



SM PRIME HOLDINGS, INC.

(A corporation duly organized and existing under Philippine laws)

Shelf Registration in the Philippines of
Fixed Rate Bonds in the aggregate principal amount
of ₱60,000,000,000

to be offered within a period of three (3) years
at an Offer Price of 100% of Face Value

to be listed and traded through
The Philippine Dealing and Exchange Corp.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

Prospectus dated 12 July 2016

SM PRIME HOLDINGS, INC.

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
Telephone No.: +63-2-831-10-00
Website: www.smprime.com

This Prospectus relates to the shelf registration and continuous offer SM Prime Holdings, Inc. (the "Issuer" or "SM Prime" or the "Company") through a sale in the Philippines of Fixed Rate Bonds (the "Bonds") in the aggregate principal amount of ₱60,000,000,000.

For the first tranche of the Bonds to be issued out of the shelf registration, SM Prime is offering Fixed Rate Bonds in the aggregate principal amount of ₱5,000,000,000 comprised of 10-year or Series F Bonds due in 2026, with an Over-subscription Option of up to ₱5,000,000,000 (the "Series F Bonds" or the "Offer"). Assuming the Over-subscription Option is fully exercised, up to ₱10,000,000,000.00 in aggregate principal amount of the Series F Bonds will be issued by the Company pursuant to the Offer on 26 July (the "Issue Date"). In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be issued within the period prescribed by relevant regulations.

The Series F Bonds shall have a term of ten (10) years from the Issue Date, with a fixed interest rate equivalent to 4.2005% p.a. Interest on the Bonds shall be payable quarterly in arrears on 26 October, 26 January, 26 April, and 26 July of each year for each Interest Payment Date at which the Series F Bonds are outstanding, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. The Maturity Date of the Bonds shall be on 26 July 2026, which will also be the last Interest Payment Date.

The Series F Bonds will be repaid at 100% of Face Value on the Maturity Date, unless otherwise redeemed, cancelled or purchased prior to the Maturity Date, or as otherwise set out in "Description of the Bonds – Redemption and Purchase" and "Description of the Bonds – Payment in the Event of Default" sections found on page 62 of this Prospectus.

The Series F Bonds have been rated PRS Aaa by Philippine Rating Services Corporation ("PhilRatings"). Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The Issuer's repayment capacity is extremely strong. A rating of PRS Aaa is the highest credit rating on PhilRatings' long-term credit rating scale. 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 Bonds shall be offered to the public at Face Value through the Underwriters named herein with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Register of Bondholders, and, as soon as reasonably practicable, listed in the Philippine Dealing & Exchange Corp. ("PDEX"). The Bonds shall be issued in denominations of ₱20,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

For the Series F Bonds, SM Prime expects to raise gross proceeds amounting to at least ₱5,000,000,000, up to a maximum of ₱10,000,000,000 assuming full exercise of the Over-subscription Option. Without such Over-subscription Option being exercised, the net proceeds are estimated to be at least ₱4,950.6 million after deducting fees, commissions and expenses relating to the issuance of the Series F Bonds. Assuming the Over-subscription Option is fully exercised, total net proceeds of the Offer is expected to amount to approximately ₱9,910.6 million. In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be issued within the period prescribed by relevant regulations. Proceeds of the Offer shall be used to finance the capital expenditures for the expansion of the Issuer's commercial and hotel operations (see "Use of Proceeds"). The Joint Lead Underwriters shall receive a fee of 0.30% on the total face value of the Bonds issued. The fee is inclusive of the fees to be ceded to Participating Underwriters.

Upon issuance, the Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of SM Prime and shall at all times rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of SM Prime, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to all of SM Prime's secured debts, if any, to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

On 19 May 2016, SM Prime filed a Registration Statement with the Philippine Securities and Exchange Commission ("SEC"), in connection with the offer and sale to the public of debt securities with an aggregate principal amount of up to ₱10,000,000,000 constituting the Offer (inclusive of the Over-subscription Option). The SEC is expected to issue an order

rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Offer.

The Company is allowed under Philippine laws to declare dividends, subject to certain requirements. The Company's Board of Directors is authorized to declare dividends only from its unrestricted retained earnings, except with respect to ₱3,355 million representing the cost of shares held in treasury and ₱47,640 million representing accumulated equity in net earnings of subsidiaries, associates and joint ventures as at 31 March 2016. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the Company's outstanding capital stock. The Company's Board of Directors may not declare dividends which will impair its capital.

SM Prime confirms that this Prospectus contains all material information relating to the Company, its affiliates and the Bonds which are in the context of the issue and offering of the Bonds (including all material information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Prospectus misleading in any material respect. SM Prime confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. SM Prime, however, has not independently verified any such publicly available information, data or analysis.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors inherent to the Company as set out in "Risk Factors" found on page 25 of this Prospectus, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds.

This Prospectus contains certain "forward-looking statements". These forward-looking statements can generally be identified by use of statements that include words or phrases such as SM Prime or its management "believes", "expects", "anticipates", "intends", "plans", "projects", "foresees", and other words or phrases of similar import. Similarly, statements that describe SM Prime's objectives, plans, and goals are also forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Nothing in this Prospectus is or should be relied upon as a promise or representation as to the future. The forward-looking statements included herein are made only as of the date of this Prospectus, and SM Prime undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offer shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Underwriters do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each prospective purchaser of the Bonds receiving a copy of this Prospectus acknowledges that he has not relied on the Underwriters in his investigation of the accuracy of such information or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds, among others. Investing in the Bonds involves certain risks. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section entitled "Risk Factors" found on page 25 of this Prospectus.

No dealer, salesman or other person has been authorized by SM Prime and the Underwriters to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by SM Prime or the Underwriters.

SM Prime is organized under the laws of the Philippines. Its principal office address is at the 10th floor, Mall of Asia Arena Annex Building, Coral Way corner J. W. Diokno Boulevard, Mall of Asia Complex, CBP-1A, Pasay City 1300, Philippines, with telephone number +632 831 1000 and fax number +632 833 8991.

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

SM Prime Holdings, Inc.

By:


HANS T. SY
President

MAKATI CITY

JUL 12 2016

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2016,
affiant exhibiting to me his Philippine Passport no. EB4448660 issued on January 14, 2012 at DFA Manila.

Doc. No. _____ 456
Book No. _____ 93
Page No. _____ 286
Series of 2016.

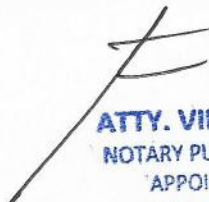

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M32
UNTIL DECEMBER 31, 2016
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333/4-10-2013
MP O.R No. 706762-LIFETIME MEMBER JAN. 29, 2007
PTR No. 532-35-05- JAN 04, 2016 MAKATI CITY
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR. JUPITER

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DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

AFS	Available-for-sale assets
BDG	SM Prime’s Business Development Group
BDO Insurance	BDO Insurance Brokers, Inc.
BDO	BDO Unibank, Inc.
BDO Capital	BDO Capital & Investment Corporation, an investment house and a wholly-owned subsidiary of BDO
BIR	the Bureau of Internal Revenue of the Philippines
Board or Board of Directors	The board of directors of SM Prime
Bond Agreements	the Trust Agreement, the Registry and Paying Agency Agreement, the Issue Management and Underwriting Agreement, and the Master Certificate of Indebtedness (inclusive of the Terms and Conditions), including any amendment or supplement thereto, or any document, certificate or writing contemplated thereby.
Bondholder	a person or entity whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders
Bonds	refers collectively to the Series F Bonds in the aggregate principal amount of ₱5,000,000,000, and an Over-subscription Option of up to ₱5,000,000,000, to be issued by SM Prime and which will mature on 26 July 2026
B. P. 220	<i>Batas Pambansa Blg. 220</i>
BPI Capital	BPI Capital Corporation
BSP	Bangko Sentral ng Pilipinas, the Philippine Central Bank
Business Day	means a day, other than Saturday, Sunday and public holidays, on which facilities of the Philippine banking system are open and available for clearing and banks are generally open for the transaction of business in the cities of Pasay and Makati
By-laws	the By-laws of SM Prime
CAR	A Certificate Authorizing Registration from the BIR
CDHI	Costa del Hamilo, Inc.
China Bank Capital	China Bank Capital Corporation
Company or Issuer or SM Prime	SM Prime Holdings, Inc.
DAR	The Philippine Department of Agrarian Reform

DENR	The Philippine Department of Environment and Natural Resources
DOT	The Philippine Department of Tourism
Directors	Members of the Board of Directors of SM Prime
EBITDA	Earnings before interest expense, income taxes, depreciation and amortization
Financial Statements	SM Prime's audited consolidated financial statements and related notes as at 31 December 2014 and 2015, for each of the years ended 31 December 2013, 2014, and 2015, and unaudited interim condensed consolidated financial statements and related notes as at 31 March 2016 and for the three-month periods ended 31 March 2015 and 2016
First Metro	First Metro Investment Corporation
GFA	gross floor area
Government	the Government of the Philippines
GSIS	Government Service Insurance System
HLURB	Housing and Land Use Regulatory Board
HPI	Highlands Prime, Inc.
Joint Issue Managers, Joint Bookrunners and Joint Lead Underwriters	BDO Capital, BPI Capital, China Bank Capital, and First Metro
LGU	Local government unit
Maceda Law	Republic Act No. 6552
Major Consignors	Hardware Workshop, Home World, Baby Company, Signature Lines, Supplies Station, Toy World, Watsons, Sports Central and Kultura
Majority Bondholders	Holders of the relevant Bond series representing not less than 51% of the outstanding relevant Bond series
Makro	Prime Metro Estate, Inc.

Malls	SM City North EDSA, SM Megamall, SM Mall of Asia, SM Aura Premier, SM City Fairview, SM City Southmall, SM City San Lazaro, SM City Marikina, SM City Manila, SM City Sta. Mesa, SM City BF Parañaque, SM City Bicutan, SM City Sucat, SM Center Valenzuela, SM City Novaliches, SM Center Muntinlupa, SM Center Sangandaan, SM Center Las Piñas, SM Center Pasig, Cherry Foodarama Shaw Boulevard, SM Seaside City Cebu, SM City Cebu, SM City Dasmariñas, SM Cabanatuan, SM Lanang Premier, SM City Clark, SM City Iloilo, SM City Lipa, SM City Bacolor, SM City General Santos, SM City Pampanga, SM City Davao, SM City Bacoor, SM City Baguio, SM City Consolacion, SM City Tarlac, SM City Taytay, SM City Masinag, SM City Marilao, SM City Baliwag, SM City Cagayan de Oro, SM City Sta. Rosa, SM City Batangas, SM City Lucena, SM City Naga, SM City San Mateo, SM City Calamba, SM City Cauayan, SM City Rosales, SM City Rosario, SM City San Pablo, SM Center Molino, SM Megacentre Cabanatuan, SM City Olongapo, SM City San Fernando and SM Center Angono
Management Companies	companies that manage and operate the Malls, including the provision of manpower, maintenance and engineering, security and promotional activities; and are controlled, directly or indirectly, by the Sy Family
Master Certificate of Indebtedness	the certificate to be issued by the Issuer to the Trustee evidencing and covering such amount corresponding to the Bonds
Material Subsidiary	<p>SM Development Corporation, SM China Companies, and any Subsidiary of the Issuer:</p> <p>(a) whose gross revenues or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross revenues, as shown by its latest audited income statement are at least 10% of the consolidated gross revenues as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries; or</p> <p>(b) whose net income or (in the case of a Subsidiary which itself has subsidiaries) consolidated net income before taxation and extraordinary items, as shown by its latest audited income statement is at least 15% of the consolidated net income before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries; or</p> <p>(c) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet are at least 10% of the amount which equals the amount included in the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries;</p> <p>provided that, in relation to paragraphs (a), (b) or (c) above,</p> <p>(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity</p>

	<p>becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;</p> <p>(ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenues, net income or gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer and reviewed by the auditors for the purposes of preparing a certificate thereon to the Trustee;</p> <p>(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenues, net income or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer and reviewed by the auditors for the purposes of preparing a certificate thereon to the Trustee; and</p> <p>(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or</p> <p>(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall cease to become a Material Subsidiary as at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such accounts by virtue of the provisions of (a), (b) or (c) above.</p>
Merger	The merger of SM Land and SM Prime pursuant to Title IX (Merger and Consolidation) of the Corporation Code and Section 40(C)(2) of the National Internal Revenue Code, as amended, with SM Prime as the surviving entity
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela and the municipality of Pateros, which together comprise the "National Capital Region" and are commonly referred to as "Metropolitan Manila"
Mezza	Mezza Residences

MOA	Mall of Asia
Mountain Bliss	Mountain Bliss Resort and Development Corporation
Offer	the offer of the Bonds to the public by the Issuer under the terms and conditions as herein contained
Offer Period	the period commencing within ten Business Days from the date of the issuance of the SEC Permit to Sell Securities, during which the Bonds shall be offered to the public
PAS	Philippine Accounting Standards
Paying Agent	Philippine Depository & Trust Corp., the party which shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records shown in the Register of Bondholders
Payment Date	each of the dates when payment of principal, interest and other amounts due on the Bonds are due and payable to the Bondholders; provided that, in the event any Payment Date falls on a day that is not a Business Day, the Payment Date shall be automatically extended without adjustment to interest accrued to the immediately succeeding Business Day
PCD	PCD Nominee Corporation
P.D. 957	Presidential Decree No. 957, as amended, also known as the Subdivision and Condominium Buyers' Protective Decree
PDEx	Philippine Dealing & Exchange Corp.
PDTC	the Philippine Depository & Trust Corporation, the central depository and clearing agency of the Philippines which provides the infrastructure for handling the lodgment of the scripless Bonds and the electronic book-entry transfers of the lodged Bonds in accordance with the PDTC Rules, and its successor-in-interest
PDTC Rules	the SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented, or modified from time to time
Person	any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization
Pesos or ₱	the lawful currency of the Philippines
PEZA	The Philippine Economic Zone Authority
PFRS	Philippine Financial Reporting Standards which includes statements named PFRS and Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC)
Philippines	the Republic of the Philippines

PRC	People's Republic of China
Property for Share Swap	The issuance of SM Prime shares to SMIC in exchange for several real estate properties of SMIC
PSE	The Philippine Stock Exchange, Inc.
Public Debt	means any present or future indebtedness in the form of, or represented by bonds, notes, debentures, loan stock or other securities that are at the time, or are of the type customarily quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market
R.A. 4726	Republic Act No. 4726, as amended, also known as the Condominium Act
R.A. 7279	Republic Act No. 7279, also known as the Urban Development and Housing Act of 1992
R.A. 8799 or SRC	Republic Act No. 8799, The Securities Regulation Code of the Philippines
Register of Bondholders	the electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar	the Philippine Depository & Trust Corporation, being the registrar appointed by the Issuer to maintain the Register of Bondholders pursuant to the Registry and Paying Agency Agreement
Reorganization	The reorganization of certain companies and assets of the SM Group as discussed in the section "Description of the Reorganization" found on page 75 of this Prospectus
ROA	return on assets which measures the ratio of net income attributable to equity holders of the parent to average total assets
ROE	return on equity which measures the ratio of net income attributable to equity holders of the parent to average total equity (excluding non-controlling interest)
RTC	Regional Trial Court
SEC	the Securities and Exchange Commission of the Philippines
SEC Permit	the Permit to Sell Securities issued by the SEC in connection with the Offer
Share for Share Swap	The issuance of SM Prime shares to SMIC, Mountain Bliss and the Sy family, in exchange for the latter's shares in the Unlisted Real Estate Companies
Shares	common shares of the Issuer, which have a par value of ₱1 per share
SM China Companies	SM Shopping Center (Chengdu) Co. Ltd., Xiamen SM City Co. Ltd. and Xiamen SM Mall Management Co. Ltd. (together, "SM Xiamen"), SM International Square Jinjiang City Fujian ("SM Jinjiang"), SM Shopping Center (Suzhou) Co. Ltd. ("SM Suzhou"), SM Shopping Center (Chongqing) Co. Ltd. (SM Chongqing) and SM Shopping Center (Zibo) Company Ltd ("SM Zibo")

SM Department Stores	the retail department stores operated by the Group under the "SM" name which presently include SM Makati, SM Cubao, SM North EDSA, SM Sta. Mesa, SM Megamall, SM Cebu, SM Southmall, SM Bacoor, SM Fairview, SM Iloilo, SM Manila, SM Pampanga, SM Davao, SM Cagayan de Oro, SM Bicutan, SM Lucena, SM Baguio, SM Marilao, SM Dasmariñas, SM Batangas, SM Delgado, SM San Lazaro, SM Sucat, SM Sta. Rosa, SM Clark, SM Mall of Asia, SM Lipa, SM Bacolod, SM Taytay, SM Marikina, SM Baliwag, SM Naga, SM Rosales, SM Rosario, SM Tarlac, SM San Pablo, SM Calamba, SM Novaliches, SM Masinag and SM Olongapo, SM Consolacion, SM Lanang, SM General Santos City, SM San Fernando, SM Aura, SM BF Parañaque, SM Cauayan, SM Megacentre Cabanatuan, SM San Mateo, SM Cabanatuan and SM Seaside Cebu
SMDC	SM Development Corporation
SM Group	The group of companies owned by SMIC
SM Hotels	SM Hotels and Conventions Corp. (formerly SM Hotels and Entertainment Corp.)
SMIC	SM Investments Corporation, the parent company of SM Prime
SMIC Real Estate Assets	The Taal Vista Hotel, the Radisson Cebu Hotel, the Pico Sands Hotel, the Park Inn Davao, the SMX Convention Center, the Mall of Asia Arena, the Mall of Asia Arena Annex, the SM corporate office in Pasay City, the Tagaytay casino and waste water treatment plant and certain other land in Tagaytay and EDSA West, Quezon City
SM Land	SM Land, Inc. (formerly Shoemart, Inc.) which was merged with SM Prime in October 2013
SM Malls in China	SM Xiamen and Xiamen/Lifestyle Center, SM City Jinjiang, SM City Chengdu, SM City Zibo, SM City Chongqing and SM City Suzhou
SM Network	suppliers, tenants and other merchants that do business with entities affiliated with SMIC
sq. m.	square meter
Subsidiary	at any particular time, any company or other business entity which is then directly or indirectly controlled, or more than 50%, of whose issued equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its Subsidiaries. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and control shall be construed accordingly
Sy Family	Mr. Henry Sy, Sr., his wife, Mrs. Felicidad T. Sy, and their children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy
Tax Code	the amended Philippine National Internal Revenue Code of 1997 and its

	implementing rules and regulations
TFG	SM Prime's Treasury Finance Group
Trustee	Philippine National Bank Trust Banking Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate
Underwriters	the entities appointed as the Underwriters for the Bonds pursuant to the Issue Management and Underwriting Agreement dated 12 July 2016
Unlisted Real Estate Companies	Prime Metro Estate, Inc., Tagaytay Resort and Development Corporation, SM Hotels, SM Arena Complex Corporation, Rappel Holdings, Inc. and Costa del Hamilo, Inc.
US\$	United States Dollars, the lawful currency of the United States of America
VAT	Value-added tax
Walmart	Walmart Supermarket, Inc.

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Prospectus. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Prospectus shall have the same meanings when used in this summary. Prospective investors should therefore read this Prospectus in its entirety.

OVERVIEW

SM Prime Holdings, Inc. was incorporated in the Philippines and registered with the SEC on 6 January 1994. It is a leading integrated Philippine real estate company with business units focused on mall, residential, commercial, and hotels and convention centers. SM Prime is the surviving company of a series of transactions involving the real estate companies of the SM Group. See "Description of the Reorganization" found on page 75 of this Prospectus.

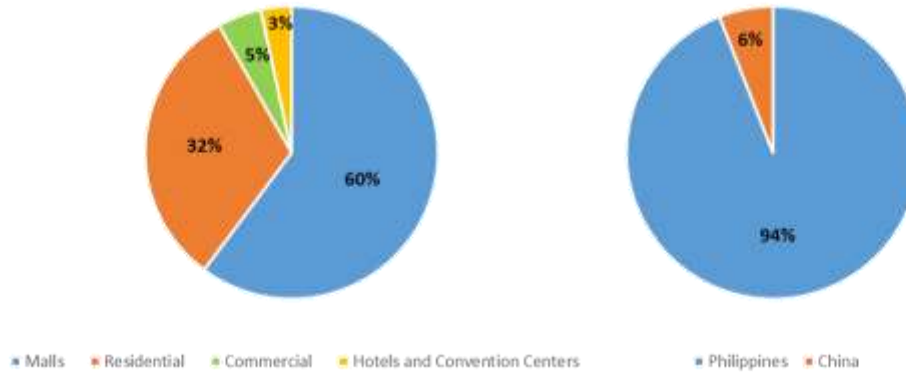
As at 31 March 2016, SM Prime's consolidated total assets stood at ₱433.6 billion, consolidated total liabilities were at ₱212.7 billion, with net debt-to-equity ratio (being the ratio of aggregate consolidated interest-bearing indebtedness net of cash and cash equivalent and investment held for trading over equity) of 37%.

The Company has four business segments, namely, malls, residential, commercial and hotel and convention centers. The table below sets out each business unit's contribution to SM Prime's consolidated revenue for the years ended 31 December 2013, 2014, and 2015 and the three months ended 31 March 2015 and 2016.

<i>(in ₱ million)</i>	For the years ended 31 December			For the three months ended 31 March	
	Audited			Unaudited ¹	
	2013	2014	2015	2015	2016
Malls	34,467	38,701	42,733	9,870	10,991
Residential	20,916	22,723	22,931	5,503	5,757
Commercial	2,914	2,945	3,506	784	902
Hotels and Convention Centers	1,670	2,005	2,446	528	618
Eliminations	(173)	(134)	(105)	(35)	(22)
Combined Total	59,794	66,240	71,511	16,650	18,246

The charts below display the composition of SM Prime's combined revenue by segment and geographical region as of and for the year ended 31 March 2016.

¹ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.



SM Prime is listed on the PSE and as at 31 March 2016 was 49.70% directly owned by SMIC. SM Prime had a market capitalization of ₱817.3 billion as of 11 July 2016.

RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Bonds. These risks include:

Risks Relating to the Company

- The Philippine property market is cyclical and can be affected by domestic and global economic conditions
- SM Prime may face challenges of title to land
- SM Prime's rights and title to reclaimed land may be challenged
- SM Prime will continue to compete with other mall operators and commercial and residential developers
- SM Prime is exposed to risks associated with the operation of its malls and commercial businesses
- SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses
- SM Prime is exposed to general risks associated with the ownership and management of real estate
- SM Prime's reputation may be affected by the operations of some of its affiliates
- SM Prime may be subject to tax liabilities in relation to the Reorganization. While its request for confirmatory ruling is still pending with the BIR Law Division, SM Prime does not anticipate an adverse ruling from the BIR. Please refer to Page 75 for more details
- SM Prime is effectively controlled by the Sy family and their interests may differ significantly from the interests of other shareholders
- SM Prime may enter into and expects to enter into material agreements and other arrangements with the Sy family and its affiliated companies and persons
- SM Prime's leasing operations depend on key tenants, which are affiliates of the SM Group

- SM Prime depends on retaining the services of its senior management team and its ability to attract and retain talented personnel
- Malls and other commercial properties owned by SM Prime may be subject to an increase in operating and other expenses
- SM Prime faces risks relating to the management of its land bank
- SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines
- Zoning restrictions and local opposition may delay or preclude construction
- Infringement of intellectual property rights could have a material adverse effect on SM Prime's business
- Land and/or real property may be subject to compulsory acquisition
- Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on SM Prime's and its customers' ability to obtain financing
- SM Prime faces risks inherent in joint venture structures and/or funds
- Construction defects and other building-related claims may be asserted against SM Prime, and SM Prime may be subject to liability for such claims
- SM Prime may suffer material losses in excess of insurance proceeds
- SM Prime faces property development risk
- SM Prime will continue to face certain risks related to the cancellation of sales involving its residential projects
- The loss of certain tax exemptions and incentives for residential home sales may increase the price of SM Prime's residential units and may lead to a reduction in sales
- A domestic asset price bubble could adversely affect the Company's business

Risks Relating to the Philippines

- Substantially all of the Company's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially adversely affect its businesses
- Any political instability in the future may have a negative effect on SM Prime's financial results
- SM Prime's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines
- Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect SM Prime's businesses

- Tensions with China and other neighboring countries may adversely affect the Philippine economy and business environment
- Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

Risks Relating to the Bonds

- The priority of debt evidenced by a public instrument
- An active trading market for the Bonds may not develop
- The Issuer may be unable to redeem the Bonds

Please refer to the section entitled "Risk Factors" found on page 25 of this Prospectus which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Bonds.

COMPETITIVE STRENGTHS OF THE COMPANY

Integrated real estate platform with strong track record across segments

SM Prime benefits from a strong track record in the Philippine real estate industry, including being the number one shopping mall developer and operator in the Philippines based on both GFA and number of malls, a leading residential developer in the Philippines in terms of condominium units sold, and operating growing office, hotel and leisure segments.

SM Prime possesses end-to-end capabilities across the integrated real estate value chain, encompassing land banking, master planning, construction, retailing and operations. SM Prime is able to leverage on the diverse skill sets of each of its business units while optimizing value through more efficient planning and control over its developments. SM Prime believes it can maximize the existing plots of its retail developments that may be underutilized or unutilized by adding residential, commercial and hospitality developments, thereby providing customers with an attractive "live, work, play" lifestyle.

SM Prime is one of the largest integrated real estate developer in Southeast Asia by market capitalization as of 31 March 2016, and the largest listed real estate developer on the PSE by market capitalization and net income as of 31 March 2016. SM Prime believes it is the largest shopping mall developer in the Philippines in terms of gross leasable area. SM Prime believes that it is well positioned to take advantage of greater demand for residential homes resulting from the growth of the Philippine economy and increasing demand from expatriate Filipinos, among other factors.

Leading retail malls business

As of 31 March 2016, SM Prime was the largest mall operator in the Philippines, with 56 malls across 37 cities in the Philippines and an additional 6 malls in the PRC. SM Prime's track record of operating malls dates back to 1985 when the first SM Mall was opened.

Drawing on its relationship with key tenants, SM Prime believes it is able to establish an appropriate mix of tenants in its malls and hence attract retail foot traffic. SM Prime enjoys long-standing relationships with anchor tenants such as SM Department Stores, SM Supermarkets, SM Hypermarkets, Jollibee and National Bookstore in the Philippines and Walmart and Vanguard in the PRC. In addition, SM Prime has long-term relationships with an extensive base of international and domestic tenants and has access to a wide leasing network, with approximately 16,842 tenants in the Philippines and 1,461 tenants in the PRC across multiple

segments as of 31 March 2016. These tenants include well-known Philippine brands such as Jollibee and National Bookstore as well as international brands such as Uniqlo, Forever 21, H&M, Starbucks, KFC, McDonalds.

SM Prime's diverse network of tenants allows it to pursue a dynamic leasing and marketing strategy. For example, international brands such as Uniqlo, Forever 21 and H&M have chosen SM Malls as the locations to open their flagship stores in the Philippines. SM Prime's diverse network of tenants generally also allows it to achieve high occupancy levels in a short period time following the opening of new malls. Significant demand backlog gives SM Prime the flexibility to optimize its tenant mix, ensuring steady foot traffic and consistent same store sales growth at its malls.

SM Prime believes that in its 30 years of operating history, the SM Malls have established strong brand equity. SM Supermalls was recognized with Reader's Digest Most Trusted in the Philippines Brand Award in 2015.

SM Prime's retail malls provide an anchor for its lifestyle city projects, generating steady foot traffic and enhancing the value of its mixed-use developments.

Access to a prime large-scale land bank

SM Prime aims to have a significant growth pipeline as underscored by its large and diversified land bank consisting of retail, commercial, and residential land in prime locations across the Philippines. As of 31 March 2016, SM Prime possessed a land bank of 12,811,409 sq. m. including around the MOA complex, South Road Properties in Cebu, Clark in Pampanga, North EDSA and SMDC properties in Metro Manila, among others, which SM Prime believes is among the largest land banks in the country.

SM Prime believes that its well-established presence and reputation in the Philippines, as well as its expansion into China, enable it to gain access to additional quality land bank. SM Prime also has a track record of implementing a proactive land banking strategy, for example, the master plan for the 600-hectare reclamation project in Pasay and Parañaque is already in process. In addition, SMIC has granted a non-binding right of first refusal to SM Prime to purchase additional land from SMIC to support further development initiatives.

Strong balance sheet and access to capital

SM Prime believes that it has access to capital from a wide variety of sources and thus is not dependent on any one source for its funding needs. As a PSE-listed company, SM Prime has access to the Philippines and international capital markets for potential issuance of equity, debt or other securities. SM Prime is also able to secure debt financing at what it believes to be competitive rates, including revolving bank loans and medium-term notes.

SM Prime believes that its strong balance sheet boosted by a large asset and equity base ensures that it is able to move quickly to acquire real estate assets and additional land bank. As of 31 March 2016, SM Prime had consolidated total assets of ₱433.6 billion and a total equity attributable to equity holders of the Parent of ₱217.8 billion. As of 31 March 2016, SM Prime's consolidated net debt to equity ratio was 37%, providing sufficient debt headroom flexibility for current and future capital expenditure and expansion plans.

SM Prime believes that its stable real estate portfolio contributes to its liquidity and strong mix of recurring income from its mall and office operations. In the three months ended 31 March 2016, 65% of SM Prime's consolidated revenue was derived from mall and commercial. SM Prime believes that its long-term leases help to create a steady stream of cash flow.

Experienced management team with strong corporate governance practices

SM Prime's senior management team comprises Mr. Henry T. Sy, Jr. as Chairman of the Board, and Mr. Hans T. Sy and Mr. Jeffrey Lim as President and Executive Vice President, respectively. Each of these individuals has been with SM Prime or its component businesses for at least 20 years.

SM Prime adheres to strong corporate governance practices, with three out of the eight members of its Board of Directors being independent directors. SM Prime has been recognized by the Asset Corporate Awards as a Platinum Awardee for All Around Excellence in Management, Financial Performance, Corporate Governance, Investor Relations, and Social Responsibility for 2009 to 2015.

BUSINESS STRATEGIES

Continue to expand SM Prime's land bank and develop integrated lifestyle cities

SM Prime has integrated all land banking functions into a centralized department retaining the highly successful culture that allowed the Company to reach its strong current land bank position. Going forward, the key focus of SM Prime will be on acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines. SM Prime also plans to continue acquiring a strategic land bank near its existing developments, select schools, mass transit stations and other areas which are expected to be significant beneficiaries of infrastructure development in the future.

A successful land banking strategy creates the foundation for the next phase in the development of lifestyle city projects, being the master planning for an integrated township design. These lifestyle cities are anchored by SM Prime's retail malls, supported by commercial, residential, hotel and convention center developments, creating a synergistic value enhancement across product classes and offering a complete selection of products to customers. For example, SM Prime aims to replicate the successful model of its MOA complex, a 60 hectare master-planned bayside development in Pasay City. The MOA complex had a total estimated land value of ₱58.3 billion according to CBRE as of February 28, 2013. SM Prime believes that the success of the MOA complex is a result of the substantial synergies from each real estate offering in the integrated development. For example, the MOA Arena has been a preferred venue for events due to its proximity to the MOA, which in turn increased foot traffic at the MOA. SEA Residences has been one of SM Prime's fastest selling residential development projects in part due to its proximity to the MOA, while again providing additional foot traffic to the MOA. SM Prime was also awarded by the cities of Pasay and Parañaque to reclaim land adjacent to the MOA complex totalling around 600 hectares.

SM Prime has a large and diverse land bank suitable for projects that are modeled after the MOA complex and creating lifestyle cities across the Philippines. For example, SM Prime is building a 30 hectare mixed use development project in Cebu City, the SM Seaside City. The mall in SM Seaside City is the city's largest mall, with a gross floor area ("GFA") of approximately 430,000 sq. m. It consists of a four-storey complex featuring a cineplex, IMAX theater, bowling center and ice skating rink. Other potential developments in SM Seaside City complex may include high-rise residential condominiums, office buildings, convention center and hotels. Development of the property started in 2012 with a 15-year development timeframe.

Leverage retail malls to anchor lifestyle city developments

SM Prime expects mall operations to continue to be its primary focus going forward and is targeted to account for a majority of SM Prime's net income for the foreseeable future. Expansion is expected to take place in major cities outside of Metro Manila, especially in areas where disposable income is expected to increase significantly and retail space is currently limited. Certain major cities have a per capita income and rent per sq. m. that are comparable to those within Metro Manila, driven by a shift in BPO demand to regional provinces. Over time, retail malls built in these cities could be converted into mixed use developments by adding office, residential and hospitality components as the cities continue to grow.

SM Prime also plans to expand within Metro Manila on a selective basis, developing supercenters (malls consisting of less than 100,000 sq. m.) that are situated between mega malls in Metro Manila. SM Prime believes that the current demand backlog for leases in several of its developments provides an opportunity for further mall expansion.

SM Prime plans to develop four to five malls in the Philippines each year for the near term, and also to opportunistically expand its presence in second and third tier cities in China by building one mall per year for the near term, in each case subject to market conditions. SM Prime is targeting to increase its overall mall GFA by 8-10% per year to approximately 7.7 million sq. m. in the Philippines and approximately 0.9 million sq. m. in China by 2016. SM Prime believes it will be able to do this given its direct access to a larger land bank that should allow it to accelerate its mall development throughout the country.

Optimize existing properties by adding complementary developments

SM Prime will pursue a multi-pronged long-term strategy that is aimed to allow it to optimize the value of existing properties, developments and current land bank through an integrated real estate platform while retaining flexibility to efficiently allocate capital among its various business units. SM Prime will embark on more large scale mixed used developments throughout the Philippines in an effort to replicate the success of the MOA complex.

SM Prime intends to further expand these complimentary projects by adding retail, office, residential and leisure developments to its existing property projects, including those projects with underutilized plots of vacant land. For example, SM Prime developed Radisson Blu Cebu, Park Inn by Radisson Davao and the Park Inn by Radisson Clark and Conrad Manila within existing mall developments such as SM City Cebu, SM City Davao, SM City Clark and SM Mall of Asia. SM Prime believes that SM Megamall, SM City North EDSA, and SM Seaside City still have significant under-utilized plot ratios that are suitable for commercial, hospitality and residential developments.

Continue aggressive rollout of BPO office development

Taking advantage of the robust BPO sector outlook as well as increasing flight to quality from older BPO developments, SM Prime's strategic focus includes expanding its office portfolio with IT and BPO buildings. SM Prime plans to leverage the new company's enlarged and geographically diverse land bank to expand its office space presence in second and third tier Philippine cities in Cebu, Davao, Pampanga and Iloilo, areas where BPO companies are currently expanding their operations due to favorable labor market conditions.

Focus on a "one product-one market" strategy for the residential business

SM Prime intends to capitalize on the increasing urbanization and economic development of the Philippines to develop vertical residential projects in key areas across Metro Manila specifically the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon City, and Taguig, as well as Tagaytay City and Cebu that target the Philippine mass middle market. By leveraging the already strong SM brand and its leadership in the residential condominium segment, SM Prime believes it can aggressively roll-out new projects in the strategically placed land bank throughout Metro Manila and the rest of the country. SM Prime will focus its residential development on the low-to-middle income segments, which is underpinned by resilient housing demand driven by a housing supply backlog, growing household creation and increasing urbanization. As of 31 March 2016, SM Prime has 17 completed residential projects and 11 ongoing residential projects.

SM Prime plans to accelerate residential project launches in areas near existing SM Prime developments. As of 31 March 2016, SM Prime has already launched 4,000 units to the market in Las Pinas, Bicutan and along Roxas Boulevard and for the rest of the year, SM Prime is still set to launch an additional 7,000 to

8,000 units located in the Mall of Asia Complex, Tagaytay, Quezon City, Bulacan, Cavite and Cabanatuan.

Maintain a strong balance sheet, prudent risk and capital management and good governance

By maintaining a strong balance sheet, SM Prime believes it will be better able to withstand economic and financial cycles, while allowing the Company to achieve expansion quickly, as well as give it the flexibility to embark on acquisitions if and when opportunities arise. SM Prime intends to maintain prudent debt levels and a sufficient equity buffer with a target net debt-to-equity ratio of no more than 50:50. SM Prime also plans to maintain a relatively long and well spread out debt maturity profile and continue to diversify its sources of funding. SM Prime will take a disciplined approach to the allocation of capital across its projects with strict application of hurdle rates and benchmarks for each investment.

Capital expenditure for 2016 is approximately ₱56.0 billion, with 57% for mall, 31% for residential, 7% for commercial and 5% for hotels and convention centers. Capital expenditure for 2017 is approximately ₱61.4 billion, with 51% for mall, 29% for residential, 15% for commercial and 5% for hotels and convention centers. SM Prime plans to fund its capital expenditure plan through recurring income flows and external financing. SM Prime intends to apply global corporate governance standards and risk management best practices, as well as embark on integrated sustainability and corporate social responsibility initiatives.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated. The selected audited financial information presented below as at 31 December 2013², 2014, and 2015³ and for the years ended 31 December 2013, 2014 and 2015, and the selected unaudited financial information as at 31 March 2016 and for the first three months ended 31 March 2015 and 2016 have been derived from the Issuer's 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 Prospectus.

CONSOLIDATED BALANCE SHEETS

(in ₱ thousands)	As at 31 December			As at 31 March ⁴	
	2013 Audited	2014 Audited	2015 Audited	2015 Unaudited	2016 Unaudited
ASSETS					
Current Assets					
Cash and cash equivalents	27,141,506	35,245,206	25,869,908	44,101,608	21,024,041
Short-term investments	887,900	-	-	-	-
Investments held for trading	1,151,464	967,511	843,256	960,044	867,596
Receivables	27,184,434	30,686,968	31,354,286	33,681,668	31,840,987
Condominium and residential units for sale	6,102,653	7,578,885	8,164,981	9,419,716	7,633,116
Land and development – current portion	13,281,246	19,571,526	19,814,615	16,439,015	20,469,419
Available-for-sale investments – current portion	-	676,755	642,274	675,472	635,249
Prepaid expenses and other current	9,936,120	9,289,317	11,302,871	10,309,554	11,415,719

² SM Prime Holdings, Inc. initiated a corporate restructuring in 2013 to consolidate all of the SM Group's real estate companies and real estate assets under SM Prime. SM Land was merged with the Company, and certain unlisted real estate companies and real estate assets were acquired by the Company from SMIC and the Sy Family. The corporate restructuring was approved by the SEC on 10 October 2013. The Company's consolidated balance sheet and statement of income for the year ended 31 December 2012 was restated following the corporate restructuring.

³ The Issuer changed the presentation of its consolidated balance sheet as at 31 December 2014 to properly present advances and deposits from other current assets to other noncurrent assets to conform to the 2015 presentation and classification.

⁴ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.

	As at 31 December			As at 31 March ⁴	
<i>(in ₺ thousands)</i>	2013 Audited	2014 Audited	2015 Audited	2015 Unaudited	2016 Unaudited
assets					
Total Current Assets	85,685,323	104,016,168	97,992,191	115,587,077	93,886,127
Noncurrent Assets					
Available-for-sale investments – net of current portion	23,369,074	28,994,983	19,689,781	22,935,140	19,663,866
Property and equipment – net	1,578,893	2,258,387	1,680,382	2,067,323	1,685,394
Investment properties – net	171,666,409	192,639,379	230,340,399	209,033,231	233,716,273
Land and development – net of current portion	21,539,938	22,886,306	23,105,553	23,717,376	22,436,782
Derivative assets	1,778,810	1,632,814	2,600,799	1,660,890	2,237,103
Deferred tax assets - net	690,525	650,153	846,111	685,829	922,972
Investments in associates and joint ventures	5,756,294	6,050,884	22,080,000	6,097,254	22,148,031
Other noncurrent assets	23,518,416	29,711,085	35,493,223	20,618,853	36,870,125
Total Noncurrent Assets	249,898,359	284,823,991	335,836,248	286,815,896	339,680,546
Total Assets	335,583,682	388,840,159	433,828,439	402,402,973	433,566,673

	As at 31 December			As at 31 March ⁵	
<i>(in ₺ thousands)</i>	2013 Audited	2014 Audited	2015 Audited	2015 Unaudited	2016 Unaudited
LIABILITIES AND EQUITY					
Current Liabilities					
Loans payable	3,250,000	2,670,000	4,675,000	1,670,000	775,000

⁵ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.

Accounts payable and other current liabilities	45,298,216	36,378,819	38,819,156	39,045,510	36,797,691
Current portion of long-term debt	7,387,260	11,006,880	25,041,044	26,826,080	9,358,963
Income tax payable	946,593	743,506	955,533	1,626,406	1,708,450
Total Current Liabilities	56,882,069	50,799,205	69,490,733	69,167,996	48,640,104
Noncurrent Liabilities					
Long-term debt – net of current portion	95,675,730	115,606,147	125,952,441	103,577,884	140,010,885
Tenants' and customers' deposits	10,248,792	13,251,526	13,218,264	13,266,715	13,956,118
Liability for purchased land – net of current portion	1,117,809	1,170,855	2,081,708	1,029,764	2,026,613
Deferred tax liabilities – net	2,022,539	1,934,174	2,488,990	1,877,408	2,707,123
Derivative liabilities	159,974	58,705	-	21,141	412,980
Other noncurrent liabilities	3,255,244	3,781,344	4,753,456	4,793,286	4,987,701
Total Noncurrent Liabilities	112,480,088	135,802,751	148,494,859	124,566,198	164,101,420
Total Liabilities	169,362,157	186,601,956	217,985,592	193,734,194	212,741,524
Equity Attributable to Equity Holders of the Parent					
Capital stock	33,166,300	33,166,300	33,166,300	33,166,300	33,166,300
Additional paid-in capital - net	22,303,436	39,302,194	39,304,027	39,302,194	39,304,027
Cumulative translation adjustment	1,381,268	840,430	1,005,978	842,578	849,206
Net unrealized gain on available-for-sale investments	19,958,330	25,905,440	16,621,547	19,899,363	16,588,626
Net fair value changes on cash flow hedges	429,149	249,332	428,799	298,695	104,604
Remeasurement gain (loss) on defined benefit obligation	771	(141,524)	(50,458)	(141,524)	(50,458)
Retained earnings:					
Appropriated	42,200,000	42,200,000	42,200,000	42,200,000	42,200,000
Unappropriated	47,807,664	60,921,048	83,168,103	73,552,388	89,003,985
Treasury stock	(3,980,378)	(3,355,530)	(3,355,474)	(3,355,530)	(3,355,474)
Total Equity Attributable to Equity Holders of the Parent	163,266,540	199,087,690	212,488,822	205,764,464	217,810,816
Non-controlling Interests	2,954,985	3,150,513	3,354,025	2,904,315	3,014,333
Total Equity	166,221,525	202,238,203	215,842,847	208,668,779	220,825,149
Total Liabilities and Equity	335,583,682	388,840,159	433,828,439	402,402,973	433,566,673

CONSOLIDATED STATEMENTS OF INCOME

<i>(in ₱ thousands)</i>	For the years ended 31 December			For the three months ended 31 March ⁶	
	2013 Audited	2014 Audited	2015 Audited	2015 Unaudited	2016 Unaudited
Revenue					
Rent	32,195,285	36,497,242	40,742,657	9,439,875	10,753,180
Sales:					
Real estate	20,775,195	22,151,618	22,185,915	5,354,725	5,546,364
Cinema ticket	3,740,030	4,268,531	4,797,510	979,048	1,059,093
Others	3,083,900	3,322,679	3,785,205	876,651	887,512
	59,794,410	66,240,070	71,511,287	16,650,299	18,246,149
Costs and Expenses	35,658,865	38,553,561	40,072,460	9,174,830	9,859,426
Income from Operations	24,135,545	27,686,509	31,438,827	7,475,469	8,386,723
Other Income (Charges)					
Interest expense	(3,686,603)	(4,099,499)	(3,379,104)	(1,087,982)	(995,293)
Interest and dividend income	1,093,870	731,884	1,168,610	337,089	270,880
Equity in net earnings of associates and joint ventures	349,468	304,434	542,905	46,007	92,260
Gain on sale of available-for- sale investments	285,129	2,743	7,410,711	7,410,301	10
Others – net	(1,467,318)	(951,935)	(2,271,110)	(61,703)	(141,646)
	(3,425,454)	(4,012,373)	3,472,012	6,643,712	(773,789)
Income Before Income Tax	20,710,091	23,674,136	34,910,839	14,119,181	7,612,934
Provision for (Benefit from) Income Tax					
Current	4,392,114	4,697,753	5,698,086	1,482,864	1,483,398
Deferred	(407,951)	79,894	320,160	(136,205)	148,054
	3,984,163	4,777,647	6,018,246	1,346,659	1,631,452
Net Income	16,725,928	18,896,489	28,892,593	12,772,522	5,981,482
Attributable to:					
Equity holders of the Parent	16,274,820	18,390,352	28,302,092	12,631,340	5,835,882
Non-controlling interests	451,108	506,137	590,501	141,182	145,600
	16,725,928	18,896,489	28,892,593	12,772,522	5,981,482
Basic/Diluted earnings per share	₱0.586	₱0.660	₱0.982	₱0.438	₱0.202

⁶ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(in ₺ thousands)</i>	For the years ended 31 December			For the three months ended 31 March ⁷	
	2013 Audited	2014 Audited	2015 Audited	2015 Unaudited	2016 Unaudited
Net Income	16,725,928	18,896,489	28,892,593	12,772,522	5,981,482
Other Comprehensive Income (Loss)					
Other comprehensive income transferred to profit or loss (net of tax):					
Realized gain from sale of available-for-sale investments	(285,129)	(2,743)	(7,410,711)	(7,410,301)	(10)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:					
Unrealized gain (loss) due to changes in fair value in available-for-sale investments	462,438	5,949,853	(1,873,182)	1,404,224	(32,911)
Net fair value changes on cash flow hedges	429,149	(179,817)	179,467	49,363	(324,195)
Cumulative translation adjustment	774,031	(540,838)	165,548	2,148	(156,772)
	1,380,489	5,226,455	(8,938,878)	(5,954,566)	(513,888)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:					
Remeasurement gain (loss) on defined benefit obligation	61,192	(143,144)	91,277	-	-
Total Comprehensive Income	18,167,609	23,979,800	20,044,992	6,817,956	5,467,594
Attributable to:					
Equity holders of the Parent	17,717,168	23,474,512	19,454,280	6,676,774	5,321,994
Non-controlling interests	450,441	505,288	590,712	141,182	145,600
	18,167,609	23,979,800	20,044,992	6,817,956	5,467,594

⁷ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.

