



SM PRIME HOLDINGS, INC.

(A corporation duly organized and existing under Philippine laws)

OFFER SUPPLEMENT

dated 03 May 2023

Offer of ₱25,000,000,000 Fixed Rate Bonds
With an Oversubscription Option of up to ₱10,000,000,000
Fifth Tranche under its ₱100,000,000,000 Debt Securities Shelf Registration
consisting of

6.2069% p.a. Series S Bonds due 2025
6.2151% p.a. Series T Bonds due 2027
6.3275% p.a. Series U Bonds due 2029

at an Offer Price of 100% of Face Value

to be listed and traded through the Philippine Dealing & Exchange Corp.

A REGISTRATION STATEMENT COVERING THE ₱100,000,000,000 DEBT SECURITIES WAS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") AND WAS RENDERED EFFECTIVE ON 28 FEBRUARY 2020. THE FIRST TRANCHE HAD AN AGGREGATE PRINCIPAL AMOUNT OF ₱15,000,000,000 AND WAS ISSUED ON 25 MARCH 2020 UNDER THE PROSPECTUS DATED 28 FEBRUARY 2020. THE SECOND TRANCHE OF THE FIXED-RATE BONDS HAD AN AGGREGATE AMOUNT OF ₱5,000,000,000 WITH A FULLY EXERCISED OVERSUBSCRIPTION OPTION OF ₱5,000,000,000 AND WAS ISSUED ON 5 FEBRUARY 2021 UNDER AN OFFER SUPPLEMENT DATED 22 JANUARY 2021. THE THIRD TRANCHE OF THE FIXED RATE BONDS HAD AN AGGREGATE AMOUNT OF ₱5,000,000,000 WITH A FULLY EXERCISED OVERSUBSCRIPTION OPTION OF ₱5,000,000,000 AND WAS ISSUED ON 15 NOVEMBER 2021 UNDER AN OFFER SUPPLEMENT DATED 27 OCTOBER 2021. THE FOURTH TRANCHE OF THE FIXED-RATE BONDS HAD AN AGGREGATE AMOUNT OF ₱15,000,000,000 WITH A FULLY EXERCISED OVERSUBSCRIPTION OPTION OF ₱15,000,000,000 AND WAS ISSUED ON 22 APRIL 2022 UNDER AN OFFER SUPPLEMENT DATED 04 APRIL 2022. THIS REGISTRATION STATEMENT IS ACCESSIBLE AT [HTTPS://WWW.SMPRIME.COM/CORPORATE-DISCLOSURE](https://www.smprime.com/corporate-disclosure).

THE SEC HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS OFFER SUPPLEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO

THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SEC.

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners



Joint Lead Underwriters and Joint Bookrunners



Trustee

Philippine National Bank – Trust Banking Group

BDO Capital & Investment Corporation and China Bank Capital Corporation have been appointed as the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners for the Offer. Each of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners are organizationally and operationally distinct groups within SM Investments Corporation, which is the direct parent company of the SM Prime Holdings, Inc., the Issuer for this Offer. Each of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners are separate and independent from each other and the Issuer.

The rest of the Joint Lead Underwriters and Joint Bookrunners and the Trustee are not related to the Issuer.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.

SM PRIME HOLDINGS, INC.

By:

JEFFREY C. LIM

President

SUBSCRIBED AND SWORN to before me this 3rd day of May 2023, affiant exhibiting to me his Philippine Passport no. P2130699A issued on 27 October 2021 at Taguig City.

Doc. No. _____

Book No. _____

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Series of 2023.

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SUMMARY OF FINANCIAL INFORMATION

The following tables set forth the summary of consolidated financial information of the Issuer as at and for the periods indicated. The selected audited financial information presented below as at and for the years ended 31 December 2022, 2021 and 2020 have been derived from the Issuer's audited consolidated financial statements. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Offer Supplement.

CONSOLIDATED BALANCE SHEETS

	As at 31 December		
<i>(in thousands)</i>	2022 Audited	2021 Audited	2020 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	₱42,060,082	₱39,775,852	₱30,661,614
Receivables and contract assets	82,560,354	73,019,966	58,944,930
Real estate inventories	70,500,025	56,575,047	43,691,877
Equity instruments at fair value through other comprehensive income (FVOCI)	534,865	547,041	568,146
Derivative assets	585,576	753,506	2,747
Prepaid expenses and other current assets	25,767,334	24,993,357	23,205,662
Total Current Assets	222,008,236	195,664,769	157,074,976
Noncurrent Assets			
Equity instruments at FVOCI – net of current portion	17,077,198	17,400,372	16,131,568
Investment properties	489,266,042	467,391,988	436,159,081
Investments in associates and joint ventures	30,578,320	29,187,435	27,735,239
Property and equipment	1,399,840	1,372,276	1,311,208
Deferred tax assets – net	931,366	734,975	831,546
Derivative assets – net of current portion	6,752,744	1,043,670	-
Other noncurrent assets	106,200,906	91,607,795	83,115,307
Total Noncurrent Assets	652,206,416	608,738,511	565,283,949
Total Assets	₱874,214,652	₱804,403,280	₱722,358,925

As at 31 December			
<i>(in thousands)</i>	2022 Audited	2021 Audited	2020 Audited
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	₱5,422,524	₱6,487,427	₱10,900,000
Accounts payable and other current liabilities	88,122,597	91,377,717	81,033,985
Current portion of long-term debt	50,839,776	42,261,601	42,738,350
Derivative liabilities	19,496	335,367	357,662
Income tax payable	765,909	563,387	957,906
Total Current Liabilities	145,170,302	141,025,499	135,987,903
Long-term debt – net of current portion	296,134,836	264,969,216	218,830,647
Tenants' and customers' deposits – net of current portion	23,799,162	21,458,281	21,331,869
Liability for purchased land – net of current portion	1,129,719	2,540,050	1,251,227
Deferred tax liabilities – net	11,140,040	9,688,555	6,786,018
Derivative liabilities – net of current portion	294,403	1,748,186	2,445,735
Other noncurrent liabilities	31,394,584	28,612,720	25,007,898
Total Noncurrent Liabilities	363,892,744	329,017,008	275,653,394
Total Liabilities	509,063,046	470,042,507	411,641,297
Capital stock	33,166,300	33,166,300	33,166,300
Additional paid-in capital – net	38,124,193	38,056,016	38,022,913
Cumulative translation adjustment	3,435,171	3,083,184	1,524,439
Net fair value changes of equity instruments at FVOCI	14,232,514	14,708,368	13,460,669
Net fair value changes on cash flow hedges	2,984,605	(432,883)	(1,769,030)
Remeasurement loss on defined benefit obligation	(928,882)	(548,643)	(587,796)
Retained earnings:			
Appropriated	42,200,000	42,200,000	42,200,000
Unappropriated	232,972,284	205,671,557	186,251,267
Treasury stock	(2,984,695)	(2,984,695)	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	363,201,490	332,919,204	309,284,067
Non-controlling Interests	1,950,116	1,441,569	1,433,561
Total Equity	365,151,606	334,360,773	310,717,628
Total Liabilities and Equity	₱874,214,652	₱804,403,280	₱722,358,925

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December		
<i>(in thousands except per share data)</i>	2022 Audited	2021 Audited	2020 Audited
Revenue			
Rent	₱58,243,913	₱34,694,185	₱32,013,024
Real estate sales	39,046,514	45,116,120	46,973,399
Others	8,495,208	2,505,179	2,912,875
	105,785,635	82,315,484	81,899,298
Costs and Expenses	56,542,322	49,900,933	52,825,112
Income from Operations	49,243,313	32,414,551	29,074,186
Interest expense	(11,465,787)	(9,357,616)	(8,596,750)
Interest and dividend income	1,775,740	1,025,066	1,207,227
Others – net	(839,262)	3,651,524	779,078
	(10,529,309)	(4,681,026)	(6,610,445)
Income Before Income Tax	38,714,004	27,733,525	22,463,741
Provision for income tax			
Current	6,783,913	2,816,720	1,761,051
Deferred	1,186,962	3,005,402	2,562,953
	7,970,875	5,822,122	4,324,004
Net Income	₱30,743,129	₱21,911,403	₱18,139,737
Attributable to:			
Equity holders of the Parent	₱30,099,799	₱21,786,516	₱18,006,512
Non-controlling interests	643,330	124,887	133,225
	₱30,743,129	₱21,911,403	₱18,139,737
Basic/Diluted earnings per share	₱1.043	₱0.755	₱0.624
Dividend per share	₱0.097	₱0.082	₱0.185

SUMMARY OF THE OFFER

This document constitutes the Offer Supplement relating to the offer described herein (the "Offer"). Terms used herein shall be deemed to be defined as set forth in the Prospectus dated 28 February 2020 (the "Prospectus"). A copy of the Prospectus is available at <https://www.smprime.com/corporate-disclosure>. This Offer Supplement contains the final terms of this Offer and must be read in conjunction with the Prospectus. Full information on the Issuer and this offering is only available on the basis of the combination of this Offer Supplement and the Prospectus. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement. In case of conflict between the Prospectus and this Offer Supplement, this Offer Supplement shall prevail in respect of the Series S Bonds, Series T Bonds, and Series U Bonds.

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing in the Prospectus.

Issuer	SM Prime Holdings, Inc. ("SM Prime")
Issue	<p>Fixed Rate Bonds constituting the direct, unconditional, and unsubordinated obligations of SM Prime Holdings, Inc. (the "Bonds"), which is the fifth tranche of debt securities to be issued from the Issuer's ₱100,000,000,000 Debt Securities Program registered with the Securities and Exchange Commission ("SEC") under shelf registration pursuant to SEC MSRD Order No. 6 Series of 2020 with a remaining unissued amount of ₱35,000,000,000 as of the date of this Offer Supplement. After the Offer, assuming that the Oversubscription Option is fully exercised, the remaining unissued amount under shelf registration shall have been fully issued.</p> <p>The fifth tranche will be issued in three (3) series: two and a half (2.5) year Bonds due 2025 ("Series S Bonds"), four (4) year Bonds due 2027 ("Series T Bonds"), and six (6) year Bonds due 2029 ("Series U Bonds").</p>
Issue Size	Twenty Five Billion Pesos (₱25,000,000,000), with an option to increase the issue size by up to Ten Billion Pesos (₱10,000,000,000) in the event of oversubscription
Manner of Distribution	Public offering
Use of Proceeds	To fund debt refinancing and expansion of the Issuer's portfolio (see "Use of Proceeds")
Issue Price	At par (or 100% of face value)
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱20,000.00 each, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market
Offer Period	The offer of the Bonds shall commence at 9:00 am on 8 May 2023 and end at 5:00 pm on 12 May 2023
Issue Date	23 May 2023
Maturity Date	Series S Bonds : 2.5 years from Issue Date Series T Bonds : 4 years from Issue Date Series U Bonds : 6 years from Issue Date

Interest Rate

Series S Bonds : 6.2069% per annum
 Series T Bonds : 6.2151% per annum
 Series U Bonds : 6.3275% per annum

Interest Computation & Payment

Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrear commencing on 23 November 2023 and on 23 May and 23 November of each year.

Optional Redemption

Prior to the Maturity Date of the Bonds, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not in part, the outstanding series of the Bonds in accordance with the following schedule:

Bonds	Optional Redemption Dates	Optional Redemption Price
Series T	Fifth (5 th) and sixth (6 th) Interest Payment Dates	101.0%
	Seventh (7 th) Interest Payment Date	100.5%
Series U	Eighth (8 th) and ninth (9 th) Interest Payment Dates	101.0%
	Tenth (10 th) and eleventh (11 th) Interest Payment Dates	100.5%

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds will be redeemed at par or 100% of face value on the Maturity Date.

Bond Rating

The Bonds are rated PRS Aaa with Stable Outlook by the Philippine Rating Services Corporation ("PhilRatings").

Trustee

Philippine National Bank – Trust Banking Group

Registrar & Paying Agent

Philippine Depository & Trust Corp. ("PDTC")

Taxation of Bond Interest

Interest income derived by Philippine citizens or resident foreign individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20%. Interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is subject to a 25% final withholding tax. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 25% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

Bondholders who are exempt from or are not subject to final withholding tax on interest income or are covered by a lower final withholding tax rate by virtue of a tax treaty may claim such exemption or lower rate, as the case may be, by submitting the necessary documents as required by the Bureau of Internal Revenue ("BIR") and the Issuer.

Ranking

The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by law.

Listing

The Bonds are intended to be listed on the Philippine Dealing & Exchange Corp. ("PDEX"), or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volume occurs.

Governing Law

Philippine Law

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Issuer, the information contained in the Prospectus, this Offer Supplement, the Trust Indenture Agreement, Issue Management and Underwriting Agreement, and other agreements relevant to the Offer.

The Bonds covered by this Offer Supplement and described in this Offer Supplement are offered by the Issuer as the fifth tranche of the Fixed Rate Bonds under its ₱100,000,000,000 Debt Securities Shelf Registration Program (the "Debt Securities Program").

