Noninterest-bearing	Unsecured; not impaired
Service income	**31,368**	27,903	44,200	**—**	—	Noninterest-bearing	Unsecured; not impaired
Service fee receivable	**—**	—	—	**35,827**	17	Noninterest-bearing	Unsecured; not impaired
Due from related parties	**—**	—	488	**—**	449	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	**83,335**	91,611	87,276	**—**	—	Noninterest-bearing	Unsecured
Accrued rent payable	**—**	—	—	**(236)**	(1,427)	Noninterest-bearing	Unsecured
Due to related parties	**—**	—	—	**—**	(26,707)	On demand; noninterest-bearing	Unsecured
Trade payable	**—**	37,831	—	**(4,314)**	(39,855)	Noninterest-bearing	Unsecured
AFS investments	**—**	—	—	**95,698**	84,156	Noninterest-bearing	Unsecured; not impaired
Dividend income	**1,035**	1,033	1,007	**—**	—	Noninterest-bearing	Unsecured
Gain on sale of AFS investments	**—**	7,410,301	—	**—**	—	Noninterest-bearing	Unsecured
Banking and Retail Group							
Cash and cash equivalents	**339,752,362**	116,720,058	183,027,363	**17,172,824**	18,907,056	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	**—**	—	65,416	**622,106**	563,897	Noninterest-bearing	Unsecured; not impaired
Rent income	**13,600,314**	12,419,414	11,379,209	**—**	—	Noninterest-bearing	Unsecured; not impaired
Rent receivable	**—**	—	—	**2,410,997**	2,371,247		
Service income	**36,944**	1,663	2,351	**—**	—	Noninterest-bearing	Unsecured; not impaired
Management fee income	**4,164**	6,533	7,412	**—**	—	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	**—**	—	—	**28,893**	29,405		
Deferred rent income	**—**	—	—	**(43,548)**	(63,548)	Noninterest bearing	Unsecured
Interest income	**164,128**	260,183	238,595	**—**	—	Interest-bearing	Unsecured; not impaired
Accrued interest receivable	**—**	—	—	**50,482**	44,534	Noninterest-bearing	Unsecured; not impaired
Due from related parties	**92**	—	7,261	**111**	19	On demand; noninterest-bearing	Unsecured; not impaired
Receivable financed	**3,297,217**	2,842,481	3,750,848	**—**	—	Without recourse	Unsecured
Time deposits	**—**	2,160,836	2,249,600	**3,923,002**	4,410,436	Interest-bearing	Unsecured
Loans payable and long-term debt	**1,275,667**	—	6,915,000	**(1,068,167)**	(961,624)	Interest-bearing	Combination of secured and unsecured
Interest expense	**21,923**	101,856	658,400	**—**	—	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable	**—**	—	—	**(4,404)**	(638)	Noninterest-bearing	Unsecured
Rent expense	**1,203**	1,523	288	**—**	—	Noninterest-bearing	Unsecured
Trade payable	**46,583**	4,621	—	**(52,469)**	(5,886)	Noninterest-bearing	Unsecured
Due to related parties	**—**	2,592	793	**—**	(3,385)	Noninterest-bearing	Unsecured
Management fee expense	**2,748**	3,452	2,135	**—**	—	Noninterest-bearing	Unsecured
Accrued management fee	**—**	—	—	**(850)**	(876)	Noninterest-bearing	Unsecured
AFS investments	**—**	—	52,886	**11,819,503**	10,968,613	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	**—**	230,139	—	**209,974**	437,639	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	**187,908**	248,407	241,712	**—**	—	Noninterest-bearing	Unsecured
Other Related Parties							
Rent income	**62,743**	50,472	—	**—**	—	Noninterest-bearing	
Rent receivable	**—**	—	—	**26,793**	28,820	Noninterest-bearing	Unsecured; not impaired
Service income	**72,387**	4,702	—	**—**	—	Noninterest-bearing	Unsecured; not impaired
Due from related parties	**66,106**	—	—	**166,707**	100,601	On demand; noninterest-bearing	Unsecured; not impaired
Management fee income	**3,532**	—	10,912	**—**	—	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	**—**	—	—	**7,993**	7,993		
Rent expense	**5,164**	4,962	3,927	**—**	—	—	—
Due to related parties	**7,579**	—	56,138	**(66,356)**	(58,777)	Noninterest-bearing	Unsecured
Accrued expenses	**—**	—	—	**(573,192)**	(573,192)	Noninterest-bearing	Unsecured
Trade payable	**—**	—	—	**(9,794)**	(15,542)	Noninterest-bearing	Unsecured
AFS investments	**—**	—	—	**2,353,772**	2,140,461	Noninterest-bearing	Unsecured; not impaired
Dividend income	**69,878**	202,277	14,769	**—**	—	Noninterest-bearing	Unsecured