SUMMARY OF THE OFFER

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

Issuer	SM Prime Holdings, Inc.
Issue	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of SM Prime Holdings, Inc.
Issue Size	PHP60,000,000,000
The Offer	PHP5,000,000,000 Series F Bonds
Over-subscription Option	The Issuer, in consultation with the Joint Issue Managers and Joint Lead Underwriters, shall have the option to increase the Issue Size by up to PHP5,000,000,000 in the event of oversubscription. In the event that the Over-subscription Option is not fully exercised, the unexercised portion shall be placed under shelf registration to be issued within the period prescribed by relevant regulations.
Manner of Distribution	Public offering
Use of Proceeds	To finance capital expenditures for the expansion of the Issuer's commercial and hotel operations (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	<p>The offer of the Series F Bonds shall commence at 9:00 am on 13 July 2016 and end at 12:00 pm on 19 July 2016</p> <p>The balance of PHP50,000,000,000 shall be placed under shelf registration and shall be offered over a period not exceeding three (3) years from the effective date of the registration statement of the Bonds</p>
Issue Date of the Series F Bonds	26 July 2016

Maturity Date Series F Bonds : Ten (10) years from Issue Date

Interest Rate Series F Bonds : 4.2005% per annum

Interest Computation & Payment Interest on the Series F Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrears.

Interest on the Series F Bonds shall commence on 26 October 2016 and on 26 October, 26 January, 26 April, and 26 July] of each year.

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

Optional Redemption Dates	Optional Redemption Price
Twenty ninth (29 th) Interest Payment Date	101.5%
Thirty third (33 rd) Interest Payment Date	101.0%
Thirty seventh (37 th) Interest Payment Date	100.5%

The Issuer shall give no less than thirty (30) nor more than (60) calendar days' prior written notice of its intention to redeem the Series F Bonds on such Optional Redemption Date, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Series F 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 then outstanding Series F Bonds being redeemed; and (ii) all accrued interest on the Series F Bonds as of the relevant Optional Redemption Date.

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

Bond Rating The Series F Bonds are rated PRS Aaa by the Philippine Rating Services Corporation

Trustee Philippine National Bank Trust Banking Group

Registrar & Paying Agent Philippine Depository & Trust Corp.

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 30% 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 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 at the 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

RISK FACTORS

Investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a big difference between the buying price and the selling price of these securities. An investor deals in a range of investments, each of which may carry a different level of risk.

Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below. The business, financial condition or results of operations of SM Prime could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Issuer or which the Issuer currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/she may request information on the securities and issuer thereof from the Commission which are available to the public.

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities especially those high risk securities.

This section entitled "Risks Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities.

The risks enumerated hereunder are considered to be each of equal importance.

The means by which the Company plans to address the risks discussed herein are presented in the sections of this Prospectus entitled "Description of the Issuer and the Group – Strengths," "Description of the Issuer and the Group – Strategies," and "Management's Discussion and Analysis of Financial Position and Financial Performance."

RISKS RELATING TO THE COMPANY

The Philippine property market is cyclical and can be affected by domestic and global economic conditions.

SM Prime derives a substantial portion of its revenue from rents and sales relating to its portfolio of malls, residential and commercial property developments and other leisure and mixed-use properties, substantially all of which are located in the Philippines. Accordingly, SM Prime is heavily dependent on conditions in the Philippine property market. In the past, the Philippine property market has been cyclical, and property values have been affected by the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and social developments.

Since the second half of 2008, the global financial markets have experienced, and may continue to experience, significant dislocations, which originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. These disruptions and other events, such as rising government deficits and debt levels, the sovereign credit ratings downgrades and ensuing public deficit and debt reduction measures of the United States and certain member states of the European Union, the risk of a partial collapse of the Eurozone and slower rates of growth in the Chinese economy have had and continue to have a significant adverse effect on the global financial markets. In particular,

the global financial crisis in 2008 and 2009 resulted in a generally negative effect on real estate property prices globally, including in the Philippines, and continued uncertainty and volatility in global economic conditions may result in further adverse impacts to SM Prime. These adverse effects can result in, among others, lower demand and values for real estate in the Philippines, increased difficulties on the part of tenants in meeting their lease and other financial obligations, and greater difficulties for SM Prime in obtaining financing where necessary to fund the acquisition and development of their real estate projects.

SM Prime's growth is largely dependent on its ability to construct profitable malls in new locations in the Philippines. The substantial majority of the aggregate net leasable area in these malls is dedicated to retail use, exposing SM Prime to risks relating to economic conditions in the Philippines such as trends in consumer spending, exchange rates and spending patterns of OFWs and their dependents, and the supply of, or demand from, tenants for retail space and other competing commercial malls. Declines in consumer spending and other factors that may result in lower demand for retail space could have a material adverse effect on SM Prime's ability to successfully operate and develop existing and future malls.

In addition, demand for new residential projects in the Philippines has fluctuated in the past as a result of prevailing economic conditions in both the Philippines and in other countries, such as the United States (including overall growth levels and interest rates), the strength of overseas markets (as a substantial portion of demand comes from Overseas Filipino Workers ("OFWs") and expatriate Filipinos), the political and security situation in the Philippines and other related factors.

General cyclical trends in the Philippines and international property markets, as well as significant uncertainties and volatilities in the domestic, regional and global economic conditions affecting those property markets, are expected to continue, and accordingly SM Prime's results of operations may fluctuate from period to period in accordance with those fluctuations. There can be no assurance that such variances will not have a material adverse effect on the business, financial condition and results of operations of SM Prime.

SM Prime may face challenges of title to land.

While the Philippines has adopted a system of land registration which is intended to conclusively confirm land ownership, and which is binding on all persons (including the Government), it is not uncommon for third parties to claim ownership of land that has already been registered and over which a title has been issued. There have also been cases where third parties have produced false or forged title certificates over land. In particular, Quezon City, Metro Manila and the province of Cavite, have been known to experience problems with syndicates of squatters and forged or false title holders. Although SM Prime generally conducts extensive title searches before it acquires any parcel of land, from time to time it has defended itself against third parties who claim to be the rightful owners of land which has been either titled in the name of the persons selling the land to those companies or which has already been titled in those companies' names. In the event a greater number of similar third-party claims are brought against SM Prime in the future or any such claims involve land that is material to SM Prime's malls, residential developments and other real estate assets, SM Prime's management may be required to devote significant time and incur significant costs in defending against such claims. If any such claims are successful, SM Prime may have to either incur additional costs to settle such third-party claims or surrender title to land that may be material in the context of SM Prime's operations. In addition, title claims made by third parties against SM Prime may have an adverse effect on its reputation.

Furthermore, transfer of title in the Philippines in connection with real estate sales involves a series of registrations and filings, which can require several months to complete. As a result, SM Prime may in some instances occupy, operate or develop properties for which it has not yet completed all formalities in respect of perfecting title. There can be no assurance that third parties will not in the future challenge SM Prime's rights to properties in similar circumstances where title has not yet been perfected.

SM Prime's rights and title to reclaimed land may be challenged

In 2002, the Supreme Court of the Philippines promulgated a decision in the case of *Francisco I. Chavez vs. Public Estates Authority and Amari Coastal Bay Development Corporation* (G.R. No. 133250) and ruled that Government-reclaimed lands form part of the public domain and consequently, cannot be acquired by private corporations without violating the Philippine Constitution.⁸ SM Prime (formerly SM Land/Shoemart) owns 60 hectares of reclaimed land along the coast of Manila Bay at the MOA complex, the acquisition of which was upheld in 1995 by the Court of Appeals, whose decision has long become final and has been executed. Title to a great majority of lots comprising the reclaimed land has since been registered under the name of SM Prime (formerly SM Land/Shoemart). SM Prime believes Shoemart acquired its reclaimed land in good faith and for value. The MOA complex is a 60 hectare master-planned bayside development in Pasay City with a total estimated land value of ₱58.3 billion according to CBRE as of February 28, 2013. The MOA complex is estimated to comprise 8% of the total assets of SM Prime and 7% of its total land value. The MOA complex houses the SM Mall of Asia, the Mall of Asia Arena, the MOA Arena Annex Building (that houses additional parking spaces and office levels), and the SMX Convention Center Manila, among other commercial, business and entertainment establishments. The MOA complex is also the site of the E-Com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO and shipping companies, as well as some of SM Prime's residential developments such as the Shell Residences and Shore Residences. The various business segments located within the MOA complex contributed an aggregate estimated ₱4,476 million or 7% of the revenues of SM Prime in 2013, ₱4,522 million or 7% of the revenues of SM Prime in 2014 and ₱4,852 million or 7% of the revenues of SM Prime in 2015 and approximately ₱1,873 million or 8%, ₱2,140 million or 8% and ₱2,380 million or 8%, in operating income, for the same period.

SM Prime's mixed use development project in Cebu City, the SM Seaside City, also stands on reclaimed land of approximately 30 hectares with an acquisition cost of approximately ₱3,000 million. SM Prime acquired the property in good faith and for value and expects title to the property to be transferred in its name in due course. The mall in SM Seaside City is the city's largest mall, with a gross floor area of approximately 430,000 sq. m. It consists of a four-storey complex featuring a cineplex, IMAX theater, bowling center and ice skating rink.

There is, however, no assurance that the title to the land where the MOA Complex and the SM Seaside City is located will not be challenged and have an adverse impact on SM Prime's right and title to the reclaimed lands. Any such challenge, whether successful or not, may adversely affect its business, financial condition and results of operations. SM Prime, however, believes that any adverse effect of such challenge to its business will not materially impact SM Prime's ability to conduct its business or significantly affect its ability to operate given that the MOA complex comprises less than 10% of its total assets.

In the event that it becomes subject of such challenge or lawsuit, SM Prime will defend its rights against such claims.

⁸ Article XII Section 3. Lands of the public domain are classified into agricultural, forest or timber, mineral lands, and national parks. Agricultural lands of the public domain may be further classified by law according to the uses to which they may be devoted. Alienable lands of the public domain shall be limited to agricultural lands. Private corporations or associations may not hold such alienable lands of the public domain except by lease, for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and not to exceed one thousand hectares in area. Citizens of the Philippines may lease not more than five hundred hectares, or acquire not more than twelve hectares thereof by purchase, homestead, or grant.

Taking into account the requirements of conservation, ecology, and development, and subject to the requirements of agrarian reform, the Congress shall determine, by law, the size of lands of the public domain which may be acquired, developed, held, or leased and the conditions therefor.

SM Prime will continue to compete with other mall operators and commercial and residential developers.

SM Prime competes with other developers and operators of shopping malls and other commercial properties and residential properties for tenants, sales customers and land acquisition opportunities, among others.

SM Prime's malls compete with other similar malls. Increased competition could adversely affect income from, and the market values of, the malls. The income from, and market values of, the malls are largely dependent on the ability of the malls to compete against other retail malls in their area in attracting and retaining tenants. In addition, tenants at the malls face increasing competition from specialty stores, general merchandise stores, discount stores, warehouse outlets and street markets, which may affect the ability or willingness of such tenants to continue renewing their leases. Important factors that affect the ability of retail malls to attract or retain tenants include the popularity of the malls with retail customers, which is a function of the quality of the malls' existing tenants and the attractiveness of the building and the surrounding area. Attracting and retaining tenants and customers often involves refitting, repairing or making improvements to mechanical and electrical systems and outward appearance. If competing malls of a similar type are built in the areas where the malls are located or similar malls in the vicinity of the malls are substantially updated and refurbished, the value and net income of the malls could be reduced.

SM Prime's income from, and market values of, its residential development projects is largely dependent on these projects' popularity when compared to similar projects in their areas, as well as on the ability of SM Prime to gauge correctly the market for its projects. Important factors that could affect SM Prime's ability to compete effectively include a project's relative location versus that of its competitors, particularly proximity to transportation facilities and commercial centers, as well as the quality of the housing and related facilities offered by SM Prime and the overall attractiveness of the project.

SM Prime's commercial investment property business competes with a number of commercial developers. Competition from other developers of neighboring commercial centers and office spaces may adversely affect SM Prime's ability to operate successfully its investment properties or attract and retain tenants, and continued development by these and other market participants could result in saturation of the market for office space. In addition, SM Prime's major competitors may have greater experience, financial resources and more expertise in developing commercial properties and commercial leasing operations.

SM Prime's future growth and development will also depend, in part, on its ability to acquire or enter into agreements to develop additional tracts of land suitable for the types of mall, residential and commercial real estate projects that SM Prime has developed over the years. SM Prime may experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to SM Prime, particularly parcels of land located in areas surrounding Metro Manila and in other urban areas throughout the Philippines. In the event SM Prime is unable to acquire suitable land at acceptable prices, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

As a result of the foregoing, historical operating results of the malls may not be indicative of future operating results and historical market values of the malls may not be indicative of future market values. A failure by SM Prime to compete effectively against other developers and operators of malls and other commercial properties and residential properties could result in a loss of market share in the relevant sectors and corresponding decreases in revenues from rentals and property sales, which would in turn negatively impact SM Prime's businesses, financial condition and results of operations.

SM Prime is exposed to risks associated with the operation of its mall and commercial businesses.

The operations of SM Prime's malls and commercial businesses are subject to risks relating to the ownership

of properties for lease and the management of mall and commercial tenants. The performance of SM Prime's malls and commercial properties could be affected by a number of factors, including:

- the national and international economic climate;
- trends in the Philippine commercial and retail industry;
- ability to attract leading names in the retail market to SM Prime's mall and commercial developments;
- ability to anticipate the future technological and infrastructure needs of Business Process Outsourcing ("BPO") tenants and effectively design properties to meet those needs;
- efficiency in collection, property management and tenant relations;
- non-renewal of expiring tenancies;
- amount of disposable income and consumer preference;
- competition for tenants;
- changes in market rental rates;
- the need to periodically renovate, repair and re-let space and the costs thereof;
- the quality and strategy of the management services provided; and
- SM Prime's ability to provide adequate security, maintenance and insurance.

In particular, SM Prime's commercial development projects comprise three office buildings catering primarily to tenants operating in the BPO industry. Adverse trends in the Philippines' BPO industry and competitive environment could result in the inability of existing BPO tenants to honor their lease commitments, as well as lower demand among potential BPO clients for vacant space.

If SM Prime is unable to lease its mall and commercial properties in a timely manner or collect rent at profitable rates or at all, this could materially and adversely affect SM Prime's business, financial condition and results of operations.

SM Prime faces numerous risks including reputational risk and operational risks relating to its residential and commercial businesses.

SM Prime's operations include the development and sale of residential properties and the development and lease of office and commercial properties. The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that SM Prime may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales or rentals at the expected take-up rate and which may not yield target returns as anticipated. In addition, obtaining required approvals and permits from various Philippine regulatory agencies may take substantially more time and resources than anticipated and construction of projects may not be completed on schedule or within budget.

The time and the costs involved in completing the development and construction of projects can be adversely affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in Government priorities and other unforeseen problems or circumstances. Any of these factors could result in project delays and cost overruns, which could negatively affect SM Prime's margins.

SM Prime's reputation could also be adversely affected if projects are not completed on time or if projects do not meet customers' requirements. If any of SM Prime's projects experiences construction or infrastructure failures, design flaws, significant project delays, quality control issues or otherwise, this could negatively affect its brand image and its ability to pre-sell its residential development projects. This would reduce cash flow and impair its ability to meet funding requirements.

Project delays, cost overruns and construction issues could also result in sales and resulting profits from a

particular development not being recognized in the year in which it was originally expected to be recognized, which could adversely affect SM Prime's results of operations. Further, the failure by SM Prime to complete construction of a project to its planned specifications or schedule may result in cost overruns and possible abandonment of projects by contractors, as well as lower returns. Moreover, orders of the Philippine Department of Agrarian Reform (the "DAR") allowing conversion of agricultural land for development may require a project to complete construction by a prescribed deadline. If SM Prime fails to complete construction of a project by the stated deadline, the DAR may revoke its order allowing the use of agricultural land for SM Prime's intended purpose.

SM Prime is exposed to general risks associated with the ownership and management of real estate.

Real estate investments are generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash on short notice with the result that property assets may be required to be sold at a discount in order to ensure a quick sale. Such illiquidity will also limit the ability of SM Prime to manage its portfolio in response to changes in economic, real estate market or other conditions.

Property investment is also subject to risks incidental to the ownership and management of residential and commercial properties including, among other things: competition for tenants; oversupply of, or reduced demand for, retail, office and residential space; changes in market rents; inability to renew leases at favorable rates or at all; inability to collect rents due to insolvency of tenants, or otherwise as a result of their inability or refusal to comply with lease commitments as a result of adverse business conditions or other factors; inability to dispose of major investment properties for the values at which they are recorded; increased operating costs; the need to renovate, repair and re-let space periodically and to pay the associated costs; wars, terrorist attacks, riots, civil commotions and natural disasters; and other events beyond SM Prime's control.

SM Prime's activities may also be impacted by changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, taxes and government charges. Such revisions may lead to an increase in management expenses or unforeseen capital expenditure to ensure compliance. Rights related to the relevant properties may also be restricted by legislative actions, such as revisions to the laws relating to building standards or town planning laws, or the enactment of new laws relating to government appropriation, condemnation and redevelopment. For example, several of SM Prime's properties are registered as a Philippine Economic Zone ("PEZ"), which entitles them to certain benefits for the tenants that are located there, including tax advantages. If such properties were to lose their favorable PEZ status, these benefits may be lost. Any of these events could materially and adversely affect SM Prime's businesses, financial condition and results of operations.

SM Prime's reputation may be affected by the operations of some of its affiliates.

Actions taken that adversely impact the reputation of a given entity in the SM Group may also have an adverse impact on the SM Group as a whole. Several of the SM Group companies cross-sell products and coordinate marketing campaigns that associate them with other affiliated entities. If the reputation or corporate image of any of the companies in the SM Group were to suffer, the business, financial condition and results of operations of other SM Group companies, including SM Prime, could be materially and adversely affected.

In addition, there are numerous other SM Group companies which conduct business across varied industries, such as food and other retail merchandising and banking. Certain of these SM Group companies are also leaders in their respective markets. If any of such SM Group companies encounters difficulties (financial or otherwise), negative publicity or other issues, SM Prime's business reputation and financial condition may also be adversely affected.

SM Prime may be subject to tax liabilities in relation to the Reorganization.

In relation to the Reorganization, on 9 December 2013, the Company filed certain applications with the BIR for rulings confirming the tax treatment of the transaction in the Reorganization as a “tax-free merger” under Philippine tax law and regulations. As of the date of this Prospectus, the ruling request is still pending with the BIR.

Previously, the BIR allowed the delegation of the authority to rule on this type of application to BIR’s Assistant Commissioner, however, the new BIR administration that took over in 2010 has adopted a policy that this type of application must be signed off by the BIR Commissioner. This new policy has resulted in the delayed issuance of BIR rulings. While SM Prime and its Philippine legal counsel believe that the Reorganization is fully compliant with the requirements for tax-free status under the law and existing regulations, there can be no assurance that the requested tax rulings will be issued by the BIR in the near future, or at all. In the event that no such tax ruling is issued, the BIR could issue tax assessments in connection with the Reorganization subjecting the transfer of assets pursuant to the Reorganization to the payment of applicable taxes. Although SM Prime believes that it would have sufficient grounds to challenge an adverse tax ruling by the BIR, if SM Prime is forced to pay a tax assessment, it could be a substantial amount and could materially and adversely affect SM Prime’s financial condition and business reputation.

SM Prime is effectively controlled by the Sy family and their interests may differ significantly from the interests of other shareholders.

As a result of the completion of the Reorganization, the Sy family currently holds voting power over 25.71% of the outstanding share capital of SM Prime. In addition, members of the Sy family currently hold four seats on the Board of Directors. As a result, the Sy family effectively controls SM Prime, including in relation to major policy decisions such as its overall strategic and investment decisions, dividend plans, capital raisings and other financings, mergers and disposals, amendments to its Articles of Incorporation and By-laws, election of members of its Board of Directors, appointment of its senior managers and other significant corporate actions.

The Sy family owns a variety of commercial interests aside from the controlling interest in SM Prime. Conflicts of interest may therefore arise between the Sy family, on the one hand, and SM Prime, on the other, in a number of areas, including:

- major business combinations involving SM Prime;
- plans to develop the businesses of SM Prime; and
- business opportunities that may be attractive to both the Sy family’s other interests and to SM Prime.

There can be no assurance that the Sy family will not cause SM Prime to take actions which might differ from the interests of other shareholders of SM Prime.

SM Prime may enter into and expects to enter into material agreements and other arrangements with the Sy family and its affiliated companies and persons.

SM Prime may enter into and expects to enter into a number of material agreements and other arrangements with companies controlled by members of the Sy family and affiliated companies and persons. Transactions with related parties pose the risk of SM Prime entering into transactions on terms less favorable than could be obtained in arm’s-length transactions with unrelated parties. In particular, Sy family-controlled companies operating in the retail and banking sectors account for a significant portion of the total rental revenue from SM Prime’s malls and other commercial properties. Moreover, the Sy family could cause SM Prime to enter into transactions with SM Prime’s affiliates on terms less favorable than could be obtained

in arm's-length transactions with unrelated parties. Any such transactions could materially adversely affect SM Prime's business, financial condition and results of operations. For more information concerning related party transactions, see "Related Party Transactions", Note 21 to the audited consolidated financial statements and Note 20 to the unaudited interim condensed consolidated financial statements included elsewhere in this Prospectus.

SM Prime's leasing operations depend on key tenants, which are affiliates of the SM Group.

SM Prime derives a substantial portion of its rental income from affiliated tenants controlled by the Sy family. SM Prime also relies on anchor tenants, most of whom are affiliates of the SM Group, to maintain sufficient foot traffic at its malls and other retail properties. There can be no assurance that, despite their longstanding and symbiotic relationship with SM Prime, certain anchor tenants would not terminate their lease, which could adversely affect SM Prime's total rental revenue, nor can there be any assurance that SM Prime would be able to locate similar, suitable replacement tenants. Furthermore, there can be no assurance that such affiliated tenants will not relocate to another space or renegotiate leases on terms more favorable to them. A partial or total loss of these tenants could have a material adverse effect on SM Prime's businesses, financial condition and results of operations.