A registration statement filed by the Issuer covering the Debt Securities Program was rendered effective by the SEC by its order and certificate of permit to offer securities for sale for the first tranche of the Fixed Rate Bonds issued on 28 February 2020 (the "Shelf Registration"). The first tranche of the Fixed Rate Bonds had an aggregate principal amount of ₱15,000,000,000 and was issued on 25 March 2020 under the Prospectus dated 28 February 2020. The second tranche of the Fixed Rate Bonds had an aggregate amount of ₱5,000,000,000 with a fully exercised oversubscription option of ₱5,000,000,000 and was issued on 5 February 2021 under an offer supplement dated 22 January 2021. The third tranche of the Fixed Rate Bonds had an aggregate amount of ₱5,000,000,000 with a fully exercised oversubscription option of ₱5,000,000,000 and was issued on 15 November 2021 under an offer supplement dated 27 October 2021. The fourth tranche of the Fixed Rate Bonds had an aggregate amount of ₱15,000,000,000 with a fully exercised oversubscription option of ₱15,000,000,000 and was issued on 22 April 2022 under an offer supplement dated 04 April 2022. On 3 October 2022, the Issuer applied for an exemptive relief and requested for an extension of four (4) months or until 30 June 2023 to issue the remaining ₱35,000,000,000 Debt Securities out of the Company's Debt Securities Program. On 17 November 2022, the SEC granted the Company's request for exemptive relief and approved the request for extension of the Shelf Registration effectively extending its validity from 28 February 2023 to 30 June 2023.

The SEC is expected to issue a certificate of permit to offer securities for sale for the fifth tranche of the Fixed Rate Bonds. Pursuant to such confirmation and certificate of permit to offer securities for sale, the fifth tranche of the Fixed Rate Bonds will be issued with an aggregate principal amount of ₱25,000,000,000 with an oversubscription option of up to ₱10,000,000,000.

The Bonds shall be constituted by a Trust Indenture Agreement executed on 3 May 2023 (the "Trust Agreement") entered into between the Issuer and Philippine National Bank – Trust Banking Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on 3 May 2023 (the "Registry and Paying Agency Agreement") in relation to the Bonds between the Issuer and Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Twenty Thousand Pesos (₱20,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market. The Bonds will be repaid at 100% of Face Value on the relevant Maturity Dates. See "Description of the Bonds — Redemption and Purchase" in this Offer Supplement.

The Registrar and Paying Agent has no interest in or relation to the Issuer which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to the Issuer which may conflict with its role as Trustee for the Bonds.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds

(the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

FORM, DENOMINATION AND TITLE

Form and Denomination

The Bonds are in scripless form and shall be issued in denominations of Twenty Thousand Pesos (₱20,000.00) each as a minimum, in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

Title

Legal title to the Bonds shall be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Bonds have been rated PRS Aaa, with Stable Outlook by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. A Stable Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The rating was arrived at after considering the following factors: the Issuer's healthy liquidity, sound capitalization, well-experienced shareholders and management, and strong brand equity which is supportive of steady recovery amidst economic headwinds.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After the Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

TRANSFER OF THE BONDS

Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the Bangko Sentral ng Pilipinas ("BSP"), the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in this

Section on "Interest Payment Dates".

Transfers; Tax Status

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamp taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers on a non-Interest Payment Date (1) between taxable and non-taxable entities, (2) between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%) are considered as belonging to different tax categories), or (3) between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEX shall be allowed between tax-exempt and non-tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds on PDEX for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed on PDEX. Secondary market trading in PDEX shall follow the applicable PDEX rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEX and PDTC.

RANKING

The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations and those preferred by mandatory provisions of law).

INTEREST

Interest Payment Dates

The Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 6.2069% p.a. for the Series S Bonds, 6.2151% p.a. for the Series T Bonds, and 6.3275% p.a. for the Series U Bonds, payable semi-annually in arrear starting on 23 November 2023 for the first Interest Payment Date, and on 23 May and 23 November of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment for

accrued interest, if such Interest Payment Date is not a Business Day. If the Issue Date is set at a date other than 23 May 2023, then the Interest Payment Dates will be automatically adjusted to the numerically corresponding dates at every six (6) months following the actual Issue Date.

The Final Interest Rates for the Bonds were based on:

Series S Bonds: Sum of (a) the simple average of the interpolated two and a half (2.5)-year PHP BVAL reference rate based on the two (2)-year and three (3)-year PHP BVAL reference rates, as published on the website of the Philippine Dealing System Group or, if unavailable, the PDEX page of Bloomberg (or such successor website or page of the publication agent) at approximately 5:00 p.m. for the three (3) consecutive Business Days immediately preceding and inclusive of the Interest Rate Setting Date and (b) the applicable Final Spread.

Series T Bonds: Sum of (a) the simple average of the four (4)-year PHP BVAL reference rate, as published on the website of the Philippine Dealing System Group or, if unavailable, the PDEX page of Bloomberg (or such successor website or page of the publication agent) at approximately 5:00 p.m. for the three (3) consecutive Business Days immediately preceding and inclusive of the Interest Rate Setting Date and (b) the applicable Final Spread.

Series U Bonds: Sum of (a) the simple average of the interpolated six (6)-year PHP BVAL reference rate based on the five (5)-year and seven (7)-year PHP BVAL reference rates, as published on the website of the Philippine Dealing System Group or, if unavailable, the PDEX page of Bloomberg (or such successor website or page of the publication agent) at approximately 5:00 p.m. for the three (3) consecutive Business Days immediately preceding and inclusive of the Interest Rate Setting Date and (b) the applicable Final Spread.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the "Record Date"), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

Interest Accrual

The Bonds shall cease to bear interest from and including the relevant Maturity Date, as defined in the discussion on "*Final Redemption*" below, unless, upon due presentation, payment of the principal in respect of the Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "*Penalty Interest*" below) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on each series' relevant Maturity Date. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice) at par plus accrued interest.

Optional Redemption

Prior to the Maturity Date of the Series T Bonds and Series U Bonds, the Issuer shall have the option, but shall not be obligated, to redeem in whole, and not a part only, the outstanding series of the Bonds in accordance with the following schedule:

Bonds	Optional Redemption Dates	Optional Redemption Price
Series T Bonds	Fifth (5 th) and sixth (6 th) Interest Payment Dates	101.0%
Series U Bonds	Seventh (7 th) Interest Payment Date	100.5%
Series T Bonds	Eighth (8 th) and ninth (9 th) Interest Payment Dates	101.0%
Series U Bonds	Tenth (10 th) and eleventh (11 th) Interest Payment Dates	100.5%

The Issuer shall give no less than thirty (30) nor more than sixty (60) calendar days' prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Interest Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemption shall be calculated as the sum of (i) the relevant Optional Redemption Price applied to the principal amount of the outstanding Bonds being redeemed; and (ii) accrued interest on the Bonds as of the relevant Optional Redemption Date.

Purchase and Cancellation

Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

The Issuer may at any time purchase any of the Bonds at market price in the open market or by tender or by contract at market price, in accordance with PDEX Rules, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances as it refers to the obligations of the Issuer and the rights and interests of the Bondholders under the Trust Agreement and the Bonds:

- (a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations;
- (b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to

prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or

- (c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Upon the occurrence of a Change in Law or Circumstance (as enumerated above), the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice) at par plus accrued interest.

Payments

The principal of, interest on, and all other amounts payable on, the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Issuer shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of disbursing payments on the Bonds. In the event the Paying Agent shall be unable or unwilling to act as such, the Issuer shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be unreasonably removed without a successor having been appointed. In case of resignation of the Paying Agent, the procedure in Section 10.2 of the Registry and Paying Agency Agreement shall be followed.

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 25% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
 - (i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate;
 - (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax;
 - (iii) for those who are claiming benefits under tax treaties, duly submitted BIR Form 0901 or Application Form for Treaty Purposes and apostilled/consularized Tax Residency Certificate duly issued by the foreign tax authority as required under BIR Revenue Memorandum Order No. 14-2021; and

- (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities, e.g. BIR Revenue Memorandum Order No. 14-2021, which for purposes of claiming tax treaty withholding rate benefits, shall include, among others, evidence of the applicability of a tax treaty and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;
- b) Gross Receipts Tax under Section 121 of the Tax Code;
- c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL RATIOS

The Issuer shall maintain the following financial ratios:

- a) Debt to Equity Ratio of not more than 70:30; and
- b) Interest Coverage Ratio of not less than 2.5x.

There are no other regulatory ratios that the Issuer is required to comply with.

NEGATIVE PLEDGE

So long as any Bond or coupon remains outstanding (as defined in the Trust Agreement):

- (i) the Issuer will not create or permit to subsist any lien upon the whole or any part of its undertaking, assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness;
- (ii) the Issuer shall procure that its Material Subsidiaries will not create or permit to subsist any lien upon the whole or any part of any Material Subsidiary's undertaking, assets or revenues present or future to secure any Public Debt or any guarantee of or indemnity in respect of any Public Debt;
- (iii) the Issuer will procure that no other Person creates or permits to subsist any lien or gives any guarantee of, or indemnity upon the whole or any part of the undertaking, assets or revenues present or future of that other Person to secure any Public Debt of the Issuer, or any Material Subsidiary or to secure any guarantee of or indemnity in respect of the Public Debt of the Issuer or any Material Subsidiary; and
- (iv) the Issuer will procure that no Person gives any guarantee of, or indemnity in respect of, the Public Debt of the Issuer or any Material Subsidiary

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Agreement (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in

substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by the majority of the Bondholders; and provided that this paragraph shall not apply to liens (aa) arising by operation of law; or (bb) created in respect of Indebtedness (for the avoidance of doubt, including Indebtedness in respect of which there is a preference or priority under Article 2244 of the Civil Code of the Philippines as the same may be amended from time to time) in aggregate principal amount not exceeding 15% of the Fair Market Value of Consolidated Assets as determined in the Issuer's latest audited consolidated financial statements; or (cc) encumbrance to secure contracts (other than Indebtedness) in the ordinary course of business; or (dd) encumbrance on deposits and/or financial instruments made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution for the purpose of hedging transactions; or (ee) encumbrance on an asset for taxes, assessments, governmental charges or levies on such asset, which are being contested in good faith and by appropriate proceedings diligently pursued.

EVENTS AND CONSEQUENCES OF DEFAULT

Unless there is fault or negligence on the part of the Trustee, direct or otherwise, if any of the following events occurs (the "Events of Default") and is continuing, the Trustee shall give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

- (a) The Issuer shall fail to pay when due, the principal of or interest on or any amount payable under the Bonds, and such failure to pay is not remedied within ten (10) Business Days from due date thereof; or
- (b) The Issuer shall default in the due performance, observance of or compliance with any other covenant contained in the Trust Agreement or the Bonds, and such default shall remain unremedied for a period of thirty (30) days after the Issuer shall have received written notice thereof from the Trustee; or
- (c) Any statement, representation, or warranty made by the Issuer in the Trust Agreement or in any other document delivered or made pursuant thereto shall prove to be incorrect or untrue in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for more than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect; or
- (d) The Issuer or any of its Subsidiaries fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other obligation, or commits a breach or violation of any of the terms, conditions or stipulations, of any agreement, contract or document relating to any of their respective Indebtedness, including without limitation any credit extended by Bondholders or any third Person or Persons and under the terms of which such agreement, contract or document, shall constitute an event of default thereunder, but allowing for all applicable grace periods thereunder; *provided*, however, that no Event of Default will occur under this paragraph unless the aggregate amount of Indebtedness in respect of which one or more of the events above-mentioned has or have occurred equals or is in excess of fifteen percent (15%) of the Fair Market Value of Consolidated Assets as determined and recognized in the Issuer's latest audited consolidated financial statements; or
- (e) The Issuer or any of its Subsidiaries shall:
 - (i) become insolvent or unable to pay its Indebtedness as they mature; or