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

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

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

Service Fees
The Company provides manpower and other services to affiliates.

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

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

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

The Company also entered into financing arrangements with BDO and China Bank. There were no assigned receivables on a with recourse basis to BDO and China Bank in 2016 and 2015 (see Note 8).

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, 2016, 2015 and 2014 consist of short-term employee benefits amounting to ₱504 million, ₱363 million and ₱340 million, respectively, and post-employment benefits (pension benefits) amounting to ₱98 million, ₱61 million and ₱27 million, respectively.

22. OTHER REVENUE

This account consists of:

	2016	2015	2014
		(In Thousands)	
Food and beverages	**₱1,158,033**	₱897,992	₱725,524
Amusement and others	**844,394**	733,742	609,944
Net merchandise sales	**764,207**	678,877	642,937
Bowling and ice skating fees	**253,229**	217,463	229,324
Advertising income	**236,529**	227,899	200,752
Others	**1,200,073**	1,029,232	914,198
	₱4,456,465	₱3,785,205	₱3,322,679

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

23. COSTS AND EXPENSES

This account consists of:

	2016	2015	2014
		(In Thousands)	
Cost of real estate sold (see Notes 9 and 10)	**₱13,117,141**	₱12,039,076	₱12,257,032
Administrative (see Notes 21 and 25)	**9,607,265**	8,463,483	7,852,645
Depreciation and amortization (see Notes 13 and 14)	**7,814,344**	6,966,952	6,579,781
Marketing and selling	**4,644,125**	3,668,214	3,400,983
Business taxes and licenses	**3,803,376**	3,465,807	3,125,697
Film rentals	**2,567,038**	2,597,433	2,308,946
Rent (see Notes 21 and 27)	**1,450,981**	1,317,443	1,186,622
Insurance	**463,462**	393,738	418,581
Others	**1,083,443**	1,160,314	1,423,274
	₱44,551,175	₱40,072,460	₱38,553,561

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:

	2016	2015	2014
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱651,506**	₱468,438	₱257,501
Time deposits (see Note 16)	**50,130**	49,403	46,688
Investments held for trading (see Note 7)	**17,655**	17,998	25,791
Short-term investments	**—**	—	15,527
Others (see Notes 8 and 12)	**53,955**	77,854	51,947
	₱773,246	₱613,693	₱397,454
Interest expense on:			
Long-term debt (see Note 19)	**₱4,353,284**	₱3,038,426	₱3,824,165
Loans payable (see Note 17)	**22,415**	260,769	105,742
Others	**33,915**	79,909	169,592
	₱4,409,614	₱3,379,104	₱4,099,499

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, 2016.

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")

	2016	2015	2014
		(In Thousands)	
Current service cost	**₱175,449**	₱106,465	₱72,808
Net interest cost (income)	**(20,563)**	804	(5,967)
Curtailment	**—**	—	(302)
	₱154,886	₱107,269	₱66,539

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

	2016	2015
	(In Thousands)	
Fair value of plan assets	**₱1,976,121**	₱329,279
Defined benefit obligation	**(1,448,067)**	(224,365)
Effect of asset ceiling limit	**(74,352)**	(10,613)
Net pension asset	**₱453,702**	₱94,301

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

	2016	2015
	(In Thousands)	
Defined benefit obligation	**₱41,395**	₱385,207
Fair value of plan assets	**(9,655)**	(311,972)
Net pension liability	**₱31,740**	₱73,235