SM Prime depends on retaining the services of its senior management team and its ability to attract and retain talented personnel.

SM Prime's senior management team, whose details are set out in "Board of Directors and Management of the Issuer" found on page 155 of this Prospectus, is critical to its success, and the loss of the services of any key member of the team could have an adverse effect on SM Prime's strategy and operations.

SM Prime depends on its senior management team for the successful integration of its operations and execution of its business strategy. In the event one or more members of the team terminates his or her relationship with SM Prime, SM Prime may not be able to replace them within a reasonable period of time or with a person of equivalent expertise and experience, which could materially and adversely affect SM Prime's business, financial condition and results of operations.

Malls and other commercial properties owned by SM Prime may be subject to an increase in operating and other expenses.

SM Prime's financial condition and results of operations could be adversely affected if operating and other expenses relating to malls and other commercial properties increase without a corresponding increase in revenues or tenant reimbursements (where applicable) of operating and other expenses. Factors which could increase operating and other expenses include:

- increases in utility expenses;
- increases in payroll expenses;
- increases in property taxes and other statutory charges;
- increases in the rate of inflation;
- changes in the rate and expense of depreciation and amortization;
- changes in statutory laws, regulations or Government policies that increase the cost of compliance with such laws, regulations or policies;
- increases in management fees or sub-contracted service costs, such as maintenance and security;
- increases in insurance premiums; and
- defects affecting the malls which need to be rectified, leading to unforeseen capital expenditure.

Increased expenses resulting from the foregoing or other factors, to the extent not compensated by corresponding increases in revenues, could have a material adverse effect on SM Prime's businesses, financial condition and results of operations.

SM Prime faces risks relating to the management of its land bank.

SM Prime will need to acquire land for replacement and expansion of land inventory within its current markets. However, it may not be possible to acquire land in suitable locations and on commercially reasonable terms. These challenges are exacerbated by the highly competitive real estate industry in Metro Manila and its surrounding areas, where SM Prime competes with other real estate companies, some of which may have more resources than SM Prime, for land acquisition and the right to participate in land reclamation projects. There can be no assurance of reaching agreement in respect of the lease or purchase of any specific property or properties. In the event that SM Prime is unable to acquire suitable land, its growth prospects could be limited.

The risks inherent in purchasing and developing land increase as consumer demand for residential real estate decreases. The market value of land, subdivision lots and housing inventories can fluctuate significantly as a result of changing market conditions. There can be no assurance that measures employed to manage land inventory risks will be successful. In the event of significant changes in economic, political or market conditions, SM Prime may have to sell subdivision lots and housing and condominium units at significantly lower margins or at a loss. Changes in economic or market conditions may also require SM Prime to defer the commencement of housing and land development projects, which would require carrying the cost of acquired but undeveloped land on-balance sheet, as well as reducing the amount of property available for sale. Any of the foregoing events would have a material adverse effect on SM Prime's business, financial condition and results of operations.

SM Prime operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines.

The Philippines property development industry is highly regulated. The development of condominium, subdivision and other residential projects, commercial projects and land reclamation projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land, must get clearance from the DAR so that the land can be reclassified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at a developer's expense. Presidential Decree No. 957, as amended, ("P.D. 957"), Republic Act No. 4726, as amended, ("R.A. 4726"), Republic Act No. 6552 (the "Maceda Law") and Batas Pambansa Blg. 220 ("B.P. 220") are the principal statutes which regulate the development and sale of real property as part of a condominium or subdivision project. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law governs the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes. Regulations applicable to SM Prime's operations include among others:

- the suitability of the site;
- road access;
- necessary community facilities;
- open spaces and common areas;
- water supply;
- sewage disposal systems;
- electricity supply; and
- unit/lot sizes.

Since 2008, HLURB has required all property developers in the Philippines to partake in the development of socialized housing projects. Under Section 18 of the Republic Act No. 7279, developers of subdivision

projects are required to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by HLURB and other existing laws. Property developers are not allowed to buy credits from property firms already involved in socialized housing development, rather, they are required to comply with the rule by participating in: a) development of settlement; b) slum upgrading or renewal of areas for priority development either through zone improvement programs or slum improvement and resettlement programs; c) joint venture projects with either local government units ("LGUs") or any of the housing agencies; or d) participation in the community mortgage program. If SM Prime does not comply with this requirement, it may be subject to fines or other sanctions which would adversely impact its business and results of operations.

All condominium and subdivision development plans are also required to be filed with and approved by the LGU with jurisdiction over the area where the project is located. Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also require prior approval of the relevant LGU. There can be no assurance that SM Prime will be able to obtain governmental approvals for its projects or that, when given, such approvals will not be revoked.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units.

Project permits and any license to sell may be suspended, cancelled or revoked by HLURB based on its own findings or upon complaint from an interested party, and there can be no assurance that SM Prime will in all circumstances receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect SM Prime's ability to complete projects on time, within budget or at all, and could materially and adversely affect SM Prime's business, financial condition and results of operations.

Zoning restrictions and local opposition may delay or preclude construction.

In order to develop a property on a particular site, the zoning of such site must permit the development of the intended type of residential, office and/or retail activities. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, SM Prime will be required to apply for the required zoning classifications. This procedure may be protracted, particularly where the bureaucracy is cumbersome and inefficient, and there can be no assurance that the process of obtaining proper zoning will be completed with sufficient speed to enable the residential, office and/or retail developments to be completed ahead of any competitor development, or at all. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. SM Prime's plans to build on reclaimed land in the future may also face public opposition. In addition, arbitrary changes to applicable zoning by the relevant authorities may jeopardize projects that have already commenced. Therefore, a failure by SM Prime to receive zoning approvals, or delays in the receipt of such zoning approvals, could result in increased costs, which could have a material adverse effect on SM Prime's businesses, financial condition and results of operations.

Infringement of intellectual property rights could have a material adverse effect on SM Prime's business.

Upon commencement of development of new projects, SM Prime generally files applications for the registration of intellectual property rights with respect to the names of certain of its real estate products, as well as for trademarks.

There can be no assurance that such applications will be approved or that the actions SM Prime has taken

will be adequate to prevent third parties from using its corporate brands and logos, or from naming brands or developments using the same brands that SM Prime will use. In addition, there can be no assurance that third parties will not assert rights in, or ownership of, the trademarks and other intellectual property rights of SM Prime. SM Prime believes that the reputation and track record established under its intellectual property rights such as the "SM" name (which, together with other SM trademarks and logos, is owned by SMIC and its affiliated companies) is a key to future growth, and accordingly, SM Prime's business, financial condition and results of operations may be materially and adversely affected by the infringing use of the "SM" and related brand names by third parties, or if in any way SM Prime is restricted from using such marks.

Land and/or real property may be subject to compulsory acquisition.

Under Philippine law, the Government has the power to acquire any land in the Philippines if such acquisition is for public benefit or utility or any other public interest. Accordingly, in the event that land is compulsorily acquired from SM Prime, SM Prime's businesses, financial condition and results of operations could be adversely affected.

In addition, real property and/or land owned by SM Prime and located outside of the Philippines may be compulsorily acquired by the respective governments of the countries in which they are located for public use or for public interest.

The owner of such real property that has been compulsorily acquired may be compensated in accordance with the laws of the respective jurisdictions, which compensation may be less than its market value. Any instance of land being compulsorily acquired from SM Prime may materially and adversely affect SM Prime's business, financial conditions and results of operations.

Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on SM Prime's and its customers' ability to obtain financing.

Interest rates, and factors that affect interest rates, such as the Government's fiscal policy, could have a material adverse effect on SM Prime and the demand for its products. For example:

1. In connection with SM Prime's property development business generally, higher interest rates make it more expensive to borrow funds to finance ongoing projects or to obtain financing for new projects.
2. In connection with SM Prime's core residential development business, a substantial portion of SM Prime's customers procure financing to fund their property purchases, thus higher interest rates make financing, and therefore purchases of real estate, more expensive, which could adversely affect the demand for SM Prime's residential projects.
3. If the Government significantly increases its borrowing levels in the domestic currency market, this could increase the interest rates charged by banks and other financial institutions and also effectively reduce the amount of bank financing available to both prospective property purchasers and real estate developers, including SM Prime.
4. SM Prime's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending. If SM Prime were to reach the single borrower limit with respect to any of its primary lenders, it may have difficulty obtaining financing with reasonable rates of interest from other banks. SM Prime is approaching the single borrower limit with certain of the banks from which it obtains financing, and as a result, SM Prime expects to make more use of alternative sources of financing in the future, which may have a higher cost of funding or be on terms less favorable than its existing financing arrangements.

The occurrence of any of the foregoing events, or any combination of them, or of any similar events, could materially and adversely affect SM Prime's business, financial condition and results of operations.

SM Prime faces risks inherent in joint venture structures and/or funds.

SM Prime has interests in joint venture entities and/or funds in connection with its property development and investment plans, including integrated developments. Disagreements may occur between SM Prime, on the one hand, and their joint venture partners and/or third-party fund investors, as the case may be, regarding the business and operations of the joint ventures and/or funds which may not be resolved amicably. In addition, joint venture partners and/or third-party fund investors may (i) have economic or business interests or goals that are inconsistent with those of SM Prime; (ii) take actions contrary to SM Prime's instructions, requests, policies or objectives; (iii) be unable or unwilling to fulfill their obligations; (iv) have financial difficulties; or (v) have disputes as to the scope of their responsibilities and obligations.

Additionally, in light of the current economic climate, joint venture partners or third-party fund investors (i) may not be able to fulfill their respective contractual obligations (for example, they may default in making payments during future capital calls or capital raising exercises); or (ii) may experience a decline in their creditworthiness. The occurrence of any of these events may materially and adversely affect the performance of joint ventures and/or funds, which in turn may materially and adversely affect SM Prime's performance.

Construction defects and other building-related claims may be asserted against SM Prime, and SM Prime may be subject to liability for such claims.

Philippine law provides that property developers, such as SM Prime, warrant the structural integrity of residential developments that were designed or built by them for a period of 15 years from the date of completion of the development. SM Prime may also be held responsible for hidden (i.e. latent or non-observable) defects in a residential property sold by it when such hidden defects render the property unfit for the use for which it was intended or when its fitness for such use is diminished to the extent that the buyer would not have acquired it or would have paid a lower price had the buyer been aware of the hidden defect.

This warranty may be enforced within six months from the delivery of the residential property to the buyer. In addition, Republic Act No. 6541, as amended, or the National Building Code of the Philippines (the "Building Code"), which governs, among other things, the design and construction of buildings, sets certain requirements and standards with which SM Prime must comply. SM Prime or its officials may be held liable for administrative fines or criminal penalties in the case of any violation of the Building Code.

There can be no assurance that SM Prime will not be held liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible claims or that claims will not arise out of uninsurable events, such as landslides or earthquakes, or circumstances not covered by SM Prime's insurance. If these damages are not covered by warranty and indemnification clauses in SM Prime's agreements with contractors, the resulting liabilities could have an adverse effect on SM Prime's business, financial condition and results of operations.

SM Prime may suffer material losses in excess of insurance proceeds.

SM Prime's portfolio of malls, residential properties and other real estate assets could suffer physical damage caused by fire, flooding, typhoons, earthquakes or other causes, or third-party liability claims, any of which could result in losses (including loss of rent) which may not be fully compensated for by insurance. SM Prime may also be exposed to liability for damages or injuries from accidents occurring on its properties. In addition, certain types of risks and insurance cover (such as war risk and acts of terrorism) may be

uninsurable or the cost of insurance may be prohibitive when compared to the risk. Should an uninsured loss or a loss in excess of insured limits occur, SM Prime could lose capital invested in the affected property as well as any anticipated future revenue from such property, and may also remain liable for any debt or other financial obligation related to such property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

SM Prime faces property development risk.

The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risks that Government approvals may take more time and resources to obtain than expected; that construction may not be completed on schedule or budget; and that the properties may not achieve anticipated sales, rents or occupancy levels.

In addition, development projects typically require substantial capital expenditure during construction and it may take years before property projects generate cash flows. There is the risk that financing for development may not be available under favorable terms, or that construction may not be completed on schedule or within budget. The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labor; adverse weather conditions; natural disasters; labor disputes with contractors and subcontractors; accidents; changes in Government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized, which could adversely affect the Company's profits recognized for that year. Further, the failure by the Company or any of its subsidiaries to complete construction of a project to its planned specifications or schedule may result in liabilities, reduced project efficiency and lower returns. No assurance can be given that such events will not occur in a manner that would adversely affect the results of operations or financial condition of the Company.

Furthermore, properties presently in the name of SM Prime or those acquired in the future may be subject to various lawsuits and/or claims, which, if resolved against the Company, will result in the loss or reduction in size of the particular property subject of the lawsuit.

To mitigate these risks, the Company ensures that its project developments are carefully planned. The Company relies on the services of reputable, high quality, independent contractors for their projects and maintains good business relationships with these contractors. The Company adheres to the strategy of developing each project in phases to minimize exposure to such risks. Further, each company keeps within a conservative level of leverage. Although the current liquidity and depth of the Philippine credit market renders funding risk as unlikely, the companies have unutilized credit lines as buffer for unanticipated requirements. The companies also ensure that all required governmental approvals are obtained and kept updated on any developments in regulations concerning the real estate industry.

SM Prime will continue to face certain risks related to the cancellation of sales involving its residential projects.

SM Prime's operations involving the development and sale of residential real estate could be adversely affected in the event that a material number of condominium unit, subdivision lot or house and lot sales are cancelled. SM Prime's transactions are subject to the Maceda Law, which applies to all transactions or contracts involving the sale or financing of real estate through installment payments paid to the developer, including residential condominium units (but excluding industrial and commercial lots). Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. A buyer is given such a right only once every five years during the life of the contract and its extensions, if any. If the contract is cancelled, the buyer is entitled to receive a refund of at least 50% of the total payments made by the buyer. Buyers who have

paid less than two years of installments and who default on installment payments are given a 60 day grace period to pay all unpaid installments before the sale can be cancelled, but without the right of refund.

While historically SM Prime has not experienced a material number of cancellations to which the Maceda Law has applied, there can be no assurance that SM Prime will not experience a material number of cancellations in the future, particularly during slowdowns or downturns in the Philippine economy, periods when interest rates are high or similar situations or if SM Prime fails to meet the construction schedules of launched projects. In the event SM Prime does experience a material number of cancellations, it may not have enough funds on hand to pay the necessary cash refunds to buyers, or it may have to incur indebtedness in order to pay such cash refunds. In addition, particularly during an economic slowdown or downturn, there can be no assurance that SM Prime would be able to resell the same property at an acceptable price or at all. Any of the foregoing events would have a material adverse effect on SM Prime's business, financial condition and results of operations.

From time to time SM Prime will commence construction of a condominium project or house even before the full amount of the required down payment is made and thus, before the sale is recorded as revenue. SM Prime will therefore risk having expended cash to begin construction of the condominium project or the house before being assured that the sale will eventually be booked as revenue, particularly if the buyer is unable to complete the required down payment and SM Prime is unable to find another purchaser for such property.

There can be no assurance that SM Prime will not suffer from substantial sales cancellations and that such cancellations will not materially and adversely affect SM Prime's business, financial condition and results of operations.

The loss of certain tax exemptions and incentives for residential home sales may increase the price of SM Prime's residential units and may lead to a reduction in sales.

SM Prime's customers benefits from provisions under Philippine law and regulations which exempt sales of residential lots with a gross selling price of ₱1,919,500 and below and sales of residential houses and lots with a gross selling price of ₱3,199,200 and below from the value-added tax ("VAT") of 12.0%. However, if two or more adjacent lots, or houses and lots, are sold to one buyer from the same seller for the purpose of utilizing them as one residential area, the sale shall be exempt from VAT only if the aggregate value of the properties does not exceed the threshold prices for exemption. Adjacent lots or houses and lots sold to the same person shall be presumed to be a sale of one residential area although covered by separate titles and/or tax declarations and by separate deeds of conveyance. In the event that sales become subject to VAT, due to a change in Government policy or otherwise, the purchase prices for SM Prime's subdivision lots and housing and condominium units will increase and this could adversely affect its sales. Because taxes such as the VAT are expected to have indirect effects on SM Prime's results of operations by affecting general levels of spending in the Philippines and the prices of subdivision lots and houses, any adverse change in the Government's VAT-exemption policy could have an adverse effect on SM Prime's results of operations.

A domestic asset price bubble could adversely affect the Company's business.

One of the risks inherent in any real estate property market is the possibility of an asset price bubble. This occurs when there is a gross imbalance between the supply and demand in the property market, causing an unusual increase in asset prices, followed by a drastic drop in prices when the bubble bursts. In the Philippines, the growth of the real estate sector is mainly driven by low interest rates, robust remittances from Overseas Filipino Workers, and the fast growing Business Process Outsourcing sector which is vulnerable to global economic changes.

The Company believes that the Philippine property sector is adequately protected against a domestic asset price bubble burst. The country has a very young demographic profile benefitting from rising disposable income. It likewise has one of the fastest growing emerging economies, registering Gross Domestic Product growth rates of 7.2% in 2013, 6.1% in 2014 and 5.8% in 2015 and the growth in the property sector is largely supported by infrastructure investments from both the public and private sectors and strong macroeconomic fundamentals.

There can be no assurance however, that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition and results of operations.

RISKS RELATING TO THE PHILIPPINES

Substantially all of the Company's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially adversely affect its businesses.

Historically, the Company has derived a large majority of its revenue and operating profits from the Philippines and, as such, is highly dependent on the state of the Philippine economy. Demand for retail, commercial and residential real estate are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines, as well as the amount of remittances received from OFWs and overseas Filipinos.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government or of the Government's fiscal and regulatory policies;
- re-emergence of SARS, avian influenza (commonly known as bird flu), including the H1N1 and H7N9 strains of the disease, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition and results of operations.

Any political instability in the future may have a negative effect on SM Prime's financial results.

The Philippines has from time to time experienced political, social and economic instability. In May 2004, the Philippines held presidential elections as well as elections for the Senate and the House of Representatives. President Gloria Macapagal-Arroyo was elected for a second six-year term. However, certain opposition candidates questioned the election results, alleging massive fraud and disenfranchisement of voters. On 25 July 2005, the impeachment complaints that were filed by several

citizens and opposition lawmakers in the House of Representatives against President Arroyo, based on the allegations of culpable violation of the Constitution, graft and corruption and betrayal of the public trust, were referred by the speaker of the House to the Committee on Justice. All impeachment complaints previously filed were ultimately dismissed; however several cases were filed with the Supreme Court questioning the constitutionality of the decision.

On 24 February 2006, President Arroyo declared a state of emergency after security forces thwarted what they claimed was a plot to overthrow the President. The purported coup d'état coincided with demonstrations marking the 20th anniversary of the "people power" revolution that toppled former President Marcos. The President lifted the state of emergency on 03 March 2006.

In November 2007, a group of military rebels together with a senator walked out of their trial in Makati City and occupied the second floor of the Manila Peninsula Hotel calling for President Arroyo to resign. They were soon joined by a few church officials and former Vice President Teofisto Guingona who appealed to the public for support. After a few hours, the mutinous group agreed to surrender to avoid bloodshed.

In December 2011, the 23rd Chief Justice of the Supreme Court of the Philippines, Renato Corona, was impeached by the House of Representatives. The Senate, convened as an impeachment court, began the trial in January 2012 and consequently found Corona guilty of Article II of the Articles of Impeachment filed against him pertaining to his failure to disclose to the public his statement of assets, liabilities, and net worth.

On 31 May 2012, the Philippine Senate impeached Renato Corona, then Chief Justice of the Supreme Court of the Philippines. The impeachment trial, which lasted several months, tried Corona on accusations of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials.

On 9 May 2016, the Philippines held its sixteenth national elections for president, vice president, members of the Senate and local government officials. Early unofficial results show Rodrigo Duterte, the incumbent mayor of Davao City, leading by a wide margin. He will be sworn in on June 30, 2016 and will succeed Benigno Aquino III as the next president of the Philippines. There can be no assurance that the incoming president will continue to implement the economic, development and regulatory policies of President Aquino, including those policies that have a direct effect on the Group's assets and operations.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future Governments will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Group. In addition, such adverse factors may affect the Philippine tourism industry, which is the focus of one element of the Group's growth strategy.

Historically, the Group has remained apolitical and cooperates with the country's duly constituted government. The Group supports and contributes to nation-building.

SM Prime's businesses may be disrupted by terrorist acts, crime, natural disasters and outbreaks of infectious diseases or fears of such occurrences in Metro Manila or other parts of the Philippines.

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been responsible for kidnapping and terrorist activities in the Philippines, and is alleged to have ties to the Al-Qaeda terrorist network. There have also been sporadic bombings and prominent kidnappings and slayings of foreigners in the Philippines,

including the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Company's business. The Company's current insurance policies do not cover terrorist attacks. Any terrorist attack or violent acts arising from, and leading to, instability and unrest, could cause interruption to parts of the Company's businesses and materially and adversely affect the Company's financial condition, results of operations and prospects.

The Philippines has experienced natural disasters over the years. A number of climate experts believe that climate change is affecting the intensity and severity of these natural calamities. The potential future effects of global climate change may include longer periods of drought in some regions and an increase in the number, duration and intensity of tropical storms in the country. Authorities may not be prepared or equipped to respond to such disasters. On 26 September 2009, Typhoon Ketsana (Ondoy) resulted in 341.3 millimeters of rainfall in six hours, causing massive flooding that submerged several areas of Metro Manila and adjacent provinces. The typhoon caused 464 deaths and approximately ₱86 billion in property damage. On 6 August 2012, a monsoon hit Metro Manila and other nearby provinces which also caused severe flooding and landslides. Other calamities that have affected Metro Manila in recent years include unusually strong earthquakes and outbreaks of infectious diseases such as H1N1 influenza (commonly known as swine flu).

Other regions of the Philippines have also experienced severe natural disasters. In December 2011, Typhoon Washi (Sendong) caused massive flooding in the southern Philippine city of Cagayan de Oro, claiming thousands of lives and displacing tens of thousands of residents. On 3 December 2012, Typhoon Bopha struck the southern island of Mindanao as a category five typhoon, triggering widespread flash flooding and landslides throughout the region. Typhoon Bopha killed over 1,000 people and caused an estimated ₱42 billion in property damage.

In October 2013, an earthquake occurred in Central Visayas, Philippines. The magnitude of the earthquake was recorded at Mw 7.2 at the epicenter which was located six kilometers southwest of Sagbayan town, at a depth of 12 kilometers. The seismic event affected the whole Central Visayas region, particularly Bohol and Cebu. According to recent official reports by the National Disaster Risk Reduction and Management Council, 198 people were reported dead, 11 were missing, and 651 were injured as a result of the earthquake, making it the deadliest earthquake in the Philippines in 23 years. In all, more than 53,000 structures were damaged or destroyed, including commercial buildings, malls, public edifices, hotels and churches. SM Prime's Radisson Blu Cebu sustained cosmetic damages on tiles and walls, however, the structural integrity of the building has been certified by three structural engineering companies. As a result, total business lost was estimated at approximately ₱60 million and forecasted year end occupancy of 74% had dropped to 66%.