- (ii) stop, suspend all or a material part of (or a particular type of) its Indebtedness; or
 - (iii) propose or make any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its Indebtedness, unless such deferral, rescheduling or other readjustment is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such deferral, rescheduling or other readjustment and the reasons therefor to the Bondholders through the Trustee and secure the required consent to effect such; or
 - (iv) propose or make a general assignment or an arrangement or composition with or for the benefit of relevant creditors in respect of any of such Indebtedness, unless such general assignment, arrangement or composition is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such general assignment, arrangement or composition and the reasons therefor to the Bondholders through the Trustee; or
 - (v) take advantage of insolvency, moratorium, corporate rehabilitation or other laws for the relief of debtors; or
 - (vi) there shall be commenced against the Issuer or any Subsidiary any proceeding under such laws, or any judgment or order is entered by a court of competent jurisdiction for the appointment of a receiver, trustee or the like to take charge of all or substantially all of the assets of the Issuer, and such proceedings shall not have been discharged or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances; or
- (f) Any act or deed or judicial or administrative proceeding in the nature of an expropriation, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of or with respect to the whole or any material portion of the business and operations, capital stock, property, or assets of the Issuer or any of its Material Subsidiary, shall be undertaken or instituted by any governmental authority, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or the Subsidiary concerned; or
- (g) An attachment or garnishment of or levy upon a material part of the properties of the Issuer or any of its Material Subsidiary is made and is not discharged, stayed or fully bonded, within sixty (60) days (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances); or
- (h) Any of the Trust Agreement or the Bonds or any material portion thereof is declared to be illegal or unenforceable, unless such illegality or enforceability is remedied within thirty (30) days of the occurrence or declaration of the illegality or unenforceability, as the case may be; or
- (i) Any of the concessions, permits, rights, franchises, or privileges required for the conduct of the business and operations of the Issuer or any Subsidiary shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented in such manner as shall have a Material Adverse Effect, and such continues unremedied for a period of sixty (60) days from the date of such revocation, cancellation, termination or curtailment; or
- (j) A final judgment, decree or order has been entered against the Issuer or any Subsidiary by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of Five Billion Pesos (₱5,000,000,000.00), and any

relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

- (k) Any lien created or assumed by the Issuer or any Subsidiary becomes unenforceable and any step is taken to enforce it (including the taking possession or the appointment of a receiver, manager or other similar person) and the Indebtedness secured by the lien is not discharged or such steps stayed within sixty (60) days of such steps being so taken unless and for so long as the Bondholders are satisfied that it is being contested in good faith with due diligence and by appropriate proceedings; or
- (l) The Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer under the Trust Agreement or the Bonds; or
- (m) Any event occurs which under the law has an analogous effect to any of the events referred to in the foregoing paragraphs of this section.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in item (a) of "*Events and Consequences of Default*" above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 2.0% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer shall pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Application of Payments

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Agreement and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first*, to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith; *second*, to the payment of the interest in default, in the

order of the maturity of such interest with Penalty Interest; *third*, to the payment of the whole amount then due and unpaid upon the Bonds for principal, and interest, with Penalty Interest; and *fourth*, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee and this conformity, once given, shall constitute as an irrevocable instruction of the Issuer. The Paying Agent shall render a monthly account of such funds under its control.

Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on "*Ability to File Suit*".

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences, which would require the unanimous waiver of all the Bondholders. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent

thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

SUBSTITUTION

Substitution of the Bonds is not contemplated.

TRUSTEE; NOTICES

Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement, the Prospectus and this Offer Supplement and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	Joy Jasmin Santos / Maria Victoria Mendoza
Address:	3 rd Floor, PNB Financial Center Diosdado Macapagal Boulevard, Pasay City
Subject:	SM Prime Series [S/T/U] Bonds
Facsimile:	+63 2 8526 3379

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing if transmitted by surface mail; (iii) on date of publication, or; (iv) on date of delivery, for personal delivery.

Binding and Conclusive Nature

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement and inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns or is informed of such events. The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total

issuance of the Bonds. The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the terms and conditions of the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.
- (c) None of the provisions contained in the Trust Agreement, the Prospectus, or this Offer Supplement shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.
- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six (6) months (the "*bona fide* Bondholder") may, on behalf of himself and all other Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee. Subject to the provision of Subsection (e) below, such a successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.
- (c) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any *bona fide* Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee. Subject to the provisions of Subsection (e) below, such successor trustee should possess all the qualifications required under pertinent laws; otherwise, the incumbent trustee shall continue to act as such until a successor trustee is duly appointed.

- (d) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions.
- (e) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of the: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under Subsection (a) above and Section 8.5 (a) of the Trust Agreement (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Issuer provided further that the resigning Trustee shall be entitled to the payment of the fee stipulated in Section 2.2 of the Trust Agreement during the Holdover Period.

Successor Trustee

- (a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, the Trustee's liabilities and obligations shall immediately cease.
- (b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date, until full payment of the Bonds, a brief report dated December 31 of the immediately preceding year with respect to:

- (i) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
- (ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding

principal amount of the Bonds at such time.

Inspection of Documents

The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Indenture Agreement;
2. Registry and Paying Agency Agreement;
3. Articles of Incorporation and By-Laws of the Issuer; and
4. Registration Statement of the Issuer with respect to the Bonds.

MEETINGS OF BONDHOLDERS

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. However, the Trustee shall send notices in respect of any meeting called by the Issuer to obtain consent of the Bondholders to an amendment of the Trust Agreement in the following manner: a notice shall be sent to Bondholders detailing the amendments proposed and consents requested by the Issuer not earlier than sixty (60) days nor later than forty-five (45) days prior to the date fixed for the meeting, if the Bondholder fails to respond as required by such notice, the Trustee shall send a second notice to such Bondholder not later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Indenture Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders except for any meeting called by the Issuer solely for the purpose of obtaining the consent of the Bondholders to an amendment of the Trust Agreement, where the failure of any Bondholder to transmit an objection to such proposal of the Issuer after at least two

(2) notices to such Bondholder have been sent by the Trustee, will be considered by the Trustee as an affirmative vote (and such Bondholder will be considered present for quorum purposes by the Trustee) for the proposal of the Issuer.

Procedure for Meetings

- (a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (b) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Amendments

The Issuer and the Trustee may amend these Terms and Conditions or the Bonds without notice to any Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds). However, without the consent of each Bondholder affected thereby, an amendment may not:

- (1) reduce the amount of Bondholder that must consent to an amendment or waiver;
- (2) reduce the rate of or extend the time for payment of interest on any Bond;

- (3) reduce the principal of or extend the Maturity Date of any Bond;
- (4) impair the right of any Bondholder to receive payment of principal of and interest on such Holder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;
- (6) make any Bond payable in money other than that stated in the Bond;
- (7) subordinate the Bonds to any other obligation of the Issuer;
- (8) release any Bond interest that may have been granted in favor of the Holders;
- (9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- (10) make any change or waiver of the aforementioned Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Issuer shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the section entitled "Notices".

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

USE OF PROCEEDS

The net proceeds from the issuance of the Bonds, without the Oversubscription Option (after deduction of commissions and expenses) is approximately ₱24,715.52 million and is presently intended to be used by the Issuer to fund debt refinancing and expansion of the Issuer's property portfolios. Assuming the Oversubscription Option of up to ₱10,000.00 million is fully exercised, the Issuer expects total net proceeds of approximately ₱34,606.36 million after deducting fees, commissions and expenses.

Net proceeds from this Offer are estimated to be at least as follows:

For a ₱25.00 billion Issue Size		Total
Estimated proceeds from the sale of Bonds		₱25,000,000,000
Less: Estimated expenses		
Documentary Stamp Tax	187,500,000	
SEC Registration Expenses	7,575,030	
Underwriting and Selling Fees ¹	80,645,161	
Audit Fees	2,400,000	
Rating Fee	4,750,000	
Listing Application Fee	450,000	
Trustee Fees	200,000	
Paying Agency and Registry Fees	762,500	
Miscellaneous fees ²	200,000	
Estimated net proceeds for ₱25.00 billion Issue		284,482,691
		₱24,715,517,309
For the ₱10.00 billion Oversubscription Option		
Estimated proceeds from the sale of Bonds		₱10,000,000,000
Less: Estimated expenses		
Documentary Stamp Tax	75,000,000	
Selling Fees ¹	32,258,065	
Rating Fee	1,900,000	
Estimated net proceeds for ₱10.00 billion Oversubscription Option		109,158,065
		₱9,890,841,935

Total Estimated Net Proceeds --- **₱34,606,359,244**

Aside from the foregoing one-time costs, the Issuer expects the following annual expenses related to the Bonds:

1. The Issuer will be charged the first year Annual Listing Maintenance Fee in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱200,000 per annum;
3. After the Issue Date, a Paying Agency fee amounting to ₱100,000 is payable every interest payment date; and
4. The Registrar will charge a quarterly maintenance fee for each series of the Bonds based on the face value of each series of the Bonds and the number of Bondholders.

The net proceeds of the Offer of ₱24,715.52 million, assuming an Issue Size of ₱25,000.00 million, shall be used primarily for debt refinancing and expansion of the Issuer's property portfolios as set out below.

¹ Inclusive of applicable gross receipt taxes

² Miscellaneous fees pertain to allowances for marketing expenses such as advertising placements, if any.

	Amount and schedule of disbursement		Total	Remaining amount needed to complete the project	Target completion date	Percentage completion ¹
	(Amounts in millions)	2023				
Debt Refinancing	₱13,366	₱-	₱13,366	₱-		
Series M Bonds due on August 5, 2023	7,500	-	7,500	-		
Dollar loan due on June 14, 2023 ²	5,866	-	5,866	-		
New Malls	1,437	5,441	6,878	3,598		
SM City Sto. Tomas	348	-	348	-	2023	87%
SM Deparo	-	809	809	165	2024	12%
SM J Mall	446	558	1,004	112	2024	0%
SM City Laoag	-	1,310	1,310	958	2024	0%
SM City Zamboanga	550	1,375	1,925	275	2024	0%
SM Ugong Pasig	93	453	546	838	2025	0%
SM City General Trias	-	936	936	1,250	2025	0%
Residential Projects	4,472	-	4,472	-		
Style	148	-	148	-	2023	97%
Sail	1,595	-	1,595	-	2024	62%
South 2	669	-	669	-	2024	33%
Smile	277	-	277	-	2024	81%
Joy Phase 1	794	-	794	-	2025	4%
Joy Phase 2	202	-	202	-	2026	4%
Twin	787	-	787	-	2027	7%
	₱19,275	₱5,441	₱24,716	₱3,598		

Note 1: Percentage completion as of the date of this Offer Supplement.

Note 2: Converted based on an exchange rate of US\$1.00 to ₱53.32

If the ₱10,000.00 million Oversubscription Option is fully exercised, the additional net proceeds of ₱9,890.84 million from the Oversubscription Option shall be used for the acquisition of landbank.

	Amount and schedule of disbursement
(Amounts in millions)	2023
Landbank	
Luzon	₱391
Visayas	5,000
Metro Manila	4,500
	₱9,891

In case less than all of the Bonds to be offered will be sold, the order of priority of the use of proceeds shall be as follows:

1. refinancing of debt;
2. construction of new malls and residential projects; and
3. acquisition of landbank.

Any shortfall in the net proceeds for the intended uses described above shall be funded by the Issuer from internal sources such as cash flows generated from operations and/or availments from credit facilities provided to the Issuer by various financial institutions.

Any excess in the net proceeds for the intended uses described above shall be used to fund the Issuer's acquisition of landbank and other opportunistic acquisitions not covered by the estimated proceeds of the Offer.

DESCRIPTION OF THE PROJECTS

The Issuer will directly undertake all of the projects that will be funded by the net proceeds from the Offer.

Debt Refinancing

The Issuer intends to use the net proceeds to partially refinance its existing debt obligations. The details of these debt obligations are set out below:

Debt	Amount of the original debt <i>(Amounts in millions)</i>	Outstanding amount to be refinanced	Interest rate	Maturity rate
Dollar Loan (Lenders: Sumitomo Mitsui Banking Corp - Singapore branch; Industrial & Commercial Bank of China - Manila Branch; CTBC Bank (Philippines) Corp.; Standard Chartered Bank - Philippine Branch; Taiwan Cooperative Bank - Manila Branch; Chang Hwa Commercial Bank - Manila Branch)	US\$110	₱5,866*	3 months LIBOR** + spread	14 June 2023
Series M Bonds	₱7,500	₱7,500	2.4565% per annum	5 August 2023
		₱13,366		

**This amount was converted based on an exchange rate of US\$1.00 to ₱53.32*

***LIBOR – London Interbank Offered Rate*

The proceeds of the Dollar Loan were used for the expansion of the Issuer's property portfolios.

A copy of the Offer Supplement for the Series M Bonds where the relevant details on the use of proceeds of the Series M Bonds is available at [https://www.smprime.com/corporate-disclosure Series M-N Bonds](https://www.smprime.com/corporate-disclosure-Series-M-N-Bonds).

New Malls and Expansion of Property Portfolio

Construction of SM City Sto. Tomas in Batangas for years 2021 and 2022 were partially funded by Series M and N Bonds and the Series P, Q and R Bonds. Remaining capital expenditure requirements for year 2023 will be funded by Series S Bonds, Series T Bonds and Series U Bonds. Completion date of SM City Sto. Tomas is in 2023.

For 2024, the Issuer is set to open new malls in the Philippines which are located in North Caloocan, Cebu, Ilocos Norte and Zamboanga with a total GFA of more than 246,000 square meters.

Construction in year 2022 was partially funded by Series O for SM Deparo while the construction of SM City Laoag and SM City Zamboanga were moved from 2022 to 2023. The remaining capital expenditure requirements for years 2023 and 2024 will be funded by the Series S Bonds, Series T Bonds and Series U Bonds. Completion date of SM Deparo, SM City Laoag and SM City Zamboanga is in 2024.