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

	2016	2015
	(In Thousands)	
Balance at beginning of the year	**₱609,572**	₱597,354
Effect of common control business combination (see Note 5)	**790,753**	—
Current service cost	**175,449**	106,465
Actuarial loss (gain):		
Changes in financial assumptions	**(199,054)**	(115,093)
Experience adjustments	**44,625**	20,015
Changes in demographic assumptions	**36,860**	(31,645)
Interest cost	**72,227**	28,058
Benefits paid from assets	**(43,055)**	(10,698)
Transfer to (from) the plan	**2,085**	(430)
Others	**—**	15,546
Balance at end of the year	**₱1,489,462**	₱609,572

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

	2016	2015
	(In Thousands)	
Related to pension asset	**₱1,448,067**	₱224,365
Related to pension liability	**41,395**	385,207
	₱1,489,462	₱609,572

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

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱641,251**	₱546,126
Effect of common control business combination (see Note 5)	**1,179,772**	—
Contributions	**108,015**	107,082
Interest income	**95,869**	27,530
Benefits paid	**(43,055)**	(10,698)
Transfer to (from) the plan and others	**2,085**	(430)
Remeasurement gain (loss)	**1,839**	(28,359)
Balance at end of year	**₱1,985,776**	₱641,251

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

	2016	2015
	(In Thousands)	
Related to pension asset	**₱1,976,121**	₱329,279
Related to pension liability	**9,655**	311,972
	₱1,985,776	₱641,251

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

	2016	2015
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱10,613**	₱5,469
Effect of common control business combination (see Note 5)	**48,741**	—
Remeasurement loss	**11,919**	4,868
Interest cost	**3,079**	276
	₱74,352	₱10,613

The carrying amounts and fair values of the plan assets as at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱237,205**	**₱237,205**	₱97,143	₱97,143
Investments in:				
Common trust funds	**674,805**	**674,805**	210,439	210,439
Government securities	**499,912**	**499,912**	166,833	166,833
Debt and other securities	**490,018**	**490,018**	142,172	142,172
Equity securities	**71,147**	**71,147**	20,557	20,557
Other financial assets	**12,689**	**12,689**	4,107	4,107
	₱1,985,776	**₱1,985,776**	₱641,251	₱641,251

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 2.13% to 8.75% and have maturities ranging from 2017 to 2035;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 4.35% to 6.80% and have maturities ranging from 2019 to 2025;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits 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:

	2016	2015
	(In Thousands)	
Cash and cash equivalents	**₱237,205**	₱97,143
Interest income from cash and cash equivalents	**2,191**	1,649
Investments in common trust funds	**674,805**	210,439
Loss from investments in common trust funds	**(29,864)**	(94,074)

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

	2016	2015	2014
Discount rate	**5.4%—6.1%**	4.9%—5.9%	4.5%—5.6%
Future salary increases	**3.0%—9.0%**	3.0%—9.0%	3.0%—10.0%

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

	2016	2015	2014
		(In Thousands)	
Actuarial loss (gain)	**(₱119,406)**	(₱126,723)	₱155,097
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**11,919**	33,227	(11,953)
	(₱107,487)	(₱93,496)	₱143,144

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱88,751)
	(50)	97,773
Future salary increases	100	184,111
	(100)	(157,435)

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, 2016:

Year	Amount
	(In Thousands)
2017	₱122,206
2018	55,109
2019—2020	150,993
2021—2026	983,447

The Company expects to contribute about ₱62 million to its defined benefit pension plan in 2017.

The weighted average duration of the defined benefit obligation is 18 years as of December 31, 2016 and 2015.

26. INCOME TAX

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

	2016	2015
	(In Thousands)	
Deferred tax assets:		
Excess of fair value over cost of investment properties and others	**₱690,533**	₱430,385
NOLCO	**614,549**	440,906
Accrued marketing and rent expenses	**210,673**	228,443
Provision for impairment of receivables	**104,246**	108,238
Deferred rent income	**25,285**	30,270
MCIT	**13,963**	19,942
Unamortized past service cost	**8,091**	5,381
	1,667,340	1,263,565
Deferred tax liabilities:		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(1,803,405)**	(1,571,251)
Unrealized gross profit on sale of real estate	**(1,042,412)**	(1,164,236)
Pension asset	**(106,338)**	(10,658)
Others	**(130,268)**	(160,299)
	(3,082,423)	(2,906,444)
Net deferred tax liabilities	**(₱1,415,083)**	(₱1,642,879)

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

	2016	2015
	(In Thousands)	
Deferred tax assets	**₱1,137,729**	₱846,111
Deferred tax liabilities	**(2,552,812)**	(2,488,990)
	(₱1,415,083)	(₱1,642,879)

As at December 31, 2016 and 2015, unrecognized deferred tax assets amounted to ₱56 million and ₱58 million, respectively, bulk of which pertains to NOLCO.