In addition, the Central Philippines experienced a severe typhoon, Typhoon Haiyan (Yolanda), in November 2013 which caused extensive damage to infrastructure and properties, claimed 6,268 lives and displaced thousands of residents.

It is not possible to predict the extent to which the Company's various businesses will be affected by any future occurrences of natural calamities such as those described above or fears that such occurrences will take place, and there can be no assurance that any disruption to its businesses will not be protracted, that property will not be damaged and that any such damage will be completely covered by insurance or at all. Any such occurrences may disrupt the operations of the Company's businesses and could materially and adversely affect their business, financial condition and results of operations. Further, any such occurrences may also destabilize the Philippine economy and business environment, which could also materially and adversely affect the Company's financial position and results of operations.

Volatility in the value of the Peso against the U.S. dollar and other currencies could adversely affect SM Prime's businesses.

During the last decade, the Philippine economy has from time to time experienced volatility in the value of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. Since 30 June 1997, the Peso experienced periods of significant depreciation and declined from approximately ₱29.00 = U.S.\$1.00 in July 1997 to a low of ₱49.90 = U.S.\$1.00 for the month ended (period average) December 2000. In recent years, the Peso has generally depreciated and the exchange rate (period average) was ₱42.45 in 2013, ₱44.39 in 2014 and ₱47.06 in 2015.

The revenues of the Company are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in currencies other than Pesos. Certain of the Company's borrowings are denominated in US dollars and China renminbi and accordingly, the Company is exposed to fluctuations in the Peso to US dollar and other foreign currency exchange rates. A depreciation of the Peso against the US dollar and other foreign currencies will increase the amount of Peso revenue required to service foreign currency denominated debt obligations.

There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and on the Company's businesses.

In addition, changes in currency exchange rates may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and increased cost of funds. The foregoing consequences, if they occur, would have a material adverse effect on the Company's financial condition, liquidity and results of operations.

As a policy, the Company does not engage in foreign currency speculation. Furthermore, the Company minimizes foreign exchange exposure and fully hedges its foreign currency liabilities.

Tensions with China and other neighboring countries may adversely affect the Philippine economy and business environment.

In 2011, tensions rose in relation to long-standing territorial disputes involving the Philippines, other Southeast Asian nations (including Vietnam, Malaysia and Brunei) and China over certain islands in the West Philippine Sea, also known as the South China Sea. The increased tensions were brought about by allegations of more aggressive measures being taken by certain nations to assert their claims in these disputes.

On 8 April 2012, during one of its regular maritime patrols, a Philippine Navy surveillance aircraft identified eight Chinese fishing vessels anchored inside and around Bajo de Masinloc (Scarborough Shoal), an area in the Municipality of Masinloc, Province of Zambales that the Philippines regards as an integral part of its territory. On 10 April 2012, an inspection team reported that large amounts of illegally collected corals, clams and sharks were found in the compartments of the fishing vessels. The arrival of Chinese maritime surveillance vessels resulted in a standoff. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under the U.N. Convention on the Law of the Seas. China has rejected and returned the notice sent by the Philippines requesting arbitral proceedings. On 10 May 2013, the Philippines formally lodged a protest with China concerning vessels which arrived on or around May 8, 2013, escorting a fleet of 30 fishing boats in another

disputed area – the Second Thomas Shoal. The Second Thomas Shoal is part of a group of islands known collectively as the Spratly Islands, which are claimed in part or in whole by Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam. It is a strategic gateway to Reed Bank, believed to be rich in oil and natural gas. On 30 March 2014, the Philippines invoked the compulsory settlement of dispute clause under the U.N. Convention on the Law of the Seas and submitted a case to the Permanent Court of Arbitration in The Hague against China over the territorial dispute in the West Philippine Sea.

Should the territorial dispute in the West Philippine Sea escalate or continue, the Philippines' interests in fishing, trade and offshore drilling, the volume of trade between the Philippines and China, and the supply of steel available to the Philippines may be adversely affected, which in turn may affect, among other things, infrastructure development and general economic and business conditions in the Philippines, any of which could adversely affect SM Prime's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While a principal objective of the Philippine securities laws, SEC regulations and PSE disclosure rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the United States and other countries. The Philippines securities market is generally subject to less strict regulatory oversight than securities markets in more developed countries. Improper trading activities could affect the value of securities and concerns about inadequate investor protection may limit participation by foreign investors in the Philippine securities market. Furthermore, although the Issuer complies with the requirements of the SEC and PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Issuer to have at least two independent directors or such number of independent directors as is equal to 20% of the Board, whichever is the lower number. The Issuer currently has three independent directors. Many other jurisdictions require significantly more independent directors.

The Group has received numerous awards for good corporate governance from international publications.

RISKS RELATING TO THE BONDS

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Issuer is aware, none of its debt is evidenced by a public instrument and the Issuer will undertake in the Terms and Conditions of the Bonds and the Trust Indenture Agreement to use its best endeavors not to incur such debt. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of the Issuer.

As a policy, SM Prime's borrowings are clean and are not collateralized by its assets, except for debts that are required by law to be secured.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Even if the Bonds are listed on the PDEX, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. Although the Bonds are intended to be listed on PDEX as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds will develop and, if such a market were to develop the Joint Issue Managers are under no obligations to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Bonds is highly dependent on the bondholders. The Group actively cooperates in efforts aimed at improving the capital markets in the Philippines.

The Issuer may be unable to redeem the Bonds.

At maturity, the Issuer will be required to redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Issuer would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Issuer.

The Issuer has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

USE OF PROCEEDS

The use of proceeds for each succeeding tranche of the Offer shall be set out in the relevant Offer Supplement.

The net proceeds from the issue of the Series F Bonds, without the Over-subscription Option (after deduction of commissions and expenses) is approximately ₱4,950.6 million and is presently intended to be used by the Issuer to finance capital expenditures for the expansion of the Issuer's commercial and hotel operations. Assuming the Over-subscription Option of up to ₱5.0 billion is fully exercised, the Company expects total net proceeds of approximately ₱9,910.6 million after fees, commissions and expenses.

Net proceeds from this tranche of the Offering are estimated to be at least as follows:

For a ₱5.0 billion Issue Size		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000
Less: Estimated expenses		
Documentary Stamp Tax	25,000,000	
SEC Registration		
SEC Registration Fee and Legal Research	3,093,125	
SEC Publication Fee	100,000	
Underwriting and Other Professional Fees		
Underwriting and Legal Fee	16,200,000	
Rating Fee	2,688,000	
Listing Application Fee	112,000	
Listing Maintenance Fee	168,000	
Printing Cost	450,000	
Trustee Fees	130,000	
Paying Agency and Registry Fees	963,200	
Miscellaneous fees	500,000	49,404,325
Estimated net proceeds for ₱5.0 billion Issue		₱4,950,595,675
For the ₱5.0 billion Over-Subscription Option		
		Total
Estimated proceeds from the sale of Bonds		₱5,000,000,000
Less: Estimated expenses		
Documentary Stamp Tax		25,000,000
Underwriting Fees		15,000,000
Estimated net proceeds for ₱5.0 billion Over-Subscription Option		₱4,960,000,000

Total Net Proceeds (inclusive of Over-Subscription Option of ₱5.0 billion) --- ₱9,910,595,675

Aside from the foregoing one-time costs, SM Prime expects the following annual expenses related to the Series F Bonds:

1. The Issuer will be charged the first year Annual Maintenance Fee in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱130,000 per annum; and
3. After the Issue Date, a Paying Agency fee amounting to ₱150,000 is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of

the Bonds and the number of Bondholders.

The net proceeds of the Issue of ₱4,950.6 million, assuming an Issue Size of ₱5.0 billion, shall be used primarily to finance capital expenditures for the expansion of commercial and hotel operations as set out below.

<i>(Amounts in million ₱)</i>	Amount and Schedule of Disbursement		Launch date	Target completion date	Percentage completion¹
	2H 2016	1H 2017			
Commercial	2,419	0			
SM Clark BPO Towers	1,144	-	1H 2016	4Q 2016	45%
SM Sta Rosa BPO	510	-	1H 2016	4Q 2016	23%
SM Iloilo Tower	765	-	2H 2016	1H 2017	0%
Hotels	2,075	843			
Conrad Manila	603	-	1H 2013	1H 2016 ⁹	96%
SMX Conventions SRP Cebu	571	202	1H 2016	2H 2017	0%
SM Hotels North EDSA	346	192	1H 2016	2017	0%
SM Hotels Mall of Asia	341	273	2H 2016	2018	0%
MOA Serviced Apartment	214	176	2H 2016	2018	0%

Note 1: Percentage completion as of the date of this Prospectus.

If the ₱5.0 billion Over-subscription Option is exercised, the additional net proceeds of ₱4,960.0 million from the Over-subscription Option shall be used to finance the Issuer's commercial projects.

<i>(Amounts in million ₱)</i>	Amount and Schedule of Disbursement		Launch date	Target completion date	Percentage completion¹
	2H 2016	1H 2017			
Commercial	2,877	2,161			
Three E-com Center	1,261	315	1H 2015	2H 2017	23%
Four E-com Center	985	328	1H 2016	2018	0%
SRP Cebu - Building 1	563	317	2H 2016	2018	0%
Cyber Building 1	68	281	2H 2016	2H 2017	0%
Six E-com Center	-	920	2H 2016	2020	0%

Note 1: Percentage completion as of the date of this Prospectus.

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.

⁹ Opened June 15, 2016.

DESCRIPTION OF THE PROJECTS

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

The commercial projects that will be funded by the proceeds of the Offer are described below.

- *SM Clark BPO Towers* is a commercial building adjacent to SM City Clark and has a lot size of 6,090 square meters with a gross floor area of 67,296 square meters. The tower is set to open in 2016.
- *SM Sta Rosa BPO* is a commercial building adjacent to SM City Sta. Rosa and has a lot size of 12,092 square meters with a gross floor area of 30,000 square meters. The tower is set to open in 2016
- *SM Iloilo Tower* is a commercial building adjacent to SM City Iloilo and has a lot size of 5,480 square meters with a gross floor area of 45,000 square meters. The tower is set to open in 2017.
- *The Three E-com* is a 71,660 m² office development located in the Mall of Asia Complex, Pasay City, Metro Manila. It has 4 podium parking levels and 11 office levels, with ancillary retail at the ground and garden deck levels. It is expected to open in 2017.
- *The Four E-com* is a 176,199.00m² office development located in the Mall of Asia Complex, Pasay City, Philippines. It has a full basement, 4 podium parking levels, and 11 office levels, with ancillary retail at the ground and podium levels. It is expected to open in 2018.
- *Cebu- SRP* is the office development component of the 20-hectare SM Cebu Seaside Complex.
- *Cyber Buildings* is a 10 hectare mixed use development project with office and retail developments to complement the existing SM mall.
- *Six E-com Center* is the sixth installment in the world class E-Com centers being developed by the Company within the Mall of Asia Complex. It is proposed to be a 15 storey building with 4-level parking podium and GF designed to cater to commercial and retail tenants. Offices start from the 4F to the 15F. The GFA is estimated at 110,000 sqm. with target GLA of 70,000 sqm. It is expected to open in 2020.

The hotel projects that will be funded by the proceeds of the Offer are described below.

- *Conrad Manila* is a 347-room hotel that is located within the MOA complex. The eight-storey hotel will incorporate two levels of retail and entertainment facilities on the ground floor. It will also have other hotel facilities as well as a 1,446 sq. m. ballroom and other function and meeting spaces. Conrad Manila formally opened on June 15, 2016. Minor finishing works are still ongoing and are expected to be fully completed within the third quarter of 2016.
- *SMX Conventions Centre SRP Cebu* is expected to open in 2017 at South Road Property, Cebu City.
- *SM Hotels North EDSA* is a 200-room hotel adjacent to SM City North EDSA and expected to open in 2017.
- *SM Hotels Mall of Asia* is a 250-room hotel in the Mall of Asia Complex expected to open in 2018.
- *SM Hotels Mall of Asia SA* is a 200-room serviced apartment in the Mall of Asia Complex expected to open in 2018.

Pending the above uses, the Company intends to invest the net proceeds from the Issue 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 Company undertakes that it will not use the net proceeds from the Issue for any purpose, other than as discussed above. However, the Company'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 Company'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 Company'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, the Company shall inform the SEC and the stockholders within 30 days prior to its utilization.

DETERMINATION OF THE OFFER PRICE

The Bonds shall be issued at 100% of principal amount or face value.

PLAN OF DISTRIBUTION

SM Prime plans to issue the Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Underwriters. The Offer does not include an international offering.

The detailed plan of distribution and underwriting arrangements for each tranche of the Offer shall be as set out in the respective Offer Supplement.

The Underwriters are duly licensed by the SEC to engage in underwriting and distribution of securities to the public. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of business with SM Prime, its parent company, SMIC, or other members of the SM Group.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Underwriters who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Underwriters 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 Underwriters 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 Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

OFFER PERIOD

The Offer Period for the Series F Bonds shall commence at 9:00 am of 13 July 2016, and end at 12:00 pm of 19 July 2016.

The balance of PHP50,000,000,000 shall be placed under shelf registration and shall be offered over a period not exceeding three (3) years from the effective date of the registration statement of the Bonds.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the relevant Offer Periods by submitting to the Underwriters properly completed Applications to Purchase, together with two 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 Bureau of Internal Revenue; (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 Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by SM Prime. 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 SM Prime's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

SM Prime and the Joint Lead Underwriters 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 Underwriter 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 Paying Agency and Registry 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 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

SM Prime intends to list the Bonds in the PDEX. SM Prime 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.

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 SM Prime, the information contained in this Prospectus, the Trust Indenture Agreement, Issue Management and Underwriting Agreement, and other agreements relevant to the Offer.

The issuance of P60,000,000,000 Fixed Rate Bonds with an initial offering of ₱5,000,000,000 Series F Bonds with an oversubscription option of up to ₱5,000,000,000, and the shelf registration of P50,000,000,000 to be offered over a period not exceeding three (3) years from the effective date of the registration statement of the Bonds were authorized by a resolution of the Board of Directors of SM Prime dated 16 May 2016.

The Series F Bonds shall be constituted by a Trust Indenture Agreement executed on 12 July 2016 (the "Trust Agreement") entered into between the Issuer and Philippine National BankTrust 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 Series F 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 12 July 2016 (the "Registry and Paying Agency Agreement") in relation to the Series F Bonds among the Issuer, 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, unless SM Prime exercises its optional redemption according to the conditions therefore. See "Description of the Bonds — Redemption and Purchase".

The Registrar and Paying Agent has no interest in or relation to SM Prime which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to SM Prime 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 Paying Agency and Registry 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 Series F Bonds have been rated PRS Aaa by PhilRatings, having considered SM Prime's diversified business portfolio, business plans, growth prospects and cash flows. 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. 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: SM Prime's strong financial profile; its solid brand equity and operational track record; well diversified portfolio, with components that complement each other; and the Continuous and aggressive construction and expansion of development projects leading to significant growth going forward.

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 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 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 (at the cost of the relevant Bondholder). 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 Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. 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 stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Subject to the provisions of the Registry and Paying Agency Agreement, Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee.

Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax-exempt entities trading with non tax-exempt entities shall be treated as non tax-exempt

entities 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 within three days from the settlement date for such transfer. 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 Series F Bonds bear interest on its principal amount from and including Issue Date at the rate of 4.2005% p.a., payable quarterly in arrears starting on 26 October 2016 for the first Interest Payment Date, and on 26 January, 26 April, 26 July, and 26 October 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.

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.

The following was used as basis in determining the Interest Rate for the Series F Bonds:

- i. The Final Interest Rate will be the sum of a) the relevant benchmark rate as defined below and b) the Final Spread
- ii. The Original Benchmark Rate is defined as the simple average of the applicable PDST-R2 benchmark rate for the three (3) business days immediately preceding and inclusive of the Interest Rate Setting Date, provided that all three (3) business days involve done trades. If not applicable, then:
- iii. The Alternative Benchmark Rate will be computed as the simple average of the interpolated 10-year rate based on the weighted average yields of done trades of FXTN 10-60 and FXTN-20-17 for the three (3) business days immediately preceding and inclusive of the Interest Rate Setting Date, provided that all three (3) business days involve done trades.

For clarity, "valid trading day" refers to a trading day where both the FXTN 10-60 and FXTN 20-17 weighted average yields are based on done trades.

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 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Series F Bonds shall be redeemed at par or 100% of face value on 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 60 nor less than 30 days' notice) at par plus accrued interest.

Optional Redemption

Prior to the Maturity Date of the Series F Bonds, the Issuer shall have a one-time option, but shall not be obligated, to redeem in whole, and not a part only, the outstanding Bonds in accordance with the schedule set forth below.

Optional Redemption Dates	Optional Redemption Price
Twenty ninth (29 th) Interest Payment Date	101.5%
Thirty third (33 rd) Interest Payment Date	101.0%
Thirty seventh (37 th) Interest Payment Date	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 Series F Bonds, which notice shall be irrevocable and binding upon the Issuer

to effect such early redemption of the Series F 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 Series F Bonds being redeemed; and (ii) accrued interest on the Series F 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, 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 Indenture 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; or
- (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.

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. SM Prime 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, SM Prime 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 removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 30% 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) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue 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; and
 - (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, 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

Similar to the covenants contained in other debt agreements of the Issuer, 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

If any of the following events (the "Events of Default") occurs and is continuing, the Trustee at its discretion may 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 seven (7) 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 not less 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 or threaten to stop or suspend payment of 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 to the Bondholders through the Trustee and the reasons therefor; 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 to the Bondholders through the Trustee and the reasons therefor; 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 fifteen (15) 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 a substantial portion of the business and operations, capital stock, property, or assets of the Issuer or any 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 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 as reasonably determined by the Majority Bondholders, 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 One Billion Pesos (₱1,000,000,000.00), 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 thirty (30) 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 and with due diligence; 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 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 Paying Agency and Registry 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 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. 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 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. 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 and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Philippine National Bank Trust Banking Group
Attention:	Atty. Josephine Jolejole
Address:	3 rd Floor, PNB Financial Center Diosdado Macapagal Boulevard, Pasay City
Subject:	SM Prime Bonds due 2026
Facsimile:	+63 2 526 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. 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 or Prospectus 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 months (the "*bona fide* Bondholder") may, for and in behalf of the 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.
- (c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.
- (d) 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.
- (e) 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 of the action in that regard taken by the Majority Bondholders.
- (f) 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: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (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 SM Prime.

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.
- (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 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 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 Company
4. Registration Statement of the Company 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 Indenture 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 SM Prime 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 SM Prime 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 SM Prime 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 SM Prime 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 SM Prime.

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 Indenture 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

SM Prime 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 SM Prime;
- (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 this 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, SM Prime 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 Indenture 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.

INDEPENDENT AUDITORS AND COUNSEL

All legal opinion/matters in connection with the issuance of the Bonds which are subject of this Offer shall be passed upon by Angara Abello Concepcion Regala & Cruz ("ACCRA"), for the Joint Issue Managers and Joint Lead Underwriters, and SM Prime's Legal Affairs Division for the Company. ACCRA has no direct and indirect interest in SM Prime. ACCRA may, from time to time, be engaged by SM Prime to advise in its transactions and perform legal services on the same basis that ACCRA provides such services to its other clients.

INDEPENDENT AUDITORS

The audited consolidated financial statements of SM Prime as at 31 December 2014 and 2015 and for the years ended 31 December 2013, 2014 and 2015 have been audited by SyCip Gorres Velayo and Co. ("SGV & Co."), independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The unaudited interim condensed consolidated financial statements as at March 31, 2016 and for the three-month periods ended 31 March 2015 and 2016 have been reviewed by SGV & Co. in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The Company's Audit Committee of the Board reviews and approves the scope of audit work of the independent auditors and the amount of audit fees for a given year. The financial statements will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and amount for the same are subject to review and approval by the Audit Committee.

SM Prime's audit fees for each of the last two fiscal years for professional services rendered by the external auditor was ₱9 million and ₱8 million for 2015 and 2014, respectively.

Except for the members of SM Prime's Legal Affairs Division, there is no arrangement that experts shall receive a direct or indirect interest in SM Prime or was a promoter, underwriter, voting trustee, director, officer, or employee of SM Prime.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

SM Prime has not had any changes in or disagreements with its independent accountants/ auditors on any matter relating to financial or accounting disclosures.

CAPITALIZATION AND INDEBTEDNESS

As at 31 March 2016, the authorized capital stock of the Issuer was ₱40.0 billion divided into 40 billion common shares each with ₱1 par value per share, and its issued capital stock was ₱33.166 billion consisting of 33.166 billion common shares of ₱1 par value each.

The following table sets forth the consolidated capitalization and indebtedness of the Issuer as at 31 March 2016 and as adjusted to give effect to the issue of the Bonds (assuming the Oversubscription Option is not exercised). This table should be read in conjunction with the Issuer's unaudited interim condensed consolidated financial statements as at 31 March 2016 and for the three-month periods ended 31 March 2015 and 2016 and notes thereto, included elsewhere in this Prospectus.

	As at 31 March 2016	
	Actual	Adjusted
<i>(in ₱ millions)</i>		
Short-term debt		
Loans payable	775	775
Current portion of long-term debt	9,359	9,359
Total short-term debt	10,134	10,134
Long-term debt - net of current portion		
Banks and other financial institutions	140,011	140,011
The Bonds to be issued	-	4,951
Total long-term debt - net of current portion	140,011	144,962
Equity		
Equity Attributable to Equity Holders of the Parent:		
Capital stock	33,166	33,166
Additional paid-in capital - net	39,304	39,304
Cumulative translation adjustment	849	849
Net unrealized gain on available-for-sale investments	16,589	16,589
Net fair value changes on cash flow hedges	104	104
Remeasurement loss on defined benefit obligation	(50)	(50)
Retained earnings		
Appropriated	42,200	42,200
Unappropriated	89,004	89,004
Treasury stock	(3,355)	(3,355)
Total Equity Attributable to Equity Holders of the Parent	217,811	217,811
Total capitalization	367,956	372,907

Notes:

- (1) Adjusted amount as at 31 March 2016 includes proceeds of ₱5.0 billion principal amount of the Bonds offered hereunder, after deduction of commissions and expenses.
- (2) Total capitalization is the sum of debt and equity.