Construction of SM J Mall in 2023 will be funded by Series S Bonds, Series T Bonds and Series U Bonds. Completion date of SM J Mall is in 2024.

For 2025, the Issuer also plans to open new malls in Pasig and Cavite with a total GFA of more than 90,000 square meters.

For the residential projects, construction of Style Residences in Iloilo is to be completed in 2023, South 2 Residences in Las Piñas in 2024, Joy Phase 2 Residences in Bulacan in 2026 and Twin Residences in Las Piñas in 2027.

Construction of Sail Residences in MOA Complex, Pasay City, Smile Residences in Bacolod and Joy Phase

1 Residences in Bulacan were partially funded by Series P, Q and R Bonds. Remaining capital expenditure requirements for year 2023 will be funded by Series S Bonds, Series T Bonds and Series U Bonds. Completion date of Sail Residences and Smile Residences are in 2024 and Joy Phase 1 Residences in 2025.

The Issuer also plans to acquire land for future use in Metro Manila, Batangas and Cebu in 2023.

Pending the above uses, the Issuer intends to invest the net proceeds from the Offer in short-term and medium-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

The net proceeds from the Offer will not be used to reimburse any officer, director, employee or shareholder for services rendered, assets previously transferred, money loaned or advanced or otherwise.

The Issuer undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed above. However, the Issuer's plans may change, based on factors including changing macroeconomic and market conditions, or new information regarding the cost or feasibility of these plans. The Issuer's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Issuer's management may find it necessary or advisable to reallocate the net proceeds within the categories described above, or to alter its plans, including modifying the projects described in the foregoing and/or pursuing different projects. In the event of any substantial deviation/adjustment in the planned uses of proceeds as approved by the Issuer's Board of Directors, the Issuer shall make the necessary disclosures, as may be required under applicable laws and regulations and shall inform: (i) the SEC and the stockholders within thirty (30) days prior to its utilization; and (ii) the Bondholders, in accordance with the terms of the Trust Agreement.

PLAN OF DISTRIBUTION

BDO Capital & Investment Corporation and China Bank Capital Corporation have been appointed as the Joint Issue Managers for the Offer and as such, manage and coordinate the various workstreams to ensure the successful execution of the Offer.

The Joint Issue Managers together with BPI Capital Corporation, East West Banking Corporation, First Metro Investment Corporation, RCBC Capital Corporation and SB Capital Investment Corporation pursuant to an Issue Management and Underwriting Agreement with the Issuer executed on 3 May 2023 (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters and Joint Bookrunners for the Offer and as such, distribute and sell the Bonds at the Offer Price, and have also committed to underwrite ₱25,000,000,000 on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

Each of the Joint Lead Underwriters and Joint Bookrunners has committed to underwrite the Offer on a firm basis up to the amount indicated below:

Joint Lead Underwriters and Joint Bookrunners	Amount
BDO Capital & Investment Corporation	₱5,000,000,000.00
China Bank Capital Corporation	₱5,000,000,000.00
BPI Capital Corporation	₱3,000,000,000.00
East West Banking Corporation	₱3,000,000,000.00
First Metro Investment Corporation	₱3,000,000,000.00
RCBC Capital Corporation	₱3,000,000,000.00
SB Capital Investment Corporation	₱3,000,000,000.00
Total	₱25,000,000,000.00

There is no allocation of the Oversubscription Option among the Joint Lead Underwriters and Joint Bookrunners. The Issuer and the Joint Lead Underwriters and Joint Bookrunners have the right but not the obligation to exercise such Oversubscription option.

There is no arrangement for the Joint Lead Underwriters and Joint Bookrunners to return to the Issuer any unsold Bonds. The Underwriting Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Offer being made to the Issuer. There is no arrangement as well giving the Joint Lead Underwriters and Joint Bookrunners the right to designate or nominate any member to the Board of the Issuer.

The Issuer will pay the Joint Lead Underwriters and Joint Bookrunners a fee of 0.30% on the final aggregate nominal principal amount of the Bonds issued, which is inclusive of the fee to be ceded to any participating underwriters. No fees will be given to Broker-Dealers selling the Bonds.

The Joint Lead Underwriters and Joint Bookrunners are duly licensed by the SEC to engage in underwriting and distribution of securities to the public. The Joint Lead Underwriters and Joint Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of business with the Issuer, its parent company, SM Investments Corporation ("SMIC"), or other members of the SM Group.

BDO Capital & Investment Corporation is the wholly-owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the SM Group. BDO Capital & Investment Corporation is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital & Investment Corporation commenced operations in March 1999. As of 31 December 2022, it has total assets of ₱4.19 billion and a capital base of ₱3.84 billion.

China Bank Capital Corporation is the wholly owned investment banking subsidiary of China Banking Corporation. It was registered and licensed as an investment house in 2015 as a result of the spin-off of China Banking Corporation's Investment Banking Group. The company offers a full suite of investment banking solutions that enable clients to achieve their fundraising objectives and strategic goals. The company's services include arranging, managing, and underwriting debt and equity transactions, such as bond offerings, corporate notes issuances, initial public offerings and follow-on offerings of common and preferred shares, private placement of securities, structured loans, project finance, real estate investment trusts, and asset securitizations. China Bank Capital Corporation also provides financial advisory services, such as deal structuring, valuation, and execution of mergers, acquisitions, divestitures, joint ventures, and other corporate transactions. As of 31 December 2022, it has total assets of ₱3.09 billion and a capital base of ₱3.00 billion.

BPI Capital Corporation is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital Corporation offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations as an investment house in December 1994. As of 31 December 2022, it has total assets of ₱3.86 billion and a capital base of ₱3.75 billion.

East West Banking Corporation is a subsidiary of Filinvest Development Corporation. East West Banking Corporation is a universal bank providing a wide range of banking services to retail, commercial, and corporate clients. It was established as a commercial bank in July 1994 and received its universal banking license from the BSP in July 2012. East West Banking Corporation is licensed by the SEC to engage in the underwriting or distribution of securities to the public. As of 31 December 2022, it has total assets of ₱421.37 billion and a capital base of ₱61.03 billion.

First Metro Investment Corporation is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution. As of 31 December 2022, it has total assets of ₱31.78 billion and a capital base of ₱15.59 billion.

RCBC Capital Corporation is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 49 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of YGC, one of the country's largest fully integrated financial services conglomerates. As of 31 December 2022, it has total assets of ₱3.23 billion and a capital base of ₱3.17 billion.

SB Capital Investment Corporation is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital Investment Corporation provides a wide range of investment banking services including underwriting of debt and equity securities, project finance, loan syndications, mergers and acquisitions and other corporate/financial advisory services. SB Capital Investment Corporation is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major debt and equity issues. As of 31 December 2022, it has total assets of ₱1.63 billion and a capital base of ₱1.60 billion.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters and Joint

Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Joint Bookrunners from purchasing the Bonds for their own respective accounts.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The obligations of each of the Joint Lead Underwriters and Joint Bookrunners will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters and Joint Bookrunners. Unless otherwise expressly provided in the Underwriting Agreement, the failure by a Joint Lead Underwriter and Joint Bookrunner to carry out its obligations thereunder shall neither relieve the other Joint Lead Underwriters and Joint Bookrunners of their obligations under the same Underwriting Agreement, nor shall any Joint Lead Underwriter and Joint Bookrunner be responsible for the obligation of another Joint Lead Underwriter and Joint Bookrunner.

OFFER PERIOD

The Offer Period for the Bonds shall commence at 9:00 am of 8 May 2023, and end at 5:00 pm of 12 May 2023.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the relevant Offer Periods by submitting to the Joint Lead Underwriters and Joint Bookrunners properly completed Applications to Purchase, together with two (2) signature cards, and the full payment of the purchase price of the Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments, a photocopy of any one of the following valid identification cards (ID), subject to verification with the original ID: passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the duly-accepted tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters and Joint Bookrunners prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Underwriters and Joint Bookrunners. Acceptance by the Joint Lead Underwriters and Joint Bookrunners of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by the Issuer. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited

is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

MINIMUM PURCHASE

A minimum purchase of Twenty Thousand Pesos (₱20,000.00) for each series of the Bonds shall be considered for acceptance. Purchases for each series of the Bonds in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000.00) for each series.

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to the Issuer's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

The Issuer and the Joint Lead Underwriters and Joint Bookrunners reserve the right to accept or reject applications to purchase the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate.

REFUNDS

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the relevant Joint Lead Underwriter and Joint Bookrunner with whom such application to purchase the Bonds was made.

PAYMENTS

The Paying Agent shall open and maintain a Payment Account, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Registry and Paying Agency Agreement, provided that beneficial ownership of the Payment Account shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the relevant interest and principal on each Payment Date.

The Paying Agent shall maintain the Payment Account for six (6) months from Maturity Date or date of early redemption. Upon closure of the Payment Account, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments.

PURCHASE AND CANCELLATION

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at market price, in accordance with PDEX Rules, without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

SECONDARY MARKET

The Issuer intends to list the Bonds in the PDEX. The Issuer may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable prevailing Philippine selling restrictions. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

CAPITALIZATION AND INDEBTEDNESS

As at 31 December 2022, the authorized capital stock of the Issuer was ₱40.00 billion divided into 40 billion common shares each with ₱1.00 par value per share, and its issued capital stock was ₱33.17 billion consisting of 33.166 billion common shares of ₱1.00 par value each. As at 31 December 2022 and 2021, the Issuer has 28,856 million outstanding shares and 4,310 million treasury shares.

The following table sets forth the consolidated capitalization and indebtedness of the Issuer as at 31 December 2022 and as adjusted to give effect to the issue of the Bonds. This table should be read in conjunction with the Issuer's audited consolidated financial statements as at 31 December 2022 and notes thereto, included elsewhere in this Offer Supplement.

	As at 31 December 2022		
	Actual (Audited)	Adjusted¹ to assume ₱25.00 billion Issue Size (Unaudited)	Adjusted¹ to assume ₱35.00 billion Issue Size (Unaudited)
<i>(in millions)</i>			
Short-term debt			
Loans payable	₱5,422	₱5,422	₱5,422
Current portion of long-term debt	50,840	50,840	50,840
Total short-term debt	56,262	56,262	56,262
Long-term debt - net of current portion			
Banks and other financial institutions	296,135	296,135	296,135
The Bonds to be issued	-	24,716	34,606
Total long-term debt - net of current portion	296,135	320,851	330,741
Equity			
Equity Attributable to Equity Holders of the Parent:			
Capital stock	33,166	33,166	33,166
Additional paid-in capital - net	38,124	38,124	38,124
Cumulative translation adjustment	3,435	3,435	3,435
Net fair value changes of equity instruments at fair value through other comprehensive income	14,233	14,233	14,233
Net fair value changes on cash flow hedges	2,985	2,985	2,985
Remeasurement loss on defined benefit obligation	(929)	(929)	(929)
Retained earnings			
Appropriated	42,200	42,200	42,200
Unappropriated	232,972	232,972	232,972
Treasury stock	(2,985)	(2,985)	(2,985)
Total Equity Attributable to Equity Holders of the Parent	363,201	363,201	363,201
Total capitalization²	₱715,598	₱740,314	₱750,204

Notes:

- (1) Adjusted amount as at 31 December 2022 includes gross proceeds of the principal amount of the Bonds offered hereunder, net of expenses related to the proceeds, accounted for as contra-liability of the long term debt account and subsequently amortized as expense during the term of the debt.
- (2) Total capitalization is the sum of short-term debt, long-term debt and equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Issuer's consolidated financial position and financial performance together with (i) the report of independent auditors, (ii) the audited consolidated financial statements as at 31 December 2022, 2021 and 2020 and for the years ended 31 December 2022, 2021 and 2020 and the notes thereto.

Overview

SM Prime Holdings, Inc. was incorporated in the Philippines and registered with the SEC on 6 January 1994. It is one of the largest integrated property developers in Southeast Asia that offers innovative and sustainable lifestyle cities with the development of malls, residences, offices, hotels and convention centers. It is also the largest, in terms of assets, in the Philippines.

The Issuer's ultimate parent company is SMIC. SMIC is a Philippine corporation whose common shares is listed with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

SM Prime's registered office is at the 10th Floor, Mall of Asia Arena Annex Building, Coral Way corner J. W. Diokno Boulevard, Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Metro Manila, Philippines.

Basis of Preparation

Basis of Preparation

The accompanying consolidated financial statements of the Issuer have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments 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.

The accompanying consolidated financial statements have been prepared under the going concern assumption.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Issuer has adopted the following new accounting pronouncements starting 1 January 2022:

- Amendments to PFRS 3, *Reference to the Conceptual Framework*, intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.
- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*, prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*, specify which costs

an entity needs to include when assessing whether a contract is onerous or loss-making.