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:

	2016	2015	2014
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	**(0.4)**	(0.5)	(0.4)
Availment of income tax holiday	**(3.4)**	(3.2)	(3.2)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.7)**	(0.6)	(0.9)
Nondeductible expenses	**(4.1)**	(8.5)	(5.3)
Effective tax rates	**21.4%**	17.2%	20.2%

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:

	2016	2015
	(In Millions)	
Within one year	**₱1,977**	₱1,643
After one year but not more than five years	**6,924**	5,272
After more than five years	**3,915**	3,929
	₱12,816	₱10,844

Consolidated rent income amounted to ₱45,693 million, ₱40,743 million and ₱36,497 million for the years ended December 31, 2016, 2015 and 2014, 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:

	2016	2015
	(In Millions)	
Within one year	**₱926**	₱717
After one year but not more than five years	**3,888**	3,190
After five years	**27,863**	25,737
Balance at end of year	**₱32,677**	₱29,644

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,451 million, ₱1,317 million and ₱1,187 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 23).

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, investments held for trading, accrued interest and other receivables, AFS investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 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 6, 7 and 19.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2016 and 2015, after taking into account the effect of interest rate swaps, approximately 70% and 63%, 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, 2016 and 2015:

				2016			
	Interest Rate	**1—<2 Years**	**2—<3 Years**	**3—<4 Years**	**4—<5 Years**	**=>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated corporate notes	**5.25%—5.88%**	**₱8,700**	**₱8,700**	**₱8,700**	**₱5,708,520**	**₱2,939,780**	**₱8,674,400**
Philippine peso-denominated fixed rate notes	**3.84%—6.74%**	**₱778,000**	**₱4,586,800**	**₱6,586,800**	**₱886,800**	**₱13,105,600**	**25,944,000**
Philippine peso-denominated fixed rate retail bonds	**4.20%—5.74%**	**₱—**	**₱—**	**₱—**	**₱15,035,740**	**₱34,964,260**	**50,000,000**
Other bank loans	**3.13%—5.00%**	**₱—**	**₱75,000**	**₱50,000**	**₱588,167**	**₱250,000**	**963,167**
Floating Rate							
U.S. dollar-denominated five-year term loans	**LIBOR + spread**	**$—**	**$500,000**	**$300,000**	**$—**	**$270,000**	**52,755,172**
U.S. dollar-denominated bilateral loans	**LIBOR + spread**	**$50,000**	**$—**	**$—**	**$—**	**$—**	**2,486,000**
Philippine peso-denominated corporate notes	**PDST-R2+margin%**	**₱100,000**	**₱100,000**	**₱100,000**	**₱100,000**	**₱5,260,000**	**5,660,000**
Philippine peso-denominated floating rate notes	**PDST-R2+margin%**	**₱3,630,000**	**₱318,000**	**₱1,118,000**	**₱1,218,000**	**₱11,288,000**	**17,572,000**
China yuan renminbi-denominated five-year loan	**CBC rate less 10%**	**₱151,451**	**₱151,451**	**₱151,522**	**₱70,319**	**₱—**	**524,743**
							₱164,579,482
Less debt issue cost							**1,041,797**
							₱163,537,685