DESCRIPTION OF THE ISSUER

OVERVIEW

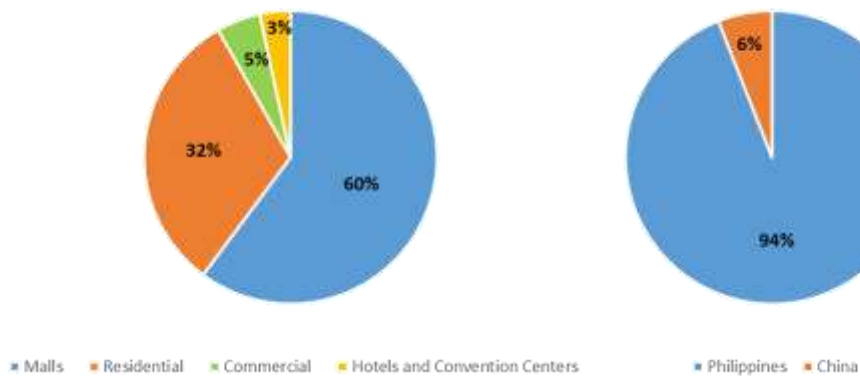
SM Prime Holdings, Inc. was incorporated in the Philippines and registered with the SEC on 6 January 1994. It is a leading integrated Philippine real estate company with business units focused on malls, residential, commercial, and hotels and convention centers. SM Prime is the surviving company of a series of transactions involving the real estate companies of the SM Group. See "Description of the Reorganization" found on page 75 of this Prospectus.

As at 31 March 2016, SM Prime's consolidated total assets stood at ₱433.6 billion, consolidated total liabilities were at ₱212.7 billion, with net debt-to-equity ratio (being the ratio of aggregate consolidated indebtedness net of cash and cash equivalent and investment held for trading over equity) of 37%.

The Company has four business segments, namely, malls, residential, commercial and hotel and convention centers. The table below sets out each business unit's contribution to SM Prime's consolidated revenue for the years ended 31 December 2013, 2014 and 2015 and the three months ended 31 March 2015 and 2016.

<i>(in ₱ million)</i>	For the years ended 31 December Audited			For the three months ended 31 March Unaudited ¹⁰	
	2013	2014	2015	2015	2016
Malls	34,467	38,701	42,733	9,870	10,991
Residential	20,916	22,723	22,931	5,503	5,757
Commercial	2,914	2,945	3,506	784	902
Hotels and Convention Centers	1,670	2,005	2,446	528	618
Eliminations	(173)	(134)	(105)	(35)	(22)
Combined Total	59,794	66,240	71,511	16,650	18,246

The charts below display the composition of SM Prime's consolidated revenue by segment and geographical region for the three months ended 31 March 2016.



¹⁰ The interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015 have been reviewed by the Independent Auditors of the Issuer.

The contribution of each of SM Prime's subsidiaries to the Company's total consolidated revenues for the years ended 31 December 2013, 2014 and 2015 is set out below.

Name of Subsidiary	2013		2014		2015	
	Revenue	% to Total	Revenue	% to Total	Revenue	% to Total
<i>(Amounts in ₱ thousands)</i>						
SM Prime Holdings Inc. - Malls	25,875,597	43%	28,346,313	43%	31,095,177	44%
SM Prime Holdings Inc. - Commercial	2,320,057	5%	2,274,017	4%	2,730,894	4%
SM Prime Holdings Inc. - Hotels	37,097	0%	187,032	0%	2,441,729	3%
First Asia Realty Development Corp.	2,809,794	5%	3,357,966	5%	3,856,724	5%
Premier Central, Inc.	643,742	1%	779,538	1%	936,282	1%
Consolidated Prime Dev. Corp.	709,055	1%	864,147	1%	949,005	1%
Premier Southern Corp.	871,071	2%	956,255	2%	1,051,799	2%
San Lazaro Holdings Corporation	-	0%	-	0%	-	0%
Southernpoint Properties Corp.	424,559	1%	496,587	1%	541,335	1%
First Leisure Ventures Group Inc.	153,047	0%	174,847	0%	194,111	0%
CHAS Realty and Development Corporation and Subsidiaries	-	0%	111,469	0%	160,896	0%
Affluent Capital Enterprises Limited and Subsidiaries	2,292,689	4%	2,721,557	4%	2,952,436	4%
Mega Make Enterprises Limited and Subsidiaries	538,510	1%	650,428	1%	699,359	1%
Springfield Global Enterprises Limited	-	0%	-	0%	-	0%
Simply Prestige Limited and Subsidiaries	-	0%	-	0%	-	0%
SM Land (China) Limited and Subsidiaries	149,068	0%	241,419	0%	295,648	0%
SM Development Corporation and subsidiaries	19,870,380	33%	20,800,383	31%	20,978,980	30%
Summerhills Home Development Corp.	240,608	0%	521,683	1%	689,872	1%
Magenta Legacy, Inc.	14,400	0%	14,790	0%	15,530	0%
Associated Development Corporation	18,900	0%	18,900	0%	19,451	0%
Prime Metro Estate, Inc.	130,956	0%	131,463	0%	154,846	0%
Tagaytay Resorts and Development Corporation	-	0%	-	0%	-	0%
SM Arena Complex Corporation	429,985	1%	499,800	1%	579,242	1%
MOA Esplanade Port, Inc.	-	0%	-	0%	6,037	0%
Highlands Prime Inc	512,493	1%	655,530	1%	700,148	1%
Costa del Hamilo, Inc.	292,669	1%	745,836	1%	562,237	1%
SM Hotels and Conventions Corp. and Subsidiaries	1,632,671	3%	1,824,018	3%	4,608	0%
Eliminations	(172,938)	0%	(133,908)	0%	(105,059)	0%
Total	59,794,410	100%	66,240,070	100%	71,511,287	100%

The contribution of each of SM Prime's subsidiaries to the Company's total consolidated net income attributable to equity holders of the Parent for the years ended 31 December 2013, 2014 and 2015 is set out below.

Name of Subsidiary	2013		2014		2015	
	Net Income	% to Total	Net Income	% to Total	Net Income	% to Total
<i>(Amounts in ₱ thousands)</i>						
SM Prime Holdings Inc. - Malls	8,198,286	50%	8,668,024	47%	9,845,708	36%
SM Prime Holdings Inc. - Commercial	645,918	4%	624,655	3%	1,126,069	4%
SM Prime Holdings Inc. - Hotels	(70,185)	0%	(37,447)	0%	645,125	2%
First Asia Realty Development Corp.	1,473,121	9%	1,699,273	9%	1,929,023	7%
Premier Central, Inc.	242,641	1%	239,423	1%	287,983	1%
Consolidated Prime Dev. Corp.	387,624	2%	475,323	3%	517,647	2%
Premier Southern Corp.	477,069	3%	490,723	3%	542,329	2%
San Lazaro Holdings Corporation	274	0%	3,687	0%	1,500	0%
Southernpoint Properties Corp.	83,753	1%	155,213	1%	144,517	1%
First Leisure Ventures Group Inc.	51,037	0%	69,991	0%	81,273	0%
CHAS Realty and Development Corporation and Subsidiaries	-	0%	29,336	0%	26,853	0%
Affluent Capital Enterprises Limited and Subsidiaries	952,189	6%	1,237,819	7%	1,475,442	5%
Mega Make Enterprises Limited and Subsidiaries	270,783	2%	325,404	2%	330,190	1%
Springfield Global Enterprises Limited	-	0%	-	0%	-	0%
Simply Prestige Limited and Subsidiaries	(281,889)	-2%	(136,378)	-1%	(186,440)	-1%
SM Land (China) Limited and Subsidiaries	(223,901)	-1%	(393,026)	-2%	(17,171)	0%
SM Development Corporation and subsidiaries	4,210,950	26%	4,505,417	24%	4,778,390	17%
Summerhills Home Development Corp.	20,779	0%	73,657	0%	98,529	0%
Magenta Legacy, Inc.	5,796	0%	405	0%	5,662	0%
Associated Development Corporation	(8,988)	0%	(8,658)	0%	(5,151)	0%
Prime Metro Estate, Inc.	113,443	1%	84,043	0%	130,327	0%
Tagaytay Resorts and Development Corporation	(1,233)	0%	(1,270)	0%	(1,262)	0%
SM Arena Complex Corporation	44,049	0%	95,357	1%	48,476	0%
MOA Esplanade Port, Inc.	-	0%	-	0%	(18,742)	0%
Highlands Prime Inc	75,149	0%	125,205	1%	139,065	1%
Costa del Hamilo, Inc.	(75,626)	0%	45,421	0%	48,858	0%
SM Hotels and Conventions Corp. and Subsidiaries	14,657	0%	290,908	2%	(275,929)	-1%
Eliminations	(330,876)	-2%	(272,153)	-1%	6,603,821	23%
Total	16,274,820	100%	18,390,352	100%	28,302,092	100%

The Company's operations in China account for a portion of the SM Prime's consolidated revenues and net income. The contribution of the Company's China operations to its consolidated revenues and net income for each of the last three years is set out below.

Year	Contribution to Revenues	Contribution to Net Income
2013	5%	4%
2014	5%	6%
2015	6%	6%

SM Prime is listed on the PSE and as at 31 March 2016 was 49.70% directly-owned by SMIC. SM Prime had a market capitalization of ₱817.3 billion as of 11 July 2016.

Description of the Reorganization

In 2013, SMPH initiated a corporate restructuring exercise to consolidate all of the SM Group's real estate companies and real estate assets under SM Prime. The Reorganization was approved by the Board of Directors of SM Prime on 31 May 2013 and subsequently ratified by the stockholders on 10 July 2013. This was subsequently approved by the SEC on 10 October 2013.

The Reorganization was achieved through the following transactions:

SM Land's tender offers for SMDC and HPI

On 4 June 2013, SM Land, Inc. (SM Land) launched a tender offer to the existing shareholders of SMDC and HPI, which were at the time listed on the PSE, in exchange for SM Prime shares held by SM Land. The terms of the tender offer were executed at an exchange ratio of 0.472 SM Prime share for 1 SMDC share and 0.135 SM Prime share for 1 HPI share. The tender offers were completed on 12 August 2013.

Merger of SM Prime and SM Land

Following the completion of the tender offers, on 10 October 2013, the SEC approved the merger of SM Prime and SM Land via a share-for-share swap where the stockholders of SM Land received new SM Prime shares in exchange for their shareholdings in SM Land. As a result of the merger, SMDC and HPI became subsidiaries of SM Prime effective 10 October 2013. In addition to the shareholdings in SMDC and HPI, SM Prime now holds SM Land's real estate assets. The merger ratio was 738 SM Prime shares for 1 SM Land share. The total number of new SM Prime common shares issued to SM Land shareholders were 14,390,923,857 shares. On 5 November 2013, SMDC and HPI were delisted from the PSE.

On March 25, 2014, SM Prime filed with the Law Division of the Bureau of Internal Revenue (BIR) a written request for confirmation that the merger between SM Prime and SM Land, qualifies as a tax-free merger under Section 40(C)(2) and 40(C)(6)(b) of the National Internal Revenue Code (Tax Code), as amended.

To date, the request for confirmatory ruling is still pending with the BIR Law Division. SM Prime has complied fully with all the documentary requirements set forth by the BIR, and the cause of the delay may be attributed to the volume of similar requests under review by the BIR Law Division.

SM Prime does not anticipate an adverse ruling from the BIR given that the merger between SM Prime and SM Land qualifies squarely as a tax-free merger based on the pertinent provisions of the Tax Code, BIR issuances, established jurisprudence and previous BIR rulings.

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

On 10 October 2013, the SEC also approved SM Prime's acquisition of SMIC's unlisted real estate companies, including SM Hotels and Conventions Corp., SM Arena Complex Corporation, Costa del Hamilo, Inc., Prime Metro Estate, Inc. and Tagaytay Resort and Development Corporation (collectively, the "Unlisted Real Estate Companies"). The SEC also approved SM Prime's acquisition of certain real property assets of SMIC (the "SMIC Real Estate Assets") by issuing new SM Prime shares to SMIC. The total acquisition price of the Unlisted Real Estate Companies and SMIC Real Estate Assets amounted to ₱25.8 billion, equivalent to 1,382,841,458 SM Prime common shares issued based on the 30-day volume weighted average price of SM Prime's shares of ₱18.66.

Subsidiaries of the Company

Following the Reorganization, the subsidiaries of the Company by business segment are set out below:

MALLS

Name of company	Place of incorporation	Year of incorporation	Percentage ownership
First Asia Realty Development Corporation	Philippines	1987	74.19
Premier Central, Inc.	Philippines	1998	100.00
Consolidated Prime Dev. Corp.	Philippines	1998	100.00
Premier Southern Corp.	Philippines	1998	100.00
San Lazaro Holdings Corporation	Philippines	2001	100.00
First Leisure Ventures Group, Inc.	Philippines	2007	50.00
Southernpoint Properties Corp.	Philippines	2008	100.00
CHAS Realty and Development Corporation and subsidiaries	Philippines	1997	100.00
Mega Make Enterprises Limited and subsidiaries	British Virgin Islands	2007	100.00
Affluent Capital Enterprises Limited and subsidiaries	British Virgin Islands	2006	100.00
SM Land (China) Limited and subsidiaries	Hong Kong	2006	100.00
Simply Prestige Limited and subsidiaries	British Virgin Islands	2013	100.00
Springfield Global Enterprises Limited	British Virgin Islands	2007	100.00

RESIDENTIAL

Name of company	Place of incorporation	Year of incorporation	Percentage ownership
SM Development Corporation and subsidiaries	Philippines	1974	100.00
Summerhills Home Development Corporation	Philippines	2007	100.00
Costa del Hamilo, Inc. and subsidiaries	Philippines	2006	100.00
Highlands Prime, Inc.	Philippines	2001	100.00

COMMERCIAL

Name of company	Place of incorporation	Year of incorporation	Percentage ownership
Magenta Legacy, Inc.	Philippines	2006	100.00
Associated Development Corporation	Philippines	1950	100.00
SM Arena Complex Corporation	Philippines	2012	100.00
Prime Metro Estate, Inc. and subsidiary	Philippines	1995	60.00
Tagaytay Resorts and Development Corporation	Philippines	1988	100.00
MOA Esplanade Port, Inc.	Philippines	2015	100.00

HOTELS AND CONVENTION CENTERS

Name of company	Place of incorporation	Year of incorporation	Percentage ownership
SM Hotels and Conventions Corp. and subsidiaries	Philippines	2008	100.00

COMPETITIVE STRENGTHS

Integrated real estate platform with strong track record across segments

SM Prime benefits from a strong track record in the Philippine real estate industry, including being the number one shopping mall developer and operator in the Philippines based on both GFA and number of malls, a leading residential developer in the Philippines in terms of condominium units sold, and operating growing office, hotel and leisure segments.

SM Prime possesses end-to-end capabilities across the integrated real estate value chain, encompassing land banking, master planning, construction, retailing and operations. SM Prime is able to leverage on the diverse skill sets of each of its business units while optimizing value through more efficient planning and control over its developments. SM Prime believes it can maximize the existing plots of its retail developments that may be underutilized or unutilized by adding residential, commercial and hospitality developments, thereby providing customers with an attractive “live, work, play” lifestyle.

SM Prime is one of the largest integrated real estate developer in Southeast Asia by market capitalization as of 31 March 2016, and the largest listed real estate developer on the PSE by market capitalization, total assets and net income as of 31 March 2016. SM Prime believes it is the largest shopping mall developer in the Philippines in terms of gross leaseable area. SM Prime believes that it is well positioned to take advantage of greater demand for residential homes resulting from the growth of the Philippine economy and increasing demand from expatriate Filipinos, among other factors.

Leading retail malls business

As of 31 March 2016, SM Prime was the largest mall operator in the Philippines, with 56 malls across 37 cities in the Philippines and an additional 6 malls in the PRC. SM Prime’s track record of operating malls dates back to 1985 when the first SM Mall was opened.

Drawing on its relationship with key tenants, SM Prime believes it is able to establish an appropriate mix of tenants in its malls and hence attract retail foot traffic. SM Prime enjoys long-standing relationships with anchor tenants such as SM Department Stores, SM Supermarkets, SM Hypermarkets, Bench, Jollibee and National Bookstore in the Philippines and Walmart and Vanguard in the PRC. In addition, SM Prime has long-term relationships with an extensive base of international and domestic tenants and has access to a wide leasing network, with approximately 16,842 tenants in the Philippines and 1,461 tenants in the PRC across multiple segments as of 31 March 2016. These tenants include well-known Philippine brands such as Jollibee and National Bookstore as well as international brands such as Uniqlo, Forever 21, H&M, Starbucks, KFC, McDonalds.

SM Prime’s diverse network of tenants allows it to pursue a dynamic leasing and marketing strategy. For example, international brands such as Uniqlo, Forever 21 and H&M have chosen SM Malls as the locations to open their flagship stores in the Philippines. SM Prime’s diverse network of tenants generally also allows it to achieve high occupancy levels in a short period time following the opening of new malls. Significant demand backlog gives SM Prime the flexibility to optimize its tenant mix, ensuring steady foot traffic and consistent same store sales growth at its malls.

SM Prime believes that in its 30 years of operating history, the SM Malls have established strong brand equity. SM City North EDSA, SM Megamall and SM Mall of Asia were each recognized with Reader's Digest Trusted Brand Awards during the past three years.

SM Prime's retail malls provide an anchor for its lifestyle city projects, generating steady foot traffic and enhancing the value of its mixed-use developments.

Access to a prime large-scale land bank

SM Prime aims to have a significant growth pipeline as underscored by its large and diversified land bank consisting of retail, commercial, and residential land in prime locations across the Philippines. As of 31 March 2016, SM Prime possessed a land bank of 12,811,409 sq. m. including around the MOA complex, South Road Properties in Cebu, Clark in Pampanga, North EDSA and SMDC properties in Metro Manila, among others, which SM Prime believes is among the largest land banks in the country.

SM Prime believes that its well-established presence and reputation in the Philippines, as well as its expansion into China, enable it to gain access to additional quality land bank. SM Prime also has a track record of implementing a proactive land banking strategy, for example, the master plan for the 600-hectare reclamation project in Pasay and Parañaque is already in process. In addition, SMIC has granted a non-binding right of first refusal to SM Prime to purchase additional land from SMIC to support further development initiatives.

Strong balance sheet and access to capital

SM Prime believes that it has access to capital from a wide variety of sources and thus is not dependent on any one source for its funding needs. As a PSE-listed company, SM Prime has access to the Philippine and international capital markets for potential issuance of equity, debt or other securities. SM Prime is also able to secure debt financing at what it believes to be competitive rates, including revolving bank loans and medium-term notes.

SM Prime believes that its strong balance sheet boosted by a large asset and equity base ensures that it is able to move quickly to acquire real estate assets and additional land bank. As at 31 March 2016, SM Prime had consolidated total assets of ₱433.6 billion and a total equity attributable to equity holders of the Parent of ₱217.8 billion. As at 31 March 2016, SM Prime's combined net debt to equity ratio was 37%, providing sufficient debt headroom flexibility for current and future capital expenditure and expansion plans.

SM Prime believes that its stable real estate portfolio contributes to its liquidity and strong mix of recurring income from its mall and office operations. In the three months ended 31 March 2016, 65% of SM Prime's consolidated revenue was derived from mall and commercial. SM Prime believes that its long-term leases help to create a steady stream of cash flow.

Experienced management team with strong corporate governance practices

SM Prime's senior management team comprises Mr. Henry T. Sy, Jr., as Chairman of the Board, and Mr. Hans T. Sy and Mr. Jeffrey Lim as President and Executive Vice President, respectively. Each of these individuals has been with SM Prime or its component businesses for at least 20 years.

SM Prime adheres to strong corporate governance practices, with three out of the eight members of its Board of Directors being independent directors. SM Prime has been recognized by the Asset Corporate Awards as a Platinum Awardee for All Around Excellence in Management, Financial Performance, Corporate Governance, Investor Relations, and Social Responsibility for 2009 to 2015.

BUSINESS STRATEGIES

Continue to expand SM Prime's land bank and develop integrated lifestyle cities

SM Prime has integrated all land banking functions into a centralized department retaining the highly successful culture that allowed the Company to reach its strong current land bank position. Going forward, the key focus of SM Prime will be on acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines. SM Prime also plans to continue acquiring a strategic land bank near its existing developments, select schools, mass transit stations and other areas which are expected to be significant beneficiaries of infrastructure development in the future. For example, SM Prime recently submitted a proposal to reclaim land adjacent to the MOA complex.

A successful land banking strategy creates the foundation for the next phase in the development of lifestyle city projects, being the master planning for an integrated township design. These lifestyle cities are anchored by SM Prime's retail malls, supported by commercial, residential, hotel and convention center developments, creating a synergistic value enhancement across product classes and offering a complete selection of products to customers. For example, SM Prime aims to replicate the successful model of its MOA complex, a 60 hectare master-planned bayside development in Pasay City. The MOA complex had a total estimated land value of ₱58.3 billion according to CBRE as of February 28, 2013. SM Prime believes that the success of the MOA complex is a result of the substantial synergies from each real estate offering in the integrated development. For example, the MOA Arena has been a preferred venue for event due to its proximity to the MOA, which in turn increased foot traffic at the MOA. SEA Residences has been one of SM Prime's fastest selling residential development projects in part due to its proximity to the MOA, while again providing additional foot traffic to the MOA. SM Prime was also awarded by the cities of Pasay and Parañaque to reclaim land adjacent to the MOA complex totalling around 600 hectares.

SM Prime has a large and diverse land bank suitable for projects that are modeled after the MOA complex and creating lifestyle cities across the Philippines. For example, SM Prime is building a 30 hectare mixed use development project in Cebu City, the SM Seaside City. The mall in SM Seaside City is expected to be that city's largest mall, with a gross floor area of approximately 430,000 sq. m. It will consist of a four-storey complex featuring a cineplex, IMAX theater, bowling center and ice skating rink. Other potential developments in SM Seaside City complex may include high-rise residential condominiums, office buildings, convention center and hotels. Development of the property started in 2012 with a 15-year development timeframe.

Leverage retail malls to anchor lifestyle city developments

SM Prime expects mall operations to continue to be its primary focus going forward and is targeted to account for a majority of SM Prime's net income for the foreseeable future. Expansion is expected to take place in major cities outside of Metro Manila, especially in areas where disposable income is expected to increase significantly and retail space is currently limited. Certain major cities have a per capita income and rent per sq. m. that are comparable to those within Metro Manila, driven by a shift in BPO demand to regional provinces. Over time, retail malls built in these cities could be converted into mixed use developments by adding office, residential and hospitality components as the cities continue to grow.

SM Prime also plans to expand within Metro Manila on a selective basis, developing supercenters (malls consisting of less than 100,000 sq. m.) that are situated between mega malls in Metro Manila. SM Prime believes that the current demand backlog for leases in several of its developments provides an opportunity for further mall expansion.

SM Prime plans to develop four to five malls in the Philippines each year for the near term, and also to opportunistically expand its presence in second and third tier cities in China by building one mall per year for the near term, in each case subject to market conditions. SM Prime is targeting to increase its overall

mall GFA by 8-10% per year to approximately 7.7 million sq. m. in the Philippines and approximately 0.9 million sq. m. in China by 2016. SM Prime believes it will be able to do this given its direct access to a larger land bank that should allow it to accelerate its mall development throughout the country.