- Amendments to PAS 41, Agriculture, Taxation in fair value measurements removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Annual Improvements to PFRSs 2018 – 2020 Cycle

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

Please refer to Note 3 of the Issuer's consolidated financial statements, included elsewhere in the Offer Supplement, for the effect of the adoption of the new and amended accounting standards.

FINANCIAL PERFORMANCE

Year ended 31 December 2022 vs. year ended 31 December 2021

<i>(in thousands)</i>	Years Ended 31 December			
	2022	2021	Increase (Decrease)	
	(Audited)		in ₱	in %
REVENUE				
Rent	₱58,243,913	₱34,694,185	₱23,549,728	68%
Real estate sales	39,046,514	45,116,120	(6,069,606)	(13%)
Others	8,495,208	2,505,179	5,990,029	239%
	105,785,635	82,315,484	23,470,151	29%
COSTS AND EXPENSES	56,542,322	49,900,933	6,641,389	13%
INCOME FROM OPERATIONS	49,243,313	32,414,551	16,828,762	52%
OTHER INCOME (CHARGES)				
Interest expense	(11,465,787)	(9,357,616)	(2,108,171)	23%
Interest and dividend income	1,775,740	1,025,066	750,674	73%
Others - net	(839,262)	3,651,524	(4,490,786)	(123%)
	(10,529,309)	(4,681,026)	(5,848,283)	125%
INCOME BEFORE INCOME TAX	38,714,004	27,733,525	10,980,479	40%
PROVISION FOR INCOME TAX				
Current	6,783,913	2,816,720	3,967,193	141%
Deferred	1,186,962	3,005,402	(1,818,440)	(61%)
	7,970,875	5,822,122	2,148,753	37%
NET INCOME	₱30,743,129	₱21,911,403	₱8,831,726	40%
Attributable to				
Equity holders of the Parent	₱30,099,799	₱21,786,516	₱8,313,283	38%
Non-controlling interests	643,330	124,887	518,443	415%
	₱30,743,129	₱21,911,403	₱8,831,726	40%

Revenues

SM Prime recorded consolidated revenues of ₱105.79 billion in 2022, an increase of 29% compared to ₱82.32 billion in the same period of 2021, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱58.24 billion in 2022, a 68% increase from ₱34.69 billion in the same period of 2021. Malls operated on a new normal with the easing of mobility restrictions, and 85% of the total rental revenues is contributed by the malls while 15% is from offices, hotels and convention centers.

Real Estate Sales

SM Prime recorded real estate sales of ₱39.05 billion in 2022, a decrease of 13% from ₱45.12 billion in 2021 as a result of the spillover effect of the lapse of Bayanihan Act, which gave a reprieve to unit buyers during the height of the pandemic. Reservation sales in 2022 increased by 3% to ₱102.00 billion from ₱98.89 billion in the same period last year.

Other Revenues

SM Prime's other revenues increased to ₱8.50 billion in 2022 from ₱2.51 billion in the same period in 2021 as the cinema, leisure and entertainment businesses reopened its doors to patrons. Cinemas improved due to high ticket sales from blockbuster movies shown during the year, including Doctor Strange in the Multiverse of Madness, Avatar: The Way of Water and Black Panther: Wakanda Forever. Leisure and entertainment businesses benefited from the new normal condition. Other revenues also include cinema and event ticket sales, sponsorships and advertising revenues, bowling operations and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱56.54 billion in 2022, an increase of 13% from ₱49.90 billion in the same period in 2021, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate decreased by 10% to ₱16.90 billion in 2022 from ₱18.69 billion in the same period in 2021. Gross profit margin on real estate sales is 57% in 2022 from 59% in 2021.

Operating Expenses

SM Prime's consolidated operating expenses increased by 27% to ₱39.64 billion in 2022 compared to last year's ₱31.21 billion. Out of the total operating expenses, 68% is contributed by the malls. Operating expenses include depreciation and amortization, taxes and licenses, marketing and selling expenses, utilities and manpower costs.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 23% to ₱11.47 billion in 2022 compared to ₱9.36 billion in the same period in 2021 mainly due to the issuance of fixed rate bonds in 2021 and 2022, and new bank loans availed for working capital and capital expenditure requirements, net of the capitalized interest on proceeds spent for construction and development of investment properties.

Interest, Dividend and Others - net

Interest, dividend and others - net decreased to ₱0.94 billion in 2022 from last year's ₱4.68 billion. This mainly consists of interest income from cash and cash equivalents, dividend income from equity instruments, equity in net earnings from associates and joint ventures and foreign exchange gains and losses.

Provision for income tax - net

SM Prime's consolidated provision for income tax - net increased to ₱7.97 billion in 2022 compared to ₱5.82 billion in the same period in 2021.

Net income attributable to Parent

SM Prime's consolidated net income attributable to Parent increased by 38% to ₱30.10 billion in 2022 as compared to ₱21.79 billion in the same period in 2021.

Year ended 31 December 2021 vs. year ended 31 December 2020

<i>(in thousands)</i>	Years Ended 31 December		Increase (Decrease)	
	2021	2020	In ₱	in %
	(Audited)			
REVENUE				
Real estate sales	₱45,116,120	₱46,973,399	(₱1,857,279)	(4%)
Rent	34,694,185	32,013,024	2,681,161	8%
Others	2,505,179	2,912,875	(407,696)	(14%)
	82,315,484	81,899,298	416,186	1%
COSTS AND EXPENSES	49,900,933	52,825,112	(2,924,179)	(6%)
INCOME FROM OPERATIONS	32,414,551	29,074,186	3,340,365	11%
OTHER INCOME (CHARGES)				
Interest expense	(9,357,616)	(8,596,750)	(760,866)	9%
Interest and dividend income	1,025,066	1,207,227	(182,161)	(15%)
Others - net	3,651,524	779,078	2,872,446	369%
	(4,681,026)	(6,610,445)	1,929,419	(29%)
INCOME BEFORE INCOME TAX	27,733,525	22,463,741	5,269,784	23%
PROVISION FOR INCOME TAX				
Current	2,816,720	1,761,051	1,055,669	60%
Deferred	3,005,402	2,562,953	442,449	17%
	5,822,122	4,324,004	1,498,118	35%
NET INCOME	₱21,911,403	₱18,139,737	₱3,771,666	21%
Attributable to				
Equity holders of the Parent	₱21,786,516	₱18,006,512	₱3,780,004	21%
Non-controlling interests	124,887	133,225	(8,338)	(6%)
	₱21,911,403	₱18,139,737	₱3,771,666	21%

Revenues

SM Prime recorded consolidated revenues of ₱82.32 billion in 2021, an increase of 1% compared to ₱81.90 billion in the same period of 2020, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱34.69 billion in 2021, an 8% increase from ₱32.01 billion in the same period of 2020. Out of the total rental revenues, 83% is contributed by the malls and the rest from offices and hotels and convention centers. Rent revenues of ₱10.91 billion in the last quarter of 2021 increased by 46% from the ₱7.48 billion in the same period in 2020 as the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) and local government unit (LGU) eased enhanced community quarantine (ECQ) restrictions during the fourth quarter of 2021, relaxing age mobility restrictions and allowing more tenants to operate.

Real Estate Sales

SM Prime recorded real estate sales of ₱45.12 billion in 2021, slightly lower from ₱46.97 billion in 2020. Reservation sales in 2021 is flat at ₱98.9 billion. Revenues are recognized in the books based on percentage of completion.

Other Revenues

SM Prime's other revenues improved to ₱0.95 billion in the last quarter of 2021 compared to ₱0.63 billion in the same period in 2020. However, it decreased by 14% to ₱2.51 billion in 2021 from ₱2.91 billion in the same period in 2020 as pandemic condition started in March 2020. Other revenues in 2021 include cinema and event ticket sales, sponsorships and advertising revenues, bowling operations and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱49.90 billion in 2021, a decrease of 6% from ₱52.83 billion in the same period in 2020, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate decreased by 9% to ₱18.69 billion in 2021 from ₱20.58 billion in the same period in 2020 due to decrease in real estate sales, net of savings as a result of improving cost efficiencies. Gross profit margin on real estate sales improved to 59% in 2021 from 56% in 2020.

Operating Expenses

SM Prime's consolidated operating expenses decreased by 3% to ₱31.21 billion in 2021 compared to last year's ₱32.25 billion. Out of the total operating expenses, 64% is contributed by the malls. Operating expenses include depreciation and amortization, taxes and licenses, marketing and selling expenses, utilities and manpower costs.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 9% to ₱9.36 billion in 2021 compared to ₱8.60 billion in the same period in 2020 mainly due to ₱20.00 billion fixed rate bonds issued in 2021 and new bank loans availed for working capital and capital expenditure requirements, net of the capitalized interest on proceeds spent for construction and development of investment properties.

Interest, Dividend and Others - net

Interest, dividend and others - net increased to ₱4.68 billion in 2021 from last year's ₱1.99 billion. This mainly consists of interest income from cash and cash equivalents, dividend income from equity instruments, equity in net earnings from associates and joint ventures and foreign exchange gains and losses.

Provision for income tax - net

SM Prime's consolidated provision for income tax - net increased to ₱5.82 billion in 2021 compared to ₱4.32 billion in the same period in 2020. The Issuer recognized one-time impact of CREATE to provision for income tax amounting to ₱0.29 billion.

Net income attributable to Parent

SM Prime's consolidated net income attributable to Parent increased by 21% to ₱21.79 billion in 2021 as compared to ₱18.01 billion in the same period in 2020.

Year ended 31 December 2020 vs. year ended 31 December 2019

<i>(in thousands)</i>	Years Ended 31 December		Increase (Decrease)	
	2020	2019	In ₱	in %
	(Audited)			
REVENUE				
Real estate sales	₱46,973,399	₱44,465,454	₱2,507,945	6%
Rent	32,013,024	61,759,921	(29,746,897)	(48%)
Others	2,912,875	12,086,115	(9,173,240)	(76%)
	81,899,298	118,311,490	(36,412,192)	(31%)
COSTS AND EXPENSES	52,825,112	61,619,162	(8,794,050)	(14%)
INCOME FROM OPERATIONS	29,074,186	56,692,328	(27,618,142)	(49%)
OTHER INCOME (CHARGES)				
Interest expense	(8,596,750)	(8,832,770)	236,020	(3%)
Interest and dividend income	1,207,227	1,746,406	(539,179)	(31%)
Others - net	779,078	(443,970)	1,223,048	(275%)
	(6,610,445)	(7,530,334)	919,889	(12%)
INCOME BEFORE INCOME TAX	22,463,741	49,161,994	(26,698,253)	(54%)
PROVISION FOR INCOME TAX				
Current	1,761,051	9,282,069	(7,521,018)	(81%)
Deferred	2,562,953	1,091,252	1,471,701	135%
	4,324,004	10,373,321	(6,049,317)	(58%)
NET INCOME	₱18,139,737	₱38,788,673	(₱20,648,936)	(53%)
Attributable to				
Equity holders of the Parent	₱18,006,512	₱38,085,601	(₱20,079,089)	(53%)
Non-controlling interests	133,225	703,072	(569,847)	(81%)
	₱18,139,737	₱38,788,673	(₱20,648,936)	(53%)

Revenue

SM Prime recorded consolidated revenues of ₱81.90 billion in 2020, a decrease of 31% from ₱118.31 billion in 2019, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱32.01 billion in 2020, a decrease of 48% from ₱61.76 billion in 2019. The decrease in rental revenue was due to the temporary closure of malls as well as other businesses not deemed essential to daily life during the implementation of the community quarantine. The malls have gradually reopened since the lifting of the ECQ on 16 May 2021, subject to safety and protocol standards of the IATF. SM Prime waived a total of ₱23.30 billion in rentals and other charges throughout the government-imposed community quarantine. Out of the total rental revenues, 88% is contributed by the malls and the rest from offices and hotels and convention centers.

Real Estate Sales

SM Prime recorded 6% increase in real estate sales in 2020 from ₱44.47 billion to ₱46.97 billion primarily due to sales take-up and construction accomplishments during the period of ongoing projects including Shore 3, Bloom, Vine, Fame and Lane and fast take-up of various Ready-For-Occupancy (RFO) projects particularly those located in Mandaluyong and Pasay. Even with the imposition of the community quarantine, SM Residences was immediately able to adjust its market reach by maximizing various digital sales platforms and offering flexible payment terms to buyers. 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.

Other Revenues

SM Prime cinema and event ticket sales and other revenues decreased by 76% to ₱2.91 billion in 2020 from ₱12.09 billion in 2019 due to the effect of COVID-19 in the sector. With strict safety measures and compliance with IATF regulations, the cinema business slowly reopened its doors to patrons starting October 2020. Other revenues is composed of sponsorships and advertising revenues, bowling and ice skating operations, merchandise sales from cinema snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱52.83 billion in 2020, a decrease of 14% from ₱61.62 billion in the same period in 2019, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate slightly decreased to ₱20.58 billion in 2020 from ₱20.79 billion in 2019 primarily due to improving cost efficiencies as a result of economies of scale, tighter monitoring and control of construction costs, net of costs related to higher recognized real estate sales. Gross profit margin on real estate sales improved in 2020 partly due to improving cost efficiencies.