				2015			
	Interest Rate	1—<2 Years	2—<3 Years	3—<4 Years	4—<5 Years	=>5 Years	Total
Fixed Rate							
Philippine peso-denominated corporate notes	5.25%—6.65%	₱16,700	₱16,700	₱16,700	₱16,700	₱9,376,300	₱9,443,100
Philippine peso-denominated fixed rate notes	4.32%—6.74%	₱5,463,600	₱1,985,100	₱4,559,900	₱6,662,200	₱9,070,400	27,741,200
Philippine peso-denominated fixed rate retail bonds	4.51%—5.74%	₱—	₱—	₱—	₱—	₱40,000,000	40,000,000
Other bank loans	4.25%—9.75%	₱1,200,000	₱412,500	₱—	₱235,000	₱325,000	2,172,500
Floating Rate							
U.S. dollar-denominated five-year term loans	LIBOR + spread	$270,000	$—	$500,000	$300,000	$—	50,354,200
U.S. dollar-denominated bilateral loans	LIBOR + spread	$—	$50,000	$—	$—	$—	2,353,000
Other U.S. dollar loans	LIBOR + spread	$—	$—	$25,000	$—	$—	1,176,500
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱100,000	₱5,360,000	5,760,000
Philippine peso-denominated floating rate notes	PDST-R2+margin%	₱5,046,500	₱4,214,000	₱210,000	₱1,010,000	₱2,030,000	12,510,500
Philippine peso-denominated five-year bilateral loans	PDST-R2+margin%	₱500,000	₱—	₱—	₱—	₱—	500,000
China yuan renminbi-denominated five-year loan	CBC rate less 10%	₱8,044	₱8,044	₱8,044	₱8,117	₱—	32,249
							₱152,043,249
Less debt issue cost							1,049,764
							₱150,993,485

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

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)*
2016	**100**	**(₱116,611)**
	50	**(58,306)**
	(100)	**116,611**
	(50)	**58,306**
2015	100	(₱123,780)
	50	(61,890)
	(100)	123,780
	(50)	61,890

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk arises mainly from its debt issuances which are denominated in U.S. dollars and subsequently remitted to China to fund its capital expenditure requirements. To manage its foreign currency risk, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets amounted to US$45 million (₱2,242 million) as at December 31, 2016 and US$32 million (₱1,504 million) as at December 31, 2015. The Company's foreign currency-denominated monetary liabilities amounted to US$391 million (₱19,460 million) as at December 31, 2016, and US$802 million (₱37,745 million) as at December 31, 2015.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱49.72 to US$1.00 and ₱47.06 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2016 and 2015, 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)
2016	**1.50**	**(₱129,862)**
	1.00	**(86,574)**
	(1.50)	**129,862**
	(1.00)	**86,574**
2015	1.50	(₱288,785)
	1.00	(192,523)
	(1.50)	288,785
	(1.00)	192,523

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 and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, investments held for trading and current AFS investments amounting to ₱25,201 million, ₱919 million and ₱665 million, respectively, as at December 31, 2016 and ₱25,870 million, ₱843 million and ₱642 million, respectively, as at December 31, 2015 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2016			
	Within 1 Year	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Loans payable	**₱840,000**	**₱—**	**₱—**	**₱840,000**
Accounts payable and other current liabilities*	**39,597,433**	**—**	**—**	**39,597,433**
Long-term debt (including current portion)***	**11,923,309**	**131,233,080**	**45,794,878**	**188,951,267**
Liability for purchased land - net of current portion	**—**	**1,211,658**	**—**	**1,211,658**
Tenants' and customers' deposits	**—**	**14,613,446**	**198,834**	**14,812,280**
Other noncurrent liabilities**	**—**	**4,190,112**	**—**	**4,190,112**
	₱52,360,742	**₱151,248,296**	**₱45,993,712**	**₱249,602,750**

	2015			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
		(In Thousands)		
Loans payable	₱4,675,000	₱—	₱—	₱4,675,000
Accounts payable and other current liabilities*	39,010,668	—	—	39,010,668
Long-term debt (including current portion)***	31,357,365	120,519,559	25,013,426	176,890,350
Liability for purchased land - net of current portion	—	2,081,708	—	2,081,708
Tenants' and customers' deposits	—	13,019,430	198,834	13,218,264
Other noncurrent liabilities**	—	3,341,067	—	3,341,067
	₱75,043,033	₱138,961,764	₱25,212,260	₱239,217,057