Optimize existing properties by adding complementary developments

SM Prime will pursue a multi-pronged long-term strategy that is aimed to allow it to optimize the value of existing properties, developments and current land bank through an integrated real estate platform while retaining flexibility to efficiently allocate capital among its various business units. SM Prime will embark on more large scale mixed used developments throughout the Philippines in an effort to replicate the success of the MOA complex.

SM Prime intends to further expand these complimentary projects by adding retail, office, residential and leisure developments to its existing property projects, including those projects with underutilized plots of vacant land. For example, SM Prime developed Radisson Blu Cebu, Park Inn by Radisson Davao and the Park Inn by Radisson Clark and Conrad Manila within existing mall developments such as SM City Cebu, SM City Davao, SM City Clark and SM Mall of Asia. SM Prime believes that SM Megamall, SM City North EDSA, and SM Seaside City still have significant under-utilized plot ratio that are suitable for commercial, hospitality and residential developments.

Continue aggressive rollout of BPO office development

Taking advantage of the robust BPO sector outlook as well as increasing flight to quality from older BPO developments, SM Prime's strategic focus includes expanding its office portfolio with IT and BPO buildings. SM Prime plans to leverage the new company's enlarged and geographically diverse land bank to expand its office space presence in second and third tier Philippine cities in Cebu, Davao, Pampanga and Iloilo, areas where BPO companies are currently expanding their operations due to favorable labor market conditions.

Focus on a "one product-one market" strategy for the residential business

SM Prime intends to capitalize on the increasing urbanization and economic development of the Philippines to develop vertical residential projects in key areas across Metro Manila specifically the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon City, and Taguig, as well as Tagaytay City and Cebu that target the Philippine mass middle market. By leveraging the already strong SM brand and its leadership in the residential condominium segment, SM Prime believes it can aggressively roll-out new projects in the strategically placed land bank throughout Metro Manila and the rest of the country. SM Prime will focus its residential development on the low-to-middle income segments, which is underpinned by resilient housing demand driven by a housing supply backlog, growing household creation and increasing urbanization. As of 31 March 2016, SM Prime has 17 completed residential projects and 11 ongoing residential projects.

SM Prime plans to accelerate residential project launches in areas near existing SM Prime developments. As of March 31, 2016, SM Prime has already launched 4,000 units to the market in Las Pinas, Bicutan and along Roxas Boulevard and for the rest of the year, SM Prime is still set to launch an additional 7,000 to 8,000 units located in the Mall of Asia Complex, Tagaytay, Quezon City, Bulacan, Cavite and Cabanatuan.

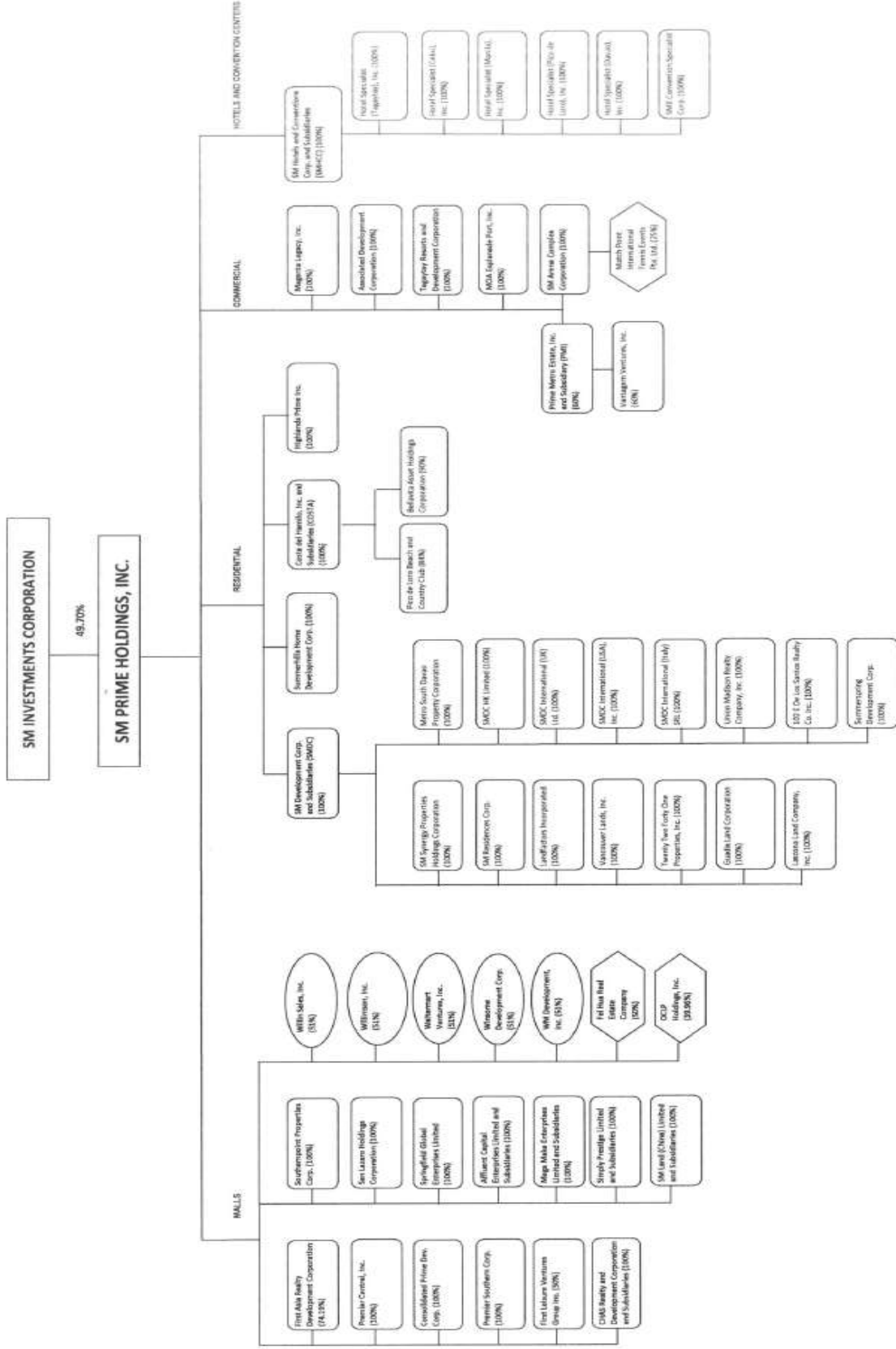
Maintain a strong balance sheet, prudent risk and capital management and good governance

By maintaining a strong balance sheet, SM Prime believes it will be better able to withstand economic and financial cycles, while allowing the Company to achieve expansion quickly, as well as give it the flexibility to embark on acquisitions if and when opportunities arise. SM Prime intends to maintain prudent debt levels and a sufficient equity buffer with a target net debt-to-equity ratio of no more than 50:50. SM Prime also plans to maintain a relatively long and well spread out debt maturity profile and continue to diversify its sources of funding. SM Prime will take a disciplined approach to the allocation of capital across its projects with strict application of hurdle rates and benchmarks for each investment.

Capital expenditure for 2016 is approximately ₱56.0 billion, with 57% for mall, 31% for residential, 7% for commercial and 5% for hotels and convention centers. Capital expenditure for 2017 is approximately ₱61.4 billion, with 51% for mall, 29% for residential, 15% for commercial and 5% for hotels and convention centers. SM Prime plans to fund its capital expenditure plan through recurring income flows and external financing. SM Prime intends to apply global corporate governance standards and risk management best practices, as well as embark on integrated sustainability and corporate social responsibility initiatives.

OWNERSHIP AND CORPORATE STRUCTURE

The chart below shows the current shareholding of SM Prime and its four business segments.



Note: % Refers to Effective Ownership

MALLS

SM Prime develops, operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters within the compound of the shopping malls. As of the date of this Prospectus, SM Prime owns 56 malls (as listed below) covering a total GFA of approximately 7.3 million sq. m. located across the Philippine archipelago, attracting an average of approximately 4 million visitors daily. SM Prime is the leading owner and operator of shopping malls in the Philippines. SM Prime plans to continue to expand its existing malls and develop new ones, with a target of opening approximately four to five new malls in the Philippines each year for the near term, subject to market conditions.

SM Prime has in the past concentrated on the development of its malls in the Metro Manila area, where it currently operates 20 malls. In addition, SM Prime currently plans to develop in the future four plots of land outside Metro Manila, all of which are owned. As the Metro Manila area becomes increasingly well served by shopping malls, SM Prime's strategy is to expand its activities in the provinces, where it currently operates 36 malls and holds an additional 27 plots of land available for development, all of which are owned.

SM Prime has also expanded its shopping mall operations outside of the Philippines. SM Prime owns six operational malls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, Chongqing and Zibo in the southern and western parts of China with a total GFA of approximately 0.9 million sq. m., with one additional malls under development. SM Prime is targeting the acquisition of additional properties in China in the future as it prepares for opportunistic expansion into second and third tier cities. SM Prime plans to build one mall in China per year for the near term, subject to market conditions.

The principal sources of mall revenue for SM Prime comprise rental income payable by tenants (including its retail subsidiaries) within the malls, ticket sales derived from the operations of cinemas, and fees payable for the use of SM Prime's parking facilities, bowling, ice skating and other leisure facilities. Approximately 58% of SM Prime's gross leasable space is currently leased by members of the SM Group or companies who are affiliated with the Sy family. Such tenants contributed approximately 25% (₱2.7 billion) of SM Prime's consolidated mall revenues of ₱11.0 billion for the quarter ended 31 March 2016.

SM Prime retains ownership of all of the sites on which the SM Prime malls are built, with the exception of SM Aura Premier, SM City Bacoar, SM City Manila, SM City Baguio, SM Center Valenzuela, SM Center Molino, SM City Clark, SM Center Pasig, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion and SM City General Santos, which are held under long-term leases. SM Megamall is owned by First Asia Realty Development Corporation, a 74.2% owned subsidiary of SM Prime, with the remaining interest being held by an unaffiliated third party. The land where SM City San Lazaro is located is owned by San Lazaro Holdings Corporation, a wholly owned subsidiary. The land where SM City Baguio is built is owned by SMIC.

The following is a brief discussion of each of SM Prime's current malls.

Metro Manila Malls

SM City North EDSA

Year opened – 1985. SM City North EDSA, the very first and currently the country's largest shopping mall, has a GFA of 497,912 sq. m. featuring 12 cinemas including a 3D IMAX theater with a total seating capacity of 9,343, 24-computerized synthetic lane bowling center, food court, amusement centers and multi-level carpark which provides a total capacity of 4,349 vehicles, located on a 16.1 hectare site in Diliman, Quezon City. Following the opening of The Block and renovation of The Annex, The Sky Garden was unveiled in May 2009. It is a 400-meter elevated walkway shaded by a long sketch of white canopy connecting building to another, with a park-like ambiance and green architecture. The Sky Garden includes the roof garden,

water features, food and retail outlets and sky dome, a 1,000-seat amphitheater for shows and special events. The anchor tenants for SM City North EDSA are The SM Store, SM Hypermarket and SM Supermarket, Ace Hardware, and Uniqlo.

SM Megamall

Year opened – 1991. SM Megamall is located on a 10.5 hectare property in the Ortigas business district of Metro Manila. It stands along the main EDSA thoroughfare and is near the Metro Rail Transit. SM Megamall has two main buildings, Mega A and Mega B, with the addition of Mega Atrium in 2008, Building C in 2011 and Mega Fashion Hall in January 2014. It has a total GFA of 474,225 sq. m. It features 14 cinemas including the newly opened IMAX theatre and Director's Club with its own butler service, a fully-computerized 14-lane bowling center, an Olympic-sized ice skating rink, a mega fashion hall, event center and parking for 2,976 vehicles. The anchor tenants for SM Megamall are The SM Store, SM Supermarket, Ace Hardware, Uniqlo and Toy Kingdom.

SM Mall of Asia

Year opened – 2006. SM Mall of Asia is located on a 19.5 hectare property overlooking Manila Bay. The mall consists of four buildings linked by elevated walkways—Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The mall has a GFA of 406,962 sq. m. with parking buildings that has 3,984 spaces each that are available for vehicles. The Entertainment Building houses the country's first IMAX theatre, a special Director's Club screening room for exclusive film showings, eight state-of-the art cinemas, 24-lane bowling facility, an Olympic-sized ice skating rink, an Exploreum and fine dining restaurants and bars. In 2014, the mall opened the XD 4D cinema that is equipped with 48 pneumatic controlled seats and in-theatre effects including snow, wind, water, smell, fog and strobe lightings, leg tickler, motion seats and seat vibrators. The anchor tenants for SM Mall of Asia are The SM Store, SM Hypermarket, Forever 21 and Uniqlo.

SM Aura Premier

Year opened – 2013. SM Aura Premier, opened in May 2013, is a state of the art civic center at the heart of Taguig City. The mall has a GFA of 251,094 sq. m. As an integrated development, SM Aura Premier incorporates office towers, a chapel, a convention center and mini-coliseum, supported by a retail podium with an upscale look and feel. The mall also has two regular cinemas, two Director's Clubs and an IMAX Theater with a total seating capacity of 921 and a food court. The anchor tenants for SM Aura Premier are The SM Store, SM Supermarket, Forever 21 and Uniqlo.

SM City Fairview

Year opened – 1997. SM City Fairview is a two-building, four-level complex with a GFA of 188,681 sq. m. located on a 20.0 hectare site in Quezon City, Metro Manila. The mall features 12 cinemas with a seating capacity of 6,533, 20-lane bowling center, food court and amusement areas. In early 2009, the mall launched its annex, adding 28,600 sq. m. of GFA to the main mall. The anchor tenants for SM City Fairview are The SM Store, SM Hypermarket, SM Supermarket, Ace Builders Center and Teleperformance.

SM Southmall

Year opened – 1995. SM Southmall, with a GFA of 184,552 sq. m., was the first shopping mall in the southern region of Metro Manila located Alabang-Zapote Road in Las Piñas City. As major renovations completed in 2012, SM Southmall became one of the premier malls and it features nine cinemas with a seating capacity of 7,049, including an IMAX theater, an ice skating rink, bowling center, food court and a carpark with 3,068 slots. The anchor tenants for SM Southmall are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City San Lazaro

Year opened – 2005. SM City San Lazaro is located at the center of a densely populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-storey mall has a GFA of 181,593 sq. m. The mall features a food court, amusement center, six cinemas with a seating capacity of 3,274, and parking for 1,256 vehicles. The anchor tenants for SM City San Lazaro are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Marikina

Year opened – 2008. SM City Marikina on Marcos Highway, Brgy. Calumpang, Marikina City has a GFA of 178,178 sq. m. Marikina is a key city for the SM Group, as its shoemakers became vital partners during its growth years in the sixties as a shoe store in Carriedo, Manila. It features a food court and eight cinemas with a 3,136 seating capacity. The anchor tenants for SM City Marikina are The SM Store, SM Supermarket and Ace Hardware.

SM City Manila

Year opened – 2000. SM City Manila is a five-level mall with a GFA of 167,812 sq. m. The mall is located in downtown Manila next to Manila City Hall. The mall has 12 cinemas with a seating capacity of 7,555, a food court and a carpark available for 920 vehicles. It has become a major destination for shoppers, given its strategic location and easy accessibility by the Light Railway Transit and other public transportation. The anchor tenants for SM City Manila are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Sta. Mesa

Year opened – 1990. SM City Sta. Mesa, located in Quezon City, Metro Manila, is a seven level complex with a GFA of 132,965 sq. m. featuring 10 cinemas with a seating capacity of 7,451, a food court, an amusement center, carpark with a total capacity of 1,052 vehicles. The anchor tenants for SM City Sta. Mesa are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM City BF Parañaque

Year opened – 2013. SM City BF Parañaque, strategically located at the main gate of Parañaque's prime residential village, opened on November 29, 2013 which has a GFA of 125,582 sq. m. Its design and construction features three skylight domes in its main atrium to reduce the use of electricity by fully maximizing the use of sunlight, while air conditioning is automatically regulated to help ensure efficient energy consumption. The mall is the first mall to have four Director's Club cinemas equipped with electronic recliner (lazyboy type) seats that can accommodate up to 200 moviegoers and also houses two premier cinemas with 180 seats each. It provides ample parking space for 1,420 vehicles and 179 slots for motorcycles. The anchor tenants for SM City BF Parañaque are The SM Store, SM Supermarket, Ace Hardware and Uniqlo.

SM City Bicutan

Year opened – 2002. SM City Bicutan is a two-building mall located along Doña Soledad Ave. corner West Service Road, Bicutan, Parañaque City. This mall has a GFA of 114,214 sq. m. It features a food court and four cinemas with a total seating capacity of 1,352. SM City Bicutan serves nearly half a million residents within a 3 kilometer radius. The anchor tenants for SM City Bicutan are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Sucat

Year opened – 2001. SM City Sucat is a two-building mall located on a 10.1 hectare site along Dr. A. Santos Ave. (Sucat Road), Brgy. San Dionisio, Parañaque City. The mall has a GFA of 96,277 sq. m. featuring four cinemas with total seating capacity of 1,955, a food court and carpark with 1,475 slots. The anchor tenants for SM City Sucat are The SM Store, SM Supermarket and Ace Hardware

SM Center Valenzuela

Year opened – 2005. SM Center Valenzuela has a total GFA of 70,681 sq. m., situated in Brgy. Karuhatan, Valenzuela City. The mall caters to the bustling industrial areas that surround the property. The mall features four cinemas with a 2,172 seating capacity, 12-lane bowling center, a food court and parking for 557 vehicles. It also features the Fashion Avenue, a multi-shop style center that houses a wide array of apparel, shoes and accessory picks. The anchor tenants for SM Center Valenzuela are SM Supermarket, SM Appliance Center and Ace Hardware.

SM City Novaliches

Year opened – 2010. SM City Novaliches, having a GFA of 60,044 sq. m., is located along Quirino Highway in Brgy. San Bartolome, Novaliches, Quezon City. Novaliches, being the largest district in the city, is growing with residential subdivisions and industrial companies. The amenities of the mall include a food court, four cinemas with 1,610 seats and parking for almost 1,206 vehicles. The anchor tenants for SM City Novaliches are The SM Store, SM Supermarket, Banco de Oro and Ace Hardware.

SM Center Muntinlupa

Year opened – 2007. SM Center Muntinlupa is situated in Brgy. Putatan, Muntinlupa City. The two-level mall has a GFA of 57,060 sq. m. that caters the residents of Muntinlupa City and the growing municipality of San Pedro, Laguna. The mall features a food court, four cinemas with 1,582 seating capacity and an entertainment plaza for shows and events located at the center of the mall. The anchor tenants for SM Center Muntinlupa are SM Hypermarket, SM Appliance Center and Ace Hardware.

SM Center Sangandaan

Year opened – 2015. SM Center Sangandaan, strategically located along the busy intersection of Samson Road and A. Mabini Street Sangandaan, is providing SM Prime access to the northern tip of Metro Manila, bringing a unique shopping experience closer to the highly dense cities of Malabon, Navotas and Caloocan City. It has a GFA of 43,626 with three levels of prime spaces which includes four cinema theaters with a total seating capacity of 832 and 524 parking slots. The anchor tenants for SM Center Sangandaan are SM Supermarket, Ace Hardware and Watsons.

SM Center Las Piñas

Year opened – 2009. SM Center Las Piñas is located along the Alabang-Zapote Road in Brgy. Talon, Pamplona, Las Piñas City that has a GFA of 39,727 sq. m. SM Center Las Piñas serves customers in the western section of the city and the nearby provinces of Laguna and Cavite. The anchor tenants for SM Center Las Piñas are SM Hypermarket, Banco de Oro and Ace Hardware.

SM Center Pasig

Year opened – 2006. SM Center Pasig is located in Frontera Verde, Pasig City serving residents of the neighboring upscale subdivisions and customers who regularly pass through the C5 route. Its GFA is 28,829 sq. m. including its basement parking for almost 282 vehicles. The anchor tenants for SM Center Pasig are

SM Hypermarket, Ace Hardware and Watsons.

Cherry Foodarama Shaw Boulevard

Year opened – 2015. Cherry Foodarama Shaw Boulevard, located in Old Wack-wack Road, Mandaluyong City, reopened last October 2015 and now looking refreshed and a bit more modernized while still keeping the classic Cherry feel. It has a GFA of 24,165 sq. m. with parking for 344 vehicles. The anchor tenants for Cherry Foodarama Shaw Boulevard is SM Supermarket.

Malls Outside of Metro Manila

SM Seaside City Cebu

Year opened – 2015. SM Seaside City Cebu, located within the SM Seaside Complex at the South Road Properties (SRP) in Cebu City, is the first of its kind in urban development in the SRP. It has a GFA of 429,971 featuring a Centerstage theater, a Large Screen cinema, two Director's Club cinemas, and 4 regular cinemas with a combined seating capacity of 1,527, a 16-lane SM Bowling and Amusement Center, and a food court flanking an olympic-size ice skating rink and parking slot for 4,525 vehicles. In addition, the mall features a rooftop Sky Park, an iconic 21 meter by 21 meter centerpiece called the "Cube", and food and retail shops, including local, national and global brands. The anchor tenants for SM Seaside City Cebu are The SM Store, SM Supermarket, Ace Hardware and Uniqlo.

SM City Cebu

Year opened – 1993. SM City Cebu is a multi-level complex with a GFA of 273,804 sq. m. featuring eight cinemas, including a 3D IMAX theater with a total seating capacity of 6,318, a food court, a fully computerized 28-lane bowling center, a trade hall and a carpark with a 1,874 vehicle capacity located on a 13.8 hectare site in Cebu Port Center, Barrio Mabolo, Cebu City. The anchor tenants for SM City Cebu are The SM Store, SM Supermarket, Ace Hardware and Forever 21.

SM City Dasmariñas

Year opened – 2004. SM City Dasmariñas sits on a 12.4 hectare property situated along Governor's Drive, approximately 100 meters from the Aguinaldo Highway junction in Dasmariñas, Cavite. The mall has a GFA of 201,645 sq. m. The mall features a food court and six cinemas with a seating capacity of 2,710 people. In late 2011, the mall launched its annex, adding 36,486 sq. m. of GFA to the main mall. The anchor tenants for SM City Dasmariñas are The SM Store, SM Supermarket, SM Appliance Center and Ace Hardware.

SM Cabanatuan

Year opened – 2015. SM City Cabanatuan is strategically located along Maharlika Highway in Cabanatuan City, which is the largest city in Nueva Ecija. It has a GFA of 154,020 featuring a food court, six cinemas with a seating capacity of 1,977 and 2,077 parking slots. The four-level mall also includes two Gardens namely, the Garden Park, which provides covered shelter; and the Roof Park located at the fourth level. The anchor tenants for SM City Dasmariñas are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM Lanang Premier

Year opened – 2012. SM Lanang Premier is a four-level mall with a GFA of 145,174 sq. m. The mall is located at J.P. Laurel Avenue, Brgy. Lanang, Davao City. It is the largest and first premier mall development project in Mindanao. It houses the SMX Davao Convention Center. SM Lanang Premier's amenities include six cinemas and an IMAX theater, with a combined seating capacity of 2,695, a bowling center, an Exploreum,

and parking for 1,660 vehicles. It also features a Skygarden with water fountains, art installations, and landscaping. The anchor tenants for SM Lanang Premier are The SM Store, SM Supermarket, Ace Hardware and Forever 21.