Operating Expenses

SM Prime's consolidated operating expenses decreased by 21% to ₱32.25 billion in 2020 compared to last year's ₱40.82 billion. Out of the total operating expenses, 69% is contributed by the malls. Operating expenses include depreciation and amortization, film rentals, taxes and licenses, marketing and selling expenses, utilities and manpower costs.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense decreased by 3% to ₱8.60 billion in 2020 compared to ₱8.83 billion in 2019 mainly due to higher capitalized interest on proceeds spent for construction and development of investment properties, net of the fixed rate bonds issued in May 2019 and March 2020 amounting to ₱10.0 billion and ₱15.0 billion, respectively, and new bank loans availed for working capital and capital expenditure requirements.

Interest, Dividend and Others - net

Interest, dividend and others - net increased to ₱1.99 billion in 2020 from ₱1.30 billion in 2019. This account is mainly composed of interest income from cash and cash equivalents, dividend income from equity instruments, equity in net earnings from associates and joint ventures and foreign exchange gains and losses. This account also includes the financial assistance provided by SM Prime to its agency personnel and various LGUs amounting to ₱0.33 billion during the implementation of ECQ.

Provision for income tax

SM Prime's consolidated provision for income tax decreased by 58% to ₱4.32 billion in 2020 from ₱10.37 billion in 2019.

Net income attributable to Parent

SM Prime's consolidated net income attributable to Parent decreased by 53% to ₱18.01 billion in 2020 as compared to ₱38.09 billion in 2019.

FINANCIAL CONDITION

31 December 2022 vs. 31 December 2021

<i>(in thousands)</i>	31 December 2022	31 December 2021	Increase (Decrease)	
	(Audited)		in ₱	in %
ASSETS				
Current Assets				
Cash and cash equivalents	₱42,060,082	₱39,775,852	₱2,284,230	6%
Receivables and contract assets	82,560,354	73,019,966	9,540,388	13%
Real estate inventories	70,500,025	56,575,047	13,924,978	25%
Equity instruments at fair value through other comprehensive income (FVOCI)	534,865	547,041	(12,176)	(2%)
Derivative assets	585,576	753,506	(167,930)	(22%)
Prepaid expenses and other current assets	25,767,334	24,993,357	773,977	3%
Total Current Assets	222,008,236	195,664,769	26,343,467	13%
Noncurrent Assets				
Equity instruments at FVOCI - net of current portion	17,077,198	17,400,372	(323,174)	(2%)
Investment properties	489,266,042	467,391,988	21,874,054	5%
Investments in associates and joint ventures	30,578,320	29,187,435	1,390,885	5%
Property and equipment	1,399,840	1,372,276	27,564	2%
Deferred tax assets - net	931,366	734,975	196,391	27%
Derivative assets - net of current portion	6,752,744	1,043,670	5,709,074	547%
Other noncurrent assets	106,200,906	91,607,795	14,593,111	16%
Total Noncurrent Assets	652,206,416	608,738,511	43,467,905	7%
	₱874,214,652	₱804,403,280	₱69,811,372	9%
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	₱5,422,524	₱6,487,427	(₱1,064,903)	(16%)
Accounts payable and other current liabilities	88,122,597	91,377,717	(3,255,120)	(4%)
Current portion of long-term debt	50,839,776	42,261,601	8,578,175	20%
Derivative liabilities	19,496	335,367	(315,871)	(94%)
Income tax payable	765,909	563,387	202,522	36%
Total Current Liabilities	145,170,302	141,025,499	4,144,803	3%
Noncurrent Liabilities				
Long-term debt – net of current portion	296,134,836	264,969,216	31,165,620	12%
Tenants' and customers' deposits – net of current portion	23,799,162	21,458,281	2,340,881	11%
Liability for purchased land – net of current portion	1,129,719	2,540,050	(1,410,331)	(56%)
Deferred tax liabilities – net	11,140,040	9,688,555	1,451,485	15%
Derivative liabilities – net of current portion	294,403	1,748,186	(1,453,783)	(83%)
Other noncurrent liabilities	31,394,584	28,612,720	2,781,864	10%
Total Noncurrent Liabilities	363,892,744	329,017,008	34,875,736	11%
Total Liabilities	509,063,046	470,042,507	39,020,539	8%
Equity Attributable to Equity Holders of the Parent				
Capital stock	33,166,300	33,166,300	–	0%
Additional paid-in capital – net	38,124,193	38,056,016	68,177	0%
Cumulative translation adjustment	3,435,171	3,083,184	351,987	11%
Net fair value changes of equity instruments at FVOCI	14,232,514	14,708,368	(475,854)	(3%)
Net fair value changes on cash flow hedges	2,984,605	(432,883)	3,417,488	789%
Remeasurement loss on defined benefit obligation	(928,882)	(548,643)	(380,239)	69%

Retained earnings:				
Appropriated	42,200,000	42,200,000	–	0%
Unappropriated	232,972,284	205,671,557	27,300,727	13%
Treasury stock	(2,984,695)	(2,984,695)	–	0%
Total Equity Attributable to Equity Holders of the Parent	363,201,490	332,919,204	30,282,286	9%
Non-controlling Interests	1,950,116	1,441,569	508,547	35%
Total Equity	365,151,606	334,360,773	30,790,833	9%
	₱874,214,652	₱804,403,280	₱69,811,372	9%

SM Prime's total assets amounted to ₱874.21 billion and ₱804.40 billion as of 31 December 2022 and 31 December 2021, respectively.

Cash and cash equivalents increased by 6% to ₱42.06 billion from ₱39.78 billion as of 31 December, 2022 and 31 December 2021, respectively, mainly due to improved collections, proceeds from the issuance of bonds and availment of new loans, net of payments for capital expenditure projects during the period and debt servicing.

Receivables and contract assets increased by 13% to ₱82.56 billion from ₱73.02 billion as of 31 December 2022 and 31 December 2021, respectively, due to increase in rental receivables from new malls and expansions and increase in sale of residential units.

Real estate inventories increased by 25% to ₱70.50 billion from ₱56.58 billion as of 31 December 2022 and 31 December 2021, respectively, due to construction accomplishments for the period, net of cost of sold units.

Derivatives improved to ₱7.02 billion net asset from ₱0.29 billion net liability as of 31 December 2022 and 31 December 2021, respectively, mainly due to foreign exchange and net fair value changes on swap transactions during the period. This also resulted to the increase in net fair value changes on cash flow hedges to ₱2.98 billion unrealized gain from ₱0.43 billion unrealized loss as of 31 December 2022 and 31 December 2021, respectively.

Investment properties increased by 5% to ₱489.27 billion from ₱467.39 billion as of 31 December 2022 and 31 December 2021, respectively, primarily due to landbanking, ongoing new mall projects, redevelopment of SM Mall of Asia and other existing malls, and construction of commercial buildings, net of depreciation expense for the period.

Investments in associates and joint ventures increased by 5% to ₱30.58 billion from ₱29.19 billion as of 31 December 2022 and 31 December 2021, respectively, due to equity in net earnings of associates and joint ventures.

Other noncurrent assets, which include bonds and deposits for real estate acquisitions and noncurrent portion of receivables from sale of real estate, increased by 16% to ₱106.20 billion from ₱91.61 billion as of 31 December 2022 and 31 December 2021, respectively.

Loans payable decreased by 16% to ₱5.42 billion from ₱6.49 billion as of 31 December 2022 and 31 December 2021, respectively, due to payments, net of availment for the period.

Income tax payable increased by 36% to ₱0.77 billion from ₱0.56 billion as of 31 December 2022 and 31 December 2021, respectively, mainly due to provisions for the year, net of payments.

Long-term debt increased by 13% to ₱346.97 billion from ₱307.23 billion as of 31 December 2022 and 31 December 2021, respectively, mainly due to the issuance of fixed rate bonds and new loan availments, net of payments of maturing loans during the period.

Tenants' and customers' deposits increased by 11% to ₱23.80 billion from ₱21.46 billion as of 31 December 2022 and 31 December 2021, respectively, mainly due to the new malls and office building

tenants.

Liability for purchased land decreased to ₱1.13 billion from ₱2.54 billion as of 31 December 2022 and 31 December 2021, respectively, due to payments made during the period.

Deferred tax liabilities - net increased by 15% to ₱11.14 billion from ₱9.69 billion as of 31 December 2022 and 31 December 2021, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes. Deferred tax assets - net increased by 27% to ₱0.93 billion from ₱0.73 billion as of 31 December 2022 and 31 December 2021 mainly due to actuarial loss for the year.

Other noncurrent liabilities increased by 10% to ₱31.39 billion from ₱28.61 billion as of 31 December 2022 and 31 December 2021, respectively, due to increase in noncurrent portion of lease liabilities and deferred output VAT related to sale of residential projects.

Cumulative translation adjustment increased by 11% to ₱3.44 billion from ₱3.08 billion as of 31 December 2022 and 31 December 2021, respectively, as a result of foreign exchange. While remeasurement loss on defined benefit obligation increased by 69% to ₱0.93 billion from ₱0.55 billion as of 31 December 2022 and 31 December 2021, respectively, due to actuarial loss for the year.

As at 31 December 2022 and 31 December 2021, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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 Issuer.

For the year 2023, the Issuer expects to incur capital expenditures of around ₱80 billion. This will be funded with internally generated funds and external borrowings.

31 December 2021 vs. 31 December 2020

<i>(in thousands)</i>	31 December 2021	31 December 2020	Increase (Decrease)	
			in ₱	in %
	(Audited)			
ASSETS				
Current Assets				
Cash and cash equivalents	₱39,775,852	₱30,661,614	₱9,114,238	30%
Receivables and contract assets	73,019,966	58,944,930	14,075,036	24%
Real estate inventories	56,575,047	43,691,877	12,883,170	29%
Equity instruments at fair value through other comprehensive income (FVOCI)	547,041	568,146	(21,105)	(4%)
Derivative assets	753,506	2,747	750,759	27,327%
Prepaid expenses and other current assets	24,993,357	23,205,662	1,787,695	8%
Total Current Assets	195,664,769	157,074,976	38,589,793	25%
Noncurrent Assets				
Equity instruments at FVOCI - net of current portion	17,400,372	16,131,568	1,268,804	8%
Investment properties	467,391,988	436,159,081	31,232,907	7%
Investments in associates and joint ventures	29,187,435	27,735,239	1,452,196	5%
Property and equipment	1,372,276	1,311,208	61,068	5%
Deferred tax assets - net	734,975	831,546	(96,571)	(12%)
Derivative assets - net of current portion	1,043,670	-	1,043,670	100%
Other noncurrent assets	91,607,795	83,115,307	8,492,488	10%
Total Noncurrent Assets	608,738,511	565,283,949	43,454,562	8%
	₱804,403,280	₱722,358,925	₱82,044,355	11%

LIABILITIES AND EQUITY

Current Liabilities

Loans payable	₱6,487,427	₱10,900,000	(₱4,412,573)	(40%)
Accounts payable and other current liabilities	91,377,717	81,033,985	10,343,732	13%
Current portion of long-term debt	42,261,601	42,738,350	(476,749)	(1%)
Derivative liabilities	335,367	357,662	(22,295)	(6%)
Income tax payable	563,387	957,906	(394,519)	(41%)
Total Current Liabilities	141,025,499	135,987,903	5,037,596	4%

Noncurrent Liabilities

Long-term debt – net of current portion	264,969,216	218,830,647	46,138,569	21%
Tenants’ and customers’ deposits – net of current portion	21,458,281	21,331,869	126,412	1%
Liability for purchased land – net of current portion	2,540,050	1,251,227	1,288,823	103%
Deferred tax liabilities – net	9,688,555	6,786,018	2,902,537	43%
Derivative liabilities – net of current portion	1,748,186	2,445,735	(697,549)	(29%)
Other noncurrent liabilities	28,612,720	25,007,898	3,604,822	14%
Total Noncurrent Liabilities	329,017,008	275,653,394	53,363,614	19%
Total Liabilities	470,042,507	411,641,297	58,401,210	14%

Equity Attributable to Equity Holders of the Parent

Capital stock	33,166,300	33,166,300	–	0%
Additional paid-in capital – net	38,056,016	38,022,913	33,103	0%
Cumulative translation adjustment	3,083,184	1,524,439	1,558,745	102%
Net fair value changes of equity instruments at FVOCI	14,708,368	13,460,669	1,247,699	9%
Net fair value changes on cash flow hedges	(432,883)	(1,769,030)	1,336,147	(76%)
Remeasurement loss on defined benefit obligation	(548,643)	(587,796)	39,153	(7%)
Retained earnings:				
Appropriated	42,200,000	42,200,000	–	0%
Unappropriated	205,671,557	186,251,267	19,420,290	10%
Treasury stock	(2,984,695)	(2,984,695)	–	0%

Total Equity Attributable to Equity Holders of the Parent	332,919,204	309,284,067	23,635,137	8%
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Non-controlling Interests

Total Equity	334,360,773	310,717,628	23,643,145	8%
	₱804,403,280	₱722,358,925	₱82,044,355	11%

SM Prime’s total assets amounted to ₱804.40 billion and ₱722.36 billion as of 31 December 2021 and 31 December 2020, respectively.