**Excluding nonfinancial liabilities amounting to ₱727 million and ₱946 million as at December 31, 2016 and 2015, respectively.*
***Excluding nonfinancial liabilities amounting to ₱1,625 million and ₱1,412 million as at December 31, 2016 and 2015, respectively.*
****Long-term debt amounting to US$270 million was refinanced in January 2016.*

Credit Risk
The Company trades only with recognized, creditworthy related and third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, 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, 2016 and 2015, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2016 and 2015, the credit quality of the Company's financial assets is as follows:

	2016			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	**₱25,102,744**	**₱—**	**₱—**	**₱25,102,744**
Receivables**	**17,796,336**	**7,386,567**	**7,530,830**	**32,713,733**
Cash in escrow (included under "Prepaid expenses and other current assets")	**209,974**	**—**	**—**	**209,974**
Real estate receivable - noncurrent (included under "Other noncurrent assets")	**10,526,627**	**—**	**—**	**10,526,627**
Time deposits (included under "Other noncurrent assets")	**3,955,706**	**—**	**—**	**3,955,706**
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	**918,702**	**—**	**—**	**918,702**
Derivative assets	**5,102,735**	**—**	**—**	**5,102,735**
AFS Investments				
Shares of stocks	**21,202,713**	**10,012**	**—**	**21,212,725**
	₱84,815,537	**₱7,396,579**	**₱7,530,830**	**₱99,742,946**

** Excluding cash on hand amounting to ₱98 million*
***Excluding nonfinancial assets amounting to ₱119 million*

	2015			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	₱25,784,727	₱—	₱—	₱25,784,727
Receivables**	17,914,412	5,821,771	8,752,284	32,488,467
Cash in escrow (included under "Prepaid expenses and other current assets")	437,639	—	—	437,639
Real estate receivable - noncurrent (included under "Other noncurrent assets")	7,962,615	—	—	7,962,615
Time deposits (included under "Other noncurrent assets")	4,561,849	—	—	4,561,849
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	843,256	—	—	843,256
Derivative assets	2,600,799	—	—	2,600,799
AFS Investments				
Shares of stocks	20,323,495	8,560	—	20,332,055
	₱80,428,792	₱5,830,331	₱8,752,284	₱95,011,407

**Excluding cash on hand amounting to ₱85 million*
***Excluding nonfinancial assets amounting to ₱4 million*

Equity Price Risk
The Company's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2016 and 2015) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2016	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+3.04%**	**₱638**
	-3.04%	**(638)**

	2015	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+4.00%	₱472
	-4.00%	(472)

Capital Management
Capital includes equity attributable to the owners of the Parent.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is interest-bearing debt divided by total capital plus interest-bearing debt and net interest-bearing debt divided by total capital plus net interest-bearing debt. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents and investments held for trading.

As at December 31, 2016 and 2015, the Company's gearing ratios are as follows:

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

	2016	2015
	(In Thousands)	
Loans payable	**₱840,000**	₱4,675,000
Current portion of long-term debt	**7,154,151**	25,041,044
Long-term debt - net of current portion	**156,383,534**	125,952,441
Total interest-bearing debt (a)	**164,377,685**	155,668,485
Total equity attributable to equity holders of the parent	**231,481,032**	212,488,822
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱395,858,717**	₱368,157,307
Gearing ratio (a/b)	**42%**	42%

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

	2016	2015
	(InThousands)	
Loans payable	**₱840,000**	₱4,675,000
Current portion of long-term debt	**7,154,151**	25,041,044
Long-term debt - net of current portion	**156,383,534**	125,952,441
Less cash and cash equivalents and investments held for trading	**(26,119,684)**	(26,713,164)
Total net interest-bearing debt (a)	**138,258,001**	128,955,321
Total equity attributable to equity holders of the parent	**231,481,032**	212,488,822
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱369,739,033**	₱341,444,143
Gearing ratio (a/b)	**37%**	38%

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:

	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱918,702**	**₱918,702**	₱843,256	₱843,256
Derivative assets	**5,102,735**	**5,102,735**	2,600,799	2,600,799
	6,021,437	**6,021,437**	3,444,055	3,444,055
Loans and receivables:				
Noncurrent portion of receivable from sale of real estate	**10,526,627**	**10,150,249**	7,962,615	7,833,491
Time deposits (included under “Other noncurrent assets”)	**3,955,706**	**3,814,271**	4,561,849	4,528,341
AFS investments -				
Shares of stocks	**21,212,725**	**21,212,725**	20,332,055	20,332,055
	₱41,716,495	**₱41,198,682**	₱36,300,574	₱36,137,942
Financial Liabilities				
Other financial liabilities:				
Liability for purchased land - net of current portion	**₱1,211,658**	**₱1,168,296**	₱2,081,708	₱2,066,418
Long-term debt - net of current portion	**156,383,534**	**156,560,822**	125,952,441	133,874,562
Tenants’ and customers’ deposits - net of current portion	**14,812,280**	**14,282,675**	13,218,264	13,121,180
Other noncurrent liabilities*	**4,190,112**	**4,040,296**	3,341,067	3,319,530
	₱176,597,584	**₱176,052,089**	₱144,593,480	₱152,381,690

**Excluding nonfinancial liabilities amounting to ₱1,625 million and ₱1,412 million as at December 31, 2016 and 2015, respectively.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are based on the quoted market prices of the instruments.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company’s accounts receivable. Average discount rates used is 4.39% and 4.10% as at December 31, 2016 and 2015, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.49% to 5.92% and from 2.18% to 5.59% as at December 31, 2016 and 2015, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 2.33% to 4.55% and 1.95% to 2.37% as at December 31, 2016 and 2015, respectively.

Tenants’ and Customers’ Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 3.79% to 4.98% and 4.03% to 4.17% as at December 31, 2016 and 2015, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments. For AFS investments related to unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair values.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;
Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,
Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

	2016		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	**₱296,596**	**₱—**	**₱—**
Shares	**622,106**	**—**	**—**
Derivative assets	**—**	**5,102,735**	**—**
	918,702	**5,102,735**	**—**
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	**—**	**—**	**10,150,249**
Time deposits (included under "Other noncurrent assets")	**—**	**3,814,271**	**—**
AFS investments - Shares of stocks	**21,202,713**	**—**	**10,012**
	₱22,121,415	**₱8,917,006**	**₱10,160,261**
Financial Liabilities			
Other financial liabilities:			
Liability for purchased land - net of current portion	**₱—**	**₱—**	**₱1,168,296**
Long-term debt - net of current portion	**—**	**—**	**156,560,822**
Tenants' and customers' deposits	**—**	**—**	**14,282,675**
Other noncurrent liabilities*	**—**	**—**	**4,040,296**
	₱—	**₱—**	**₱176,052,089**

**Excluding nonfinancial liabilities amounting to ₱1,625 million as at December 31, 2016.*

	2015		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	₱279,359	₱—	₱—
Shares	563,897	—	—
Derivative assets	—	2,600,799	—
	843,256	2,600,799	—
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	—	—	7,833,491
Time deposits (included under "Other noncurrent assets")	—	4,528,341	—
AFS investments - Shares of stocks	20,323,495	—	8,560
	₱21,166,751	₱7,129,140	₱7,842,051
Financial Liabilities			
Other financial liabilities:			
Liability for purchased land - net of current portion	₱—	₱—	₱2,066,418
Long-term debt - net of current portion	—	—	133,874,562
Tenants' and customers' deposits	—	—	13,121,180
Other noncurrent liabilities*	—	—	3,319,530
	₱—	₱—	₱152,381,690

**Excluding nonfinancial liabilities amounting to ₱1,412 million as at December 31, 2015.*

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 19).

Details of the 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 for US$200 million on January 29, 2018 and ₱6,165 million for US$150 million on March 23, 2018) 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 at December 31, 2016, SMPH's outstanding cross-currency swaps have notional amounts totaling US$350 million or ₱14,299 million. Their floating interest rates of US LIBOR + spread were fixed at interest rates ranging from 3.70% to 3.90%. Fair value of the outstanding cross-currency swaps amounted to ₱3,278 million.

Principal only Swaps. In 2016, SM Land (China) Limited entered into principal only swap transactions (¥2,472 million for US$380 million) at a premium to hedge the foreign currency exposures on its U.S. dollar-denominated five-year term syndicated loan and advances (the hedged items) obtained on February 16, 2016 to March 22, 2016 (see Note 19).

As at December 31, 2016, SM Land (China) Limited's outstanding principal only swaps have notional amounts totaling US$380 million were fixed to US$:¥ exchange rates ranging from 6.458 to 6.569. Of the notional amounts, US$50 million, US$150 million, and US$180 million will mature on August 30, 2017, March 23, 2018, and January 29, 2021, respectively. Fair value of the outstanding principal swaps amounted to ₱1,518 million.

Interest Rate Swaps. SM Land (China) Limited entered into US$ interest rate swap agreement with notional amount of US$270 million in 2016. Under the agreement, SM Land effectively converts the floating rate U.S. dollar-denominated to fixed rate loan (see Note 19).

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 year ended December 31, 2016.

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, principal only swaps and interest rate swaps amounting to ₱5,103 million gain and ₱2,601 million gain as at December 31, 2016 and 2015, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the years ended December 31, 2016 and 2015. Foreign currency translation loss arising from the hedged loan amounting to ₱2,119 million in 2016, ₱819 million in 2015 and ₱114 million in 2014 was recognized under other comprehensive 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.

			Outstanding Notional Amount							
Year		Interest		>1-<2	>2-<5			Aggregate Fair Value		
Obtained	Maturity	Payment	<1 Year	Years	Years	Receive	Pay	**2016**	2015	2014
			(In Thousands)					*(In Thousands)*		
Floating-to-Fixed										
2013	June 2015	Quarterly	₱174,720	—	—	3MPDST-R2	3.65%	₱—	₱—	(₱941)
2013	June 2015	Quarterly	₱174,720	—	—	3MPDST-R2	4.95%	—	—	(941)
2011	March 21, 2015	Semi-annual	$145,000	—	—	6 months LIBOR+margin%	2.91%—3.28%	—	—	(37,535)
2010	November 30, 2015	Semi-annual	$30,000	—	—	6 months LIBOR+margin%	3.18%	—	—	(19,288)
Fixed-to-Floating										
2010	June 2015	Quarterly	₱785,280	—	—	5.44%	3MPDST-R2	₱—	₱—	₱16,728
2010	June 2015	Quarterly	₱785,280	—	—	7.36%	3MPDST-R2	—	—	13,754

Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱2 million gain in 2015.

In 2011, SMPH entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱38 million gain in 2015.

SMPH also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million loss in 2014.

In 2010, the SMPH entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱19 million gain in 2015.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱31 million loss in 2015.

Non-deliverable Currency Forwards and Swaps. In 2016 and 2015, 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 ₱25 million gain, ₱14 million gain and ₱14 million gain in 2016, 2015 and 2014, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱2,600,799**	₱1,574,109
Net changes in fair value during the year	**2,379,650**	793,985
Fair value of settled derivatives	**122,286**	232,705
Balance at end of year	**₱5,102,735**	₱2,600,799

In 2016, the net changes in fair value amounting to ₱2,380 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱147 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 ₱2,502 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 ₱25 million, which is included under "Others - net" account in the consolidated statements of income.

In 2015, the net changes in fair value amounting to ₱794 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱246 million, which is charged against “Interest expense” account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱998 million, which is included under “Net fair value changes on cash flow hedges” account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱42 million, which is included under “Others - net” account in the consolidated statements of income.

30. EPS COMPUTATION

Basic/diluted EPS is computed as follows:

	2016	2015	2014
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱23,805,713**	₱28,302,092	₱18,390,352
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	**4,332,692**	4,332,755	5,291,243
Weighted average number of common shares outstanding (b)	**28,833,608**	28,833,545	27,875,057
Earnings per share (a/b)	**₱0.826**	₱0.982	₱0.660

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 against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA. 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, April 28, 2015, and December 7, 2015, BCDA filed Motions for Reconsideration of the August 13, 2014 Decision, which were denied by the Supreme Court on March 18, 2015, September 7, 2015, and March 7, 2016, respectively. Meanwhile, in a resolution issued on March 18, 2015, the Supreme Court ordered the issuance of an Entry of Judgment. Accordingly, an Entry of Judgment was issued and the Decision dated August 13, 2014 became final and executory on March 18, 2015.

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