Cash and cash equivalents increased by 30% from ₱30.66 billion to ₱39.78 billion as of 31 December 2020 and 31 December 2021, respectively, mainly due to improved collections, proceeds from the issuance of bonds and availing of new loans, net of payments for capital expenditure projects during the period and debt servicing.

Receivables and contract assets increased by 24% from ₱58.94 billion to ₱73.02 billion as of 31 December 2020 and 31 December 2021, respectively, due to sale of residential units.

Real estate inventories increased by 29% from ₱43.69 billion to ₱56.58 billion as of 31 December 2020 and 31 December 2021, respectively, due to construction accomplishments for the period, net of cost of sold units.

Equity instruments at fair value through other comprehensive income increased by 7% from ₱16.70 billion to ₱17.95 billion as of 31 December 2020 and 31 December 2021, with equivalent increase of 9% in net fair value changes of equity instruments at FVOCI, from ₱13.46 billion to ₱14.71 billion as of 31 December 2020 and 31 December 2021, respectively, due to changes in fair values under this

portfolio.

Prepaid expenses and other current assets increased by 8% from ₱23.21 billion to ₱24.99 billion as of 31 December 2020 and 31 December 2021, respectively, due to increase in input and creditable withholding taxes and deposits and advances to contractors related to construction projects.

Investment properties increased by 7% from ₱436.16 billion to ₱467.39 billion as of 31 December 2020 and 31 December 2021, respectively, primarily due to landbanking, ongoing new mall projects, redevelopment of SM Mall of Asia and other existing malls, and construction of commercial buildings, net of depreciation expense for the period.

Investments in associates and joint ventures increased by 5% from ₱27.74 billion to ₱29.19 billion as of 31 December 2020 and 31 December 2021, respectively, due to equity in net earnings of associates and joint ventures.

Property and equipment increased by 5% from ₱1.31 billion to ₱1.37 billion as of 31 December 2020 and 31 December 2021, respectively, primarily due to acquisitions, net of depreciation during the period.

Other noncurrent assets, which includes bonds and deposits for real estate acquisitions and noncurrent portion of receivables from sale of real estate, increased by 10% from ₱83.12 billion to ₱91.61 billion as of 31 December 2020 and 31 December 2021, respectively.

Loans payable decreased by 40% from ₱10.90 billion to ₱6.49 billion as of 31 December 2020 and 31 December 2021, respectively, due to payments, net of availment for the period.

Accounts payable and other current liabilities increased by 13% from ₱81.03 billion to ₱91.38 billion as of 31 December 2020 and 31 December 2021, respectively, mainly due to payables to contractors and suppliers related to ongoing projects, liability for purchased land and customers' deposits.

Income tax payable decreased by 41% from ₱0.96 billion to ₱0.56 billion as of 31 December 2020 and 31 December 2021, respectively, mainly due payments for the year.

Long-term debt increased by 17% from ₱261.57 billion to ₱307.23 billion as of 31 December 2020 and 31 December 2021, respectively, mainly due to the issuance of ₱20.00 billion fixed rate bonds in 2021 and new loan availments, net of payments of maturing loans.

Derivative liabilities - net decreased from ₱2.80 billion to ₱0.29 billion as of 31 December 2020 and 31 December 2021, respectively, as a result of foreign exchange and net fair value changes on swap transactions, as well as maturity in January 2021 of certain principal only swap and interest rate swap transactions entered into to hedge the Issuer's foreign exchange currency exposure on dollar denominated long-term debts. This also resulted to the 76% decrease in net fair value changes on cash flow hedges from ₱1.77 billion to ₱0.43 billion as of 31 December 2020 and 31 December 2021, respectively.

Liability for purchased land increased from ₱1.25 billion to ₱2.54 billion as of 31 December 2020 and 31 December 2021, respectively, due to acquisitions.

Deferred tax liabilities - net increased by 43% from ₱6.79 billion to ₱9.69 billion as of 31 December 2020 and 31 December 2021, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes. Deferred tax assets - net decreased by 12% from ₱0.83 billion to ₱0.73 billion as of 31 December 2020 and 31 December 2021.

Other noncurrent liabilities increased by 14% from ₱25.01 billion to ₱28.61 billion as of 31 December 2020 and 31 December 2021, respectively, due to increase in noncurrent portion of lease liabilities and deferred output VAT related to sale of residential projects.

Cumulative translation adjustment increased by 102%, from ₱1.52 billion to ₱3.08 billion as of 31

December 2020 and 31 December 2021, respectively, as a result of foreign exchange. While remeasurement loss on defined benefit obligation decreased by 7% from ₱0.59 billion to ₱0.55 billion as of 31 December 2020 and 31 December 2021, respectively, due to actuarial gain for the year.

As at 31 December 2021 and 31 December 2020, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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 Issuer.

31 December 2020 vs. 31 December 2019

<i>(in thousands)</i>	31 December 2020	31 December 2019	Increase (Decrease)	
	(Audited)		in ₱	in %
ASSETS				
Current Assets				
Cash and cash equivalents	₱30,661,614	₱34,599,959	(₱3,938,345)	(11%)
Receivables and contract assets	58,944,930	53,636,921	5,308,009	10%
Real estate inventories	43,691,877	43,946,109	(254,232)	(1%)
Equity instruments at fair value through other comprehensive income (FVOCI)	568,146	659,077	(90,931)	(14%)
Derivative assets	2,747	–	2,747	100%
Prepaid expenses and other current assets	23,205,662	19,485,542	3,720,120	19%
Total Current Assets	157,074,976	152,327,608	4,747,368	3%
Noncurrent Assets				
Equity instruments at FVOCI - net of current portion	16,131,568	20,420,959	(4,289,391)	(21%)
Investment properties	436,159,081	410,639,578	25,519,503	6%
Investments in associates and joint ventures	27,735,239	27,214,398	520,841	2%
Property and equipment	1,311,208	1,383,320	(72,112)	(5%)
Deferred tax assets - net	831,546	903,845	(72,299)	(8%)
Derivative assets - net of current portion	–	826,315	(826,315)	(100%)
Other noncurrent assets	83,115,307	53,563,651	29,551,656	55%
Total Noncurrent Assets	565,283,949	514,952,066	50,331,883	10%
	₱722,358,925	₱667,279,674	₱55,079,251	8%

LIABILITIES AND EQUITY

Current Liabilities

Loans payable	₱10,900,000	₱100,000	₱10,800,000	10,800%
Accounts payable and other current liabilities	81,033,985	70,125,750	10,908,235	16%
Current portion of long-term debt	42,738,350	23,521,373	19,216,977	82%
Derivative liabilities	357,662	–	357,662	100%
Income tax payable	957,906	1,509,657	(551,751)	(37%)
Total Current Liabilities	135,987,903	95,256,780	40,731,123	43%

Noncurrent Liabilities

Long-term debt - net of current portion	218,830,647	214,333,050	4,497,597	2%
Tenants' and customers' deposits - net of current portion	21,331,869	21,646,217	(314,348)	(1%)
Liability for purchased land - net of current portion	1,251,227	4,214,234	(2,963,007)	(70%)
Deferred tax liabilities - net	6,786,018	4,179,154	2,606,864	62%
Derivative liabilities - net of current portion	2,445,735	711,617	1,734,118	244%
Other noncurrent liabilities	25,007,898	24,422,348	585,550	2%
Total Noncurrent Liabilities	275,653,394	269,506,620	6,146,774	2%
Total Liabilities	411,641,297	364,763,400	46,877,897	13%

Equity Attributable to Equity Holders of the Parent				
Capital stock	33,166,300	33,166,300	–	0%
Additional paid-in capital - net	38,022,913	38,007,668	15,245	0%
Cumulative translation adjustment	1,524,439	1,344,274	180,165	13%
Net fair value changes of equity instruments at FVOCI	13,460,669	17,840,990	(4,380,321)	(25%)
Net fair value changes on cash flow hedges	(1,769,030)	(1,328,167)	(440,863)	33%
Remeasurement loss on defined benefit obligation	(587,796)	(913,390)	325,594	(36%)
Retained earnings:				
Appropriated	42,200,000	42,200,000	–	0%
Unappropriated	186,251,267	173,583,191	12,668,076	7%
Treasury stock	(2,984,695)	(2,984,695)	–	0%
Total Equity Attributable to Equity Holders of the Parent	309,284,067	300,916,171	8,367,896	3%
Non-controlling Interests	1,433,561	1,600,103	(166,542)	(10%)
Total Equity	310,717,628	302,516,274	8,201,354	3%
	₱722,358,925	₱667,279,674	₱55,079,251	8%

SM Prime's total assets amounted to ₱722.36 billion as of 31 December 2020, an increase of 8% from ₱667.28 billion as of 31 December 2019.

Cash and cash equivalents decreased by 11% from ₱34.60 billion to ₱30.66 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to payments for capital expenditure projects during the period and debt servicing.

Receivables and contract assets increased by 10% from ₱53.64 billion to ₱58.94 billion as of 31 December 2019 and 31 December 2020, respectively, due to increase in real estate sales and due to the Bayanihan to Recover as One Act (Bayanihan Act) mandating an extended grace period for the payment of loan amortizations due on or before 31 December 2020.

Prepaid expenses and other current assets increased by 19% from ₱19.49 billion to ₱23.21 billion as of 31 December 2019 and 31 December 2020, respectively, due to increase in input and creditable withholding taxes and deposits and advances to contractors related to construction projects.

Equity instruments at fair value through other comprehensive income decreased by 21% from ₱21.08 billion to ₱16.70 billion as of 31 December 2019 and 31 December 2020, respectively, with equivalent decrease of 25% in net fair value changes of equity instruments at FVOCI, from ₱17.84 billion to ₱13.46 billion as of 31 December 2019 and 31 December 2020, respectively, due to changes in fair values under this portfolio.

Investment properties increased by 6% from ₱410.64 billion to ₱436.16 billion as of 31 December 2019 and 31 December 2020, respectively, primarily due to landbanking, ongoing new mall projects, redevelopment of SM Mall of Asia and other existing malls and commercial building construction, net of depreciation expense for the period.

Property and equipment net decreased by 5% from ₱1.38 billion to ₱1.31 billion as of 31 December 2019 and 31 December 2020, respectively, primarily due to depreciation expense for the period, net of acquisitions.

Deferred tax assets - net decreased by 8% from ₱0.90 billion to ₱0.83 billion as of 31 December 2019 and 31 December 2020, respectively due to NOLCO. Deferred tax liabilities - net increased by 62% from ₱4.18 billion to ₱6.79 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to unrealized gross profit on sale of real estate for income tax purposes.

Other noncurrent assets increased by 55% from ₱53.56 billion to ₱83.12 billion as of 31 December 2019 and 31 December 2020, respectively, due to additional bonds and deposits for real estate acquisitions and high take-up of ongoing residential projects.

Loans payable increased from ₱0.10 billion to ₱10.90 billion as of 31 December 2019 and 31 December 2020, respectively, due to availments.

Accounts payable and other current liabilities increased by 16% from ₱70.13 billion to ₱81.03 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to payables to contractors and suppliers related to ongoing projects, liability for purchased land and customers' deposits.

Derivative liabilities – net decreased to ₱2.80 billion as of 31 December 2020 as a result of foreign exchange and net fair value changes on principal only swap transactions, interest rate swap transactions and cross currency swap transactions entered into to hedge the Issuer's foreign exchange currency exposure on dollar denominated long-term debts. This also resulted to the 33% increase in net fair value changes on cash flow hedges, from ₱1.33 billion to ₱1.77 billion as of 31 December 2019 and 31 December 2020, respectively.

Income tax payable decreased by 37% from ₱1.51 billion to ₱0.96 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due payments for the year.

Long-term debt increased by 10% from ₱237.85 billion to ₱261.57 billion as of 31 December 2019 and 31 December 2020, respectively, mainly due to the issuance of ₱15.00 billion fixed rate bonds in March 2020 and new loan availments to fund capital expenditure requirements, net of payment of maturing loans.

Liability for purchased land – net of current portion decreased by 70% from ₱4.21 billion to ₱1.25 billion as of 31 December 2019 and 31 December 2020, respectively, due to subsequent payments.

Cumulative translation adjustment increased by 13% from ₱1.34 billion to ₱1.52 billion as of 31 December 2019 and 31 December 2020, respectively, as a result of foreign exchange. While remeasurement loss on defined benefit obligation decreased by 36% from ₱0.91 billion to ₱0.59 billion as of 31 December 2019 and 31 December 2020, respectively, due to actuarial gain for the year.

As at 31 December 2020 and 31 December 2019, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42.20 billion. 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 Issuer.

KEY PERFORMANCE INDICATORS

The following are the major financial ratios of the Issuer as at and for the years ended 31 December 2022, 2021, and 2020:

	Year ended 31 December		
	2022	2021	2020
Current ratio	1.53x	1.39x	1.16x
Acid test ratio	0.87x	0.81x	0.66x
Solvency ratio	1.72x	1.71x	1.75x
Debt to equity	49:51	49:51	47:53
Net debt to equity	46:54	45:55	44:56
Return on equity	9%	7%	6%
Net income margin	28%	26%	22%
Debt to EBITDA	5.77x	7.28x	6.94x
Asset to equity ratio	2.41x	2.42x	2.34x
Interest service coverage ratio	5.33x	4.61x	4.57x
Return on investment properties	7%	6%	5%

The Issuer's key financial indicators are measured in terms of the following:

- (1) Current ratio which measures the ratio of total current assets to total current liabilities;
- (2) Acid test ratio which measures total current assets less real estate inventories and prepaid expenses to total current liabilities;
- (3) Solvency ratio which measures the ratio of total assets to total liabilities;
- (4) Debt to equity ratio which measures the ratio of interest-bearing liabilities to equity attributable to equity holders of the Parent;
- (5) Net debt to equity which measures the ratio of interest-bearing liabilities net of cash and cash equivalents to equity attributable to equity holders of the Parent;
- (6) Return on equity which measures the ratio of net income attributable to the equity holders of the Parent to average total equity attributable to the equity holders of the Parent;
- (7) Net income margin which measures the ratio of net income attributable to the equity holders of the Parent to total revenue;
- (8) Debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities;
- (9) Asset to equity ratio which measures the ratio of total assets to total equity attributable to equity holders of the Parent;
- (10) Interest service coverage ratio which measures the ratio of EBITDA to interest expense; and
- (11) Return on investment properties which measures the ratio of net income attributable to the equity holders of the Parent to total average investment properties (excluding construction in progress).

Loan Agreements

The loan agreements of the Issuer provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., debt to equity ratio of not more than 0.70:0.30 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control (where the Issuer should ensure that its controlling shareholder shall, directly or indirectly, continue to maintain, own and control more than fifty percent (50%) of the voting outstanding capital stock of the Issuer until the full and complete payment). As at 31 December 2022 and 2021, the Issuer is in compliance with the terms of its loan covenants.

Expansion Plans / Prospects for the Future

In relation thereto, the authority to approve resolutions in relation to transactions in the normal course of business of the Issuer, including additional capital expenditures for new projects and mall expansions, has been delegated by the Board of Directors to the Executive Committee. The Executive Committee meets and approves resolutions regularly.

The Issuer plans to raise approximately \$1 billion from its Malls real estate investment trust ("REIT") offering in the second half of 2023 which will be dependent on market conditions and securing the relevant regulatory approvals. The Issuer has started the process of incorporating a REIT corporation that would initially own approximately twelve (12) to fifteen (15) malls. The Issuer intends to use the proceeds from the REIT listing to partially fund the Issuer's expansion plans, including the reclamation project in Pasay City.

The Issuer's malls business unit has eighty-two (82) shopping malls in the Philippines with 9.0 million square meters of GFA and seven (7) shopping malls in China with 1.4 million square meters of GFA as of 31 December 2022. The Issuer intends to launch three (3) new malls in the Philippines in 2023 namely SM City Bataan, SM Center San Pedro and SM City Sto. Tomas. These new malls, plus the expansion of the Issuer's existing malls, will provide an addition of almost 0.2 million square meters of GFA. The Issuer also intends to launch one new mall in Yangzhou, China in 2023 which will provide an addition of almost 0.2 million square meters of GFA.

The Issuer has sixty-four residential projects as of 31 December 2022, forty-six (46) of which are in Metro Manila and eighteen (18) are outside Metro Manila.

The Issuer's Commercial Properties Group has eighteen (18) office buildings with a combined GFA of approximately 1.5 million square meters as of 31 December 2022.

The Issuer's hotels and convention centers business unit currently has a portfolio of six (6) convention centers, two trade halls and nine hotels with over 2,200 saleable rooms as of 31 December 2022.

The Issuer has no known direct or contingent financial obligation that is material to the Issuer, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Issuer's balance sheet. The Issuer 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 Issuer's continuing operations. The Issuer has no material commitments for capital expenditures except for those disclosed in Note 12 of the Issuer's financial statements found elsewhere in this Offer Supplement.

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Issuer is not in default or in breach of any note, loan, lease or other indebtedness or financing arrangement.

There are no significant amounts of the Issuer's trade payables that have not been paid within the stated trade terms.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Offer Supplement and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Philippine Taxation

On 1 January 2018, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" ("TRAIN") Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax. While the TRAIN Act brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This was addressed in the second package of the Comprehensive Tax Reform Program ("CTRP") or Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"), which was signed into law on 26 March 2021, amending provisions of the Tax Code, related to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

As used in this section, the term "non-resident alien" refers to an individual whose residence is not within the Philippines and who is not a citizen thereof. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 25% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

The BIR has issued Revenue Memorandum Order No. 14-2021 ("RMO No. 14-2021") to streamline the procedures and documents for the availment of treaty benefits covering all items of income, derived by non-resident taxpayers from Philippine sources that are entitled to relief from double taxation under the relevant tax treaty. Under this regulation, when the treaty rates have been applied by the withholding agent on the income earned by the non-resident, the former shall file with the International Tax Affairs Division ("ITAD") of the BIR a request for confirmation on the propriety of the withholding tax rates applied on that item of income. On the other hand, if the regular rates have been imposed on the said income, the non-resident shall file a tax treaty relief application ("TTRA") with ITAD. The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. The request for confirmation or TTRA shall be supported by the documentary requirements under RMO No. 14-2021. Other guidelines in relation to the filing of the TTRA are provided under Revenue Memorandum Circular Nos. 77-2021 and 20-2022.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess withholding tax.

If a company withholds the regular tax rate instead of the reduced rate applicable under an income tax treaty, a non-resident holder of the company's shares may file a claim for a refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

The claim for refund may be filed independently of, or simultaneously with, the TTRA. If the claim was not filed simultaneously with the TTRA, the office where it was filed shall coordinate with, and defer to, ITAD the resolution of the non-resident's entitlement to treaty benefit. If, on the other hand, the claim was filed simultaneously with the TTRA, it shall be the responsibility of the ITAD to endorse the claim for refund to the proper office that handles the processing of tax refunds after the resolution of the TTRA. At any rate, all issues relating to the application and implementation of treaty provisions shall fall within the exclusive jurisdiction of the ITAD.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the

Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pretermination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of debt instruments as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals, beginning 1 July 2020, 25% for domestic and resident foreign corporations, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) ("MSMEs"), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32(A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.) On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 25%, if the holder is a non-resident foreign corporation. If the debt instrument is sold by a seller, who is an individual and who is not a dealer in securities, who has held the debt instrument for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain realized by a non-resident alien arising from such sale, regardless of the original instruments, may be exempt from income tax pursuant to various income tax treaties to which the

Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6.0%. A bondholder shall be subject to donor's tax based on the transfer of the Bonds by gift at a uniform rate of 6.0% on the basis of the total gifts in excess of ₱250,000.00 made during a calendar year for both individuals and corporate holders, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal or extension of maturity of the Bonds, documentary stamp tax is payable anew.

PENDING BILLS IN CONGRESS

The statements herein regarding the pending bills in congress on the relevant tax consequences of the Offer are based on the pending bills as of the date of this Offer Supplement. **These pending bills are not yet passed into law as of the date of this Offer Supplement and the provisions thereof may vary once passed into law.** The following summary does not purport to be a comprehensive description of all pending bills that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

Senate Bill No. 900

Senate Bill No. 900 ("SB 900"), otherwise known as the "Passive Income and Financial Intermediary Taxation Act" ("PIFITA"), was filed on 27 July 2022 and is currently pending in the Ways and Means Committee of the Philippine Senate.³ The proposed PIFITA Bill aims to complement the TRAIN Law by making passive income and financial intermediary taxes fairer, more efficient, and competitive regionally. It simplifies the taxation of passive income, financial services, and transactions.

Under the PIFITA Bill, a single tax rate of 15% is imposed upon interests, yield, or any other monetary benefit earned or received from bank deposit, deposit substitute, trust fund, cash and/or property dividends, capital gains from sale, exchange, transfer, barter, and disposition of non-listed and non-traded debt instruments and other securities.⁴

Meanwhile, the presumptive capital gains from the sale, exchange, barter, or disposition of shares traded in the stock exchange or an organized marketplace will be gradually reduced from 5/10 of 1% to 1/10 of 1% from 1 January 2023 to 1 January 2027.⁵

Furthermore, a DST of seventy-five percent of one percent (0.75%) of the par value shall be collected for shares of stock or units of participation in a collective investment scheme. Moreover, a single gross receipt tax rate of 5% will be imposed on banks, quasi banks, and certain non-bank financial intermediaries.⁶ If passed into law, this removes the distinction between lending and non-lending income, as well as the maturity of the instrument.⁷

House Bill No. 4339

The fourth package of the CTRP, which is House Bill No. 4339 ("HB 4339"), otherwise known as "*An Act Amending Sections 6, 22, 24, 25, 27, 28, 32, 34, 37, 38, 39, 42, 51, 52, 54, 56, 57, 73, 108, 109, 112, 121, 122, 123, 127, 149, 174, 176, 179, 181, 182, 183, 184, 185, 186, 187, 190, 195, 198, 199, 204, 222, 237, 237-A, 255, 256, 257, 258, 261, 263, 264, 266, 275; Inserting New Section 270-A; and Repealing Sections 175, 177, 178, 180, 188, 192, and 193; All Under Republic Act No. 8424, Otherwise Known As The National Internal Revenue Code of 1997, As Amended*" was transmitted to the Senate on 15 November 2022.⁸ If passed into law, HB 4339 would reduce the number of tax bases and rates applicable to passive income and ensure equitable taxation of passive income and financial transactions.

³ Senate Bill No. 900, "An Act Amending Sections 22, 24, 25, 27, 28, 32, 34, 37, 38, 39, 42, 51, 52, 54, 56, 57, 73, 108, 121, 122, 123, 174, 176, 179, 181, 182, 183, 184, 185, 186, 187, 195, 198, AND 199; and Repealing Sections 175, 177, 178, 180, 188, 192, and 193; All Under Republic Act No. 8424, Otherwise Known As The National Internal Revenue Code of 1997, As Amended, and For Other Purposes."

⁴ *Ibid.*, Sec. 4.

⁵ *Id.*, Sec. 4.

⁶ *Id.*, Sec. 24.

⁷ *Id.*, Sec. 22.

⁸ House Bill No. 4339, "*An Act Amending Sections 6, 22, 24, 25, 27, 28, 32, 34, 37, 38, 39, 42, 51, 52, 54, 56, 57, 73, 108, 109, 112, 121, 122, 123, 127, 149, 174, 176, 179, 181, 182, 183, 184, 185, 186,*

The proposed bill imposes a single tax rate of 15% on cash and/or property dividends, capital gains from the sale, exchange, barter, or disposition of shares of stock not traded in the stock exchange or organized market place, royalties, prizes, and other winnings earned as passive income.⁹ The tax rates on royalties, prizes, and other winnings will be gradually reduced from 20% to 15% from 1 January 2023 to 1 January 2027.¹⁰

HB 4339 also proposes to rationalize the DST regime by imposing a single rate on the original issue of shares and units of participation of collective investment schemes. Under the proposed bill, a DST of seventy-five percent of one percent (75% of 1%) of the par value shall be collected for such shares of stock.¹¹ Meanwhile, for collective investment schemes without par value, the DST shall be based on the initial net asset value per unit.

Furthermore, a single gross receipt tax rate of 5% is imposed upon banks and non-bank financial intermediaries performing quasi-banking functions on income such as interest, commissions, and discounts from lending activities as well as income from financial leasing, royalties, rentals of property, profits from sale or exchange including gains derived from sale or transfer of real properties, trading gains within the taxable year of foreign currency, debt securities, derivatives, and other similar financial instruments, and all other items treated as gross income under Section 32 of the NIRC, except dividends and equity shares and net income of subsidiaries which shall be subject to zero percent (0%) tax.¹²

187,190,195,198,199, 204, 222, 237, 237-A, 255, 256, 257, 258, 261, 263, 264, 266, 275; Inserting New Section 270-A; and Repealing Sections 175, 177, 178, 180,188,192, and 193; All Under Republic Act No. 8424, Otherwise Known As The National Internal Revenue Code of 1997, As Amended."

⁹ *Ibid.*, Sec. 4.

¹⁰ *Id.*, Sec. 4.

¹¹ *Id.*, Sec. 29.

¹² *Id.*, Sec 23.

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