SM City Clark

Year opened – 2006. The two-storey SM City Clark is located along M.A. Roxas Avenue and is approximately 80 kilometers north of Manila and 60-kilometers east of Subic Bay Freeport, within close proximity of the Clark Special Economic Zone in Pampanga. The mall has a GFA of 144,484 sq. m. which features seven cinemas with a seating capacity of 3,210. With its unique design resembling a coliseum, this mall offers tourists and shoppers a variety of retail, dining, and entertainment establishments. The anchor tenants for SM City Clark are The SM Store, SM Hypermarket, Ace Hardware and Forever 21.

SM City Iloilo

Year opened – 1999. SM City Iloilo is a 143,595 sq. m. mall constructed on a 17.5 hectare property at the juncture of the Northwest and the Northeast of the Iloilo-Jaro West Diversion Road in Manduriao, Iloilo City. Its location is a quick drive from the airport and from the center of the city. It serves the city's residents, as well as those of the rest of Panay Island and the neighboring islands in the Visayas. SM City Iloilo has eight cinemas with a seating capacity of 4,995. The anchor tenants for SM City Iloilo are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Lipa

Year opened – 2006. SM City Lipa is a two-level mall strategically located along Lipa's Ayala Highway. It occupies 10.3 hectares of land, with 141,283 sq. m. of GFA. In late 2014, an additional 34,437 sq. m. of GFA was added due to the expansion of the main mall. Lipa City features natural attractions and is a commercial, educational and industrial destination. The mall features a food court and four cinemas with 2,393 seating capacity. The anchor tenants for SM City Lipa are The SM Store, SM Supermarket and Ace Hardware.

SM City Bacolod

Year opened – 2007. SM City Bacolod is a two-building mall located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It has a total land area of 17.0 hectare and has a GFA of 137,229 sq. m. In late 2014, an additional 61,999 sq. m. of GFA was added due to the expansion of the north wing of the main mall. The mall features a food court, amusement centers and four cinemas with 2,001 seating capacity. The anchor tenants for SM City Bacolod are The SM Store, SM Supermarket and Ace Hardware.

SM City General Santos

Year opened – 2012. SM City General Santos is a three level mall located at San Miguel St., cor. Santiago Blvd., Lagao District, General Santos City. The mall has a GFA of 131,818 sq. m. featuring a food court, four cinemas with a combined seating capacity of 1,526, and parking for more than 1,407 vehicles. The anchor tenants for SM City General Santos are The SM Store, SM Supermarket and Ace Hardware.

SM City Pampanga

Year opened – 2000. SM City Pampanga is a 131,158 sq. m. shopping mall with three annexes, straddling the municipalities of San Fernando and Mexico in Pampanga. It features six state-of-the-art cinemas with a seating capacity of 2,603, a food court and amusement centers. The mall is strategically located at the Olongapo Gapan Road to serve the city's residents as well as those in the provinces of Bulacan, Tarlac, Bataan, Zambales and Nueva Ecija. The anchor tenants for SM City Pampanga are The SM Store, SM

Supermarket, Ace Hardware and SM Appliance Center.

SM City Davao

Year opened – 2001. SM City Davao is located on a 13.2 hectare property along Quimpo Boulevard corner Tulip and Eco Drives, Brgy. Matina, Davao City. Its location is walking distance from some of the largest schools in Mindanao such as Ateneo de Davao, University of Mindanao, Philippine Women’s College and the Agro-Industrial Foundation College. The mall has a GFA of 126,425 sq. m. It has six cinemas which can accommodate 2,351 movie patrons. The anchor tenants for SM City Davao are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Bacoor

Year opened – 1997. SM City Bacoor is a five level complex with a GFA of 120,202 sq. m. located in General Emilio Aguinaldo Highway corner Tirona Highway, Brgy. Habay, Bacoor City, Cavite. The shopping complex features eight cinemas with a 4,381 seating capacity, and food court and amusement areas. It is the very first SM mall in the entire Luzon region (outside Metro Manila) and the very first in the Cavite province. The anchor tenants of SM City Bacoor are The SM Store, SM Supermarket, Ace Hardware and SM Appliance Center.

SM City Baguio

Year opened – 2003. SM City Baguio is situated along Session Road in Baguio City. Baguio City is a promising site for SM Prime to develop its presence in the northern part of Luzon. Known for its cool climate, beautiful scenery and historic culture, the city offers multifold opportunities for entrepreneurs, retailers and service oriented establishments. SM City Baguio has a GFA of 107,950 sq. m. It has four cinemas with a total seating capacity of 1,932. The anchor tenants for SM City Baguio are The SM Store, SM Supermarket and Ace Hardware.

SM City Consolacion

Year opened – 2012. SM City Consolacion is located along the Cebu North Road, Barangay Lamac, Consolacion, Cebu. It has a GFA of 103,558 sq. m. The mall’s amenities include a food court, four cinemas with a combined seating capacity of 1,475, and parking for over 707 vehicles. The anchor tenants for SM City Consolacion are The SM Store, SM Supermarket Ace Hardware and SM Appliance Center.

SM City Tarlac

Year opened – 2010. SM City Tarlac is located along MacArthur Highway, San Roque, Tarlac City. It is the very first SM mall in the province of Tarlac. The four-level mall has a GFA of 101,369 sq. m. The mall features a food court, four cinemas with 1,872 seating capacity, and parking for over 1,122 vehicles. The anchor tenants for SM City Tarlac are The SM Store, SM Supermarket and Ace Hardware.

SM City Taytay

Year opened – 2007. SM City Taytay is a two-building mall located in Brgy. Dolores, Taytay, Rizal. The mall has a GFA of 98,928 sq. m. that features a food court, three cinemas with 1,180 seating capacity and a carpark for 985 vehicles. SM City Taytay is situated as a stopover for travelers, especially those coming from Laguna via the Marikina Infanta Road. The anchor tenants for SM City Taytay are The SM Store, SM Hypermarket and Ace Hardware.

SM City Masinag

Year opened – 2011. SM City Masinag is a three-floor mall located along Brgy. Mayamot, Marcos Highway, Antipolo City. It has a GFA of 96,313 sq. m. SM City Masinag's amenities include a food court, four cinemas with a combined seating capacity of 1,144, and parking for more than 454 vehicles. The anchor tenants for SM City Masinag are The SM Store, SM Supermarket and Ace Hardware.

SM City Marilao

Year opened – 2003. SM City Marilao is the first SM mall in the Bulacan province with a land area of 13.0 hectare and GFA of 93,910 sq. m. It is located at MacArthur Highway, Brgy. Ibayo, Marilao, Bulacan. The four-level mall features a food court, event center and four cinemas with seating capacity of 1,188. The anchor tenants for SM City Marilao are The SM Store, SM Supermarket and Ace Hardware.

SM City Baliwag

Year opened – 2008. SM City Baliwag is located in Brgy. Pagala, Baliwag, Bulacan, approximately 40 kilometers from the EDSA—Balintawak interchange of the North Luzon Expressway. It has a GFA of 91,241 sq. m. In late 2014, an additional 29,979 sq. m. of GFA was added due to the expansion of the main mall. Among the facilities included are four cinemas with a combined seating capacity of 1,232, a food court and parking for over 1,047 vehicles. The anchor tenants for SM City Baliwag are The SM Store, SM Hypermarket and Ace Hardware.

SM City Cagayan De Oro

Year opened – 2002. SM City Cagayan De Oro sits along Mastersons Avenue corner Gran Via St., Cagayan de Oro City, Misamis Oriental. The mall has a GFA of 87,837 sq. m. It features four cinemas with a total seating capacity of 1,590 and parking for over 989 vehicles. The anchor tenants for SM City Cagayan De Oro are The SM Store, SM Supermarket and Ace Hardware.

SM City Sta. Rosa

Year opened – 2006. SM City Sta. Rosa is the first SM mall in the Laguna province with 86,463 sq. m. of GFA. Located on a 17.1 hectare site in Barrio Tagapo, Sta. Rosa, the two-level mall is a 10-minute drive from the Mamlasan exit. SM City Sta. Rosa includes a variety of retail establishments, four cinemas with a seating capacity of 1,854 and a food court. The anchor tenants for SM City Sta. Rosa are The SM Store, SM Supermarket and Ace Hardware.

SM City Batangas

Year opened – 2004. SM City Batangas is situated along the National Highway, Brgy. Pallocan West, Batangas City. The mall is approximately 3.7 kilometers from the Batangas International Port. SM City Batangas has a GFA of 80,350 sq. m. It has four cinemas with a seating capacity of 1,661. The anchor tenants for SM City Batangas are The SM Store, SM Supermarket and Ace Hardware.

SM City Lucena

Year opened – 2003. SM City Lucena is located along Maharlika Highway corner Dalahican Road, Brgy. Ibabang Dupay, Lucena City, Quezon. It is the first SM mall in the province of Quezon. This four-level mall has a GFA of 78,655 sq. m. It features four cinemas with a total seating capacity of 1,989. The anchor tenants for SM City Lucena are The SM Store, SM Supermarket and Ace Hardware.

SM City Naga

Year opened – 2009. SM City Naga is located in Central Business District II of Brgy. Triangulo, Naga City. It is the first SM mall in the Bicol region and has a GFA of 75,651 sq. m. The mall offers a food court and four cinemas with a combined seating capacity of 1,346. The anchor tenants for SM City Naga are The SM Store, SM Supermarket and Ace Hardware.

SM City San Mateo

Year opened – 2015. SM City San Mateo is located in Gen. Luna Avenue, Brgy. Ampid 1, San Mateo, Rizal. It is the fourth SM supermall in Rizal Province after SM City Taytay, SM City Masinag and SM Center Angono and has a GFA of 75,623 sq. m. The mall has its disaster resilient features which include expansion joints for mitigating earthquake damage and rainwater catchment basin for prevention of flood within its perimeter and surrounding community. The mall offers a food court and four cinemas with a combined seating capacity of 1,232. The anchor tenants for SM City San Mateo are The SM Store, SM Supermarket and Ace Hardware.

SM City Calamba

Year opened – 2010. SM City Calamba is located at National Road, Brgy. Real, Calamba City, approximately 70 meters from the intersection of Maharlika Highway and Manila South Road. The mall has a GFA of 73,632 sq. m. and features a food court and four cinemas with a combined seating capacity of 1,268. The anchor tenants for SM City Calamba are The SM Store, SM Supermarket and Ace Hardware.

SM City Cauayan

Year opened – 2014. SM City Cauayan, the first mall in Region 2 known as Cagayan Valley, has a GFA of 70,946 sq. m. and is located along National Highway, District II, Cauayan City, Isabela. The mall serves customers from the country's second largest province Isabela as well as the nearby provinces of Cagayan, Nueva Vizcaya, and Quirino. SM City Cauayan includes a variety of retail establishments, six cinemas with a total seating capacity of 1,122. The anchor tenants for SM City Cauayan are The SM Store, SM Supermarket and SM Appliance Center.

SM City Rosales

Year opened – 2008. SM City Rosales in Brgy. Carmen, Pangasinan stands on a 12.2 hectare lot and has a GFA of 63,330 sq. m. It is the first SM mall in the province of Pangasinan. The amenities of the mall include a food court and four cinemas with capacity of 1,704 seats. The mall contains a public transport terminal and also serves as a bus stop of various inter provincial bus lines. The anchor tenants for SM City Rosales are The SM Store, SM Hypermarket and Ace Hardware.

SM City Rosario

Year opened – 2009. SM City Rosario is located in Brgy. Tejero in Rosario. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of Cavite and neighboring provinces as well. It has a GFA of 60,657 sq. m. and features a food court and four cinemas with a capacity of 1,560 seats. The anchor tenants for SM Rosario are The SM Store, SM Supermarket and Ace Hardware.

SM City San Pablo

Year opened – 2010. SM City San Pablo has a GFA of 56,609 sq. m. It is located along Maharlika Highway in Brgy. San Rafael, San Pablo City in the province of Laguna. The mall features a business center, a food court and four cinemas with seating capacity of 1,212. It also has an atrium for various events. The anchor tenants for SM City San Pablo are The SM Store, SM Supermarket and Ace Hardware.

SM Center Molino

Year opened – 2005. SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a GFA of 52,061 sq. m. SM Center Molino is the first to have the Service Lane, which comprises of different shops that offer a wide array of services situated outside the mall across the covered parking. The mall features four cinemas with 1,881 seating capacity and parking for 1,194 vehicles. The mall's anchor tenants are the SM Hypermarket, SM Appliance Center and Ace Hardware.

SM Megacenter Cabanatuan

Year opened – 2015. SM Megacenter Cabanatuan is located in Gen. Tinio and Melencio Streets, Cabanatuan City, Nueva Ecija. The mall is re-branded to SM Megacenter Cabanatuan after acquisition of SM Prime from CHAS Realty and Development Corporation in 2013. It is the first SM supermall in Cabanatuan City and has a GFA of 49,688 sq. m. The mall offers a food court and four cinemas with a combined seating capacity of 1,607. The mall's anchor tenant is The SM Store, SM Savemore and Ace Hardware.

SM City Olongapo

Year opened – 2012. SM City Olongapo, the very first mall in the province of Zambales, has a GFA of 44,975 sq. m. that is strategically located in Magsaysay Drive Corner Gordon Avenue in the city's Central Business District. The mall serves customers in Zambales, Bataan, and other nearby provinces. SM City Olongapo's major amenities consist of an al fresco dining area, which offers a view of Olongapo's mountain landscape, three state-of-the-art digital cinemas, with a combined seating capacity of 758, and parking for over 305 vehicles. The anchor tenants for SM City Olongapo are The SM Store, SM Supermarket and SM Appliance Center.

SM City San Fernando

Year opened – 2012. SM City San Fernando is a seven-storey mall located at the Downtown Heritage District, Barangay Sto. Rosario, San Fernando, Pampanga. It has a GFA of 43,130 sq. m. and features a unique facade, a distinctive exterior design which complies with the architectural theme of a heritage area. The mall's amenities include three cinemas with a combined seating capacity of 1,068 and parking slots for 246 vehicles. The anchor tenants for SM City San Fernando are The SM Store, SM Supermarket and Ace Hardware.

SM Center Angono

Year opened – 2014. SM Center Angono, located along Manila East Road and Quezon Avenue in Barangay San Isidro, Angono, Rizal, is marked as the fiftieth SM Supermall in the Philippines. It has a GFA of 41,481 sq. m. with parking slots for 190 vehicles. It serves customers in Angono and Binangonan as well as other towns in the province of Rizal such as Cardona, Teresa, Morong, Baras, Tanay, and Pililla. The anchor tenants for SM Center Angono are SM Savemore, Banco de Oro and Ace Hardware.

China Malls

SM City Xiamen

Year opened – 2001 (SM City Xiamen) & 2009 (SM Xiamen Lifestyle). SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4 hectare lot and has a GFA of 238,125 sq. m. plus an open carpark for 1,085 vehicles. The anchor tenants for SM City Xiamen are Wal-Mart, The SM Store, Watsons, H&M and Uniqlo plus several junior anchors.

SM City Jinjiang

Year opened – 2005. SM City Jinjiang in Jinjiang City, Fujian Province is situated on an 11.5 hectare lot and has a GFA of 167,830 sq. m. plus an open carpark for 1,700 vehicles. The anchor tenants for SM City Jinjiang are Wal-Mart, The SM Store and Watsons plus several junior anchors.

SM City Chengdu

Year opened – 2006. SM City Chengdu in Chengdu City, Sichuan Province is situated on a 4.7 hectare lot and has a GFA of 166,665 sq. m. The anchor tenants for SM City Chengdu are Wal-Mart, The SM Store and Wanda Cinema plus several junior anchors.

SM City Zibo

Year opened – 2015. SM City Zibo in Zibo City, Shandong Province is situated on a 7.2 hectare lot and has a GFA of 150,600 sq. m. plus an open carpark for 755 vehicles. The anchor tenants for SM City Zibo are The SM Store, The Spar Supermarket, Suning, Pizza Hut, Watsons, DaDi Cinema, and several junior anchors.

SM City Chongqing

Year opened – 2012. SM City Chongqing, located in the Yubei District, Southwest China, has a GFA of 149,429 sq. m. SM City Chongqing is a one building structure with five levels. The anchor tenants are Vanguard Supermarket, The SM Store and Wanda Cinema, and several junior anchors.

SM City Suzhou

Year opened – 2011. SM City Suzhou in Wuzhong District, Jiangsu Province is situated on a 4.1 hectare lot and has a GFA of 72,552 sq. m. plus a carpark for 430 vehicles. The anchor tenants for SM City Suzhou are Vanguard Hypermarket, The SM Store, and Wanda Cinema, and several junior anchors.

SM Prime believes that the six malls will provide a platform for it to expand in the China market. It intends to continue to develop the SM malls in China through synergies with its existing mall operations and other management expertise. SM Prime intends to continue seeking opportunities for mall developments in second and third tier cities in China, where the mall can serve to anchor the city center. Although SM Prime is still developing its expansion plans in China, subject to the availability of suitable locations, SM Prime may initially build two new mall each year over the next five years in China.

The following table sets forth certain information regarding the contribution of the SM malls in China to SM Prime's total combined revenues and combined net income for the period stated:

	For the year ended 31 December						For the three months ended 31 March			
	2013		2014		2015		2015		2016	
	(in millions of pesos, except percentage of SM Prime's total)									
Revenue	2,980	5%	3,613	5%	3,947	6%	966	6%	1,088	6%
Net income	717	4%	1,034	6%	1,602	6%	354	3%	407	7%

Sky Ranch

Sky Ranch Tagaytay

Sky Ranch Tagaytay, a nearly four-hectare property, is an entertainment venue adjacent to the Taal Vista Hotel, and was developed to complement the hotel's strong presence as a well-known destination in the area. To maximize the site's premium views and distinctive natural environment, a social events venue is

included which is complemented by casual, family style dining establishments, as well as a mini-amusement theme park for kids and other recreational facilities such as horseback riding.

Sky Ranch Pampanga

Sky Ranch Pampanga is the first amusement park and the newest destination for both local residents and tourists in the North Luzon. The park is embedded in a 10,000 square meter land of SM City Pampanga in the City of San Fernando. It has 23 different rides, including the Pampanga Eye which is said to be the tallest and biggest Ferris wheel in the Philippines at 65 meters tall and 50 meters in diameter.

Malls under Construction

For 2016, the Company's malls business unit is set to open five new malls, located in Cavite, Bulacan, Pasig, Quezon City and Antipolo, as well as the expansions of SM City Calamba and SM City Naga. By yearend, the mall business unit will have an estimated 8.6 million square meters of GFA.

Land Bank

The following table sets forth SM Prime's existing land bank owned for development of new malls as at 31 March 2016:

Location	Gross Area (sq. m.)
Luzon	1,384,033
Visayas/Mindanao	383,779
Metro Manila	83,634
PRC	98,882
Total	1,950,328

Principal Tenants

SM Prime enjoys a competitive advantage due to its long-standing retail experience in establishing an appropriate mix of tenants including its associated anchor tenants. SM Prime controls the tenant mix of each of its malls, which has contributed to the profitability of the malls. The principal anchor tenants in the malls include SM Department Stores, SM Supermarkets and SM Hypermarkets. Other significant tenants include National Bookstore, KFC, Jollibee, McDonalds, Chowking, Pizza Hut, Goldilocks, Greenwich, Mang Inasal and Max's Restaurant.

As at 31 March 2016, the SM Department Stores occupied in aggregate a gross area of 1,117,920 sq. m. within the malls, or 30% of total leasable area. SVI and SSMI operate the SM Supermarkets and SM Hypermarkets occupying in aggregate a gross area of 542,640 sq. m. as at 31 March 2016, or 15% of total leasable area.

In addition to the anchor tenants associated with SM Prime, other retail operations controlled by or in which the Sy family has a significant interest, such as Ace Hardware, SM Appliance Center, Surplus Shop, Home World, Our Home, Toy Kingdom, BDO, Kultura and Watsons, are also tenants in most of the malls.

During the years ended 31 December 2012, 2013, 2014 and the three months ended 31 March 2016, approximately 33%, 33%, 31% and 33%, respectively, of the aggregate mall rental revenue received by SM Prime in respect of the malls was from members of the Group and companies affiliated with the Sy family. Out of the total increase in mall rental revenue of 12% for the year 2015, same store sales contributed 7% while new malls and expansion of existing malls contributed 5%.

SM Prime believes that all the leases entered into between SM Prime and the Group or companies affiliated to the Sy family have been entered into on an arm's length basis and on commercial terms.

The SM Mall of Asia also hosts some premier tenants, which specialize in higher-end merchandise, such as Mango, Zara, Marks & Spencer, Topshop and Muji.

Leasing Policies

The leasing policy of SM Prime in relation to each of the malls is to screen applicants carefully and to secure an appropriate mix of tenants, both in terms of the nature of their businesses and their size. An average of less than 3% of tenants per mall did not renew their leases upon expiry or had their leases terminated early in each of the three years ended 31 December 2013, 2014, and 2015. The high demand for tenancies within the malls means that SM Prime generally has a waiting list sufficient to cover any vacancies that may arise in the malls.

It is the policy of SM Prime that all leases, whether with members of the SM Group, companies affiliated with the Sy family or unrelated third parties, should be entered into on commercial terms, and SM Prime considers that the current rentals payable by tenants of the malls that are operational at present reflect prevailing market rents.

SM Prime's tenancies are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of two to five years, renewable on an annual basis thereafter. Sixty days' notice is required of SM Prime's tenants for termination of their leases, and a six-month deposit is paid at the commencement of the lease. Upon expiry of a lease, the rental rates are adjusted to reflect the prevailing market rent. SM Prime charges rent as either a fixed rent per sq. m. or a variable rate which is a minimum per sq. m. or a base charge plus a percentage of a tenant's sales, whichever is higher.

Management of the Malls

Management and operation of the malls, including the provision of manpower, maintenance and engineering and security, leasing, marketing and other promotional activities, are assumed by the Management Companies. In addition, the Management Companies negotiate and handle major tenant issues for the malls, while reporting to and under the direction of SM Prime. The Management Companies also adjust the tenant mix according to instructions given by SM Prime, which is based on a variety of factors, including the target market, location of the mall, demographics, size of the retail spaces and market positioning, among others. Each of the Management Companies performs specific functions in relation to each of the malls. All operating expenses relating to the malls are charged directly to SM Prime by the Management Companies. As consideration for the services provided by the Management Companies under the management contracts between SM Prime and the Management Companies, the Management Companies are entitled to receive an annual fee which is equivalent to 5% of the annual operating income of each mall before income tax, financial charges and interest expense. The aggregate amount of such management fees for the years ended 31 December 2013, 2014, 2015 and the three months ended 31 March 2016 were ₱964 million, ₱1,079 million, ₱1,200 million, and ₱314 million, respectively, amounting to approximately 2% of total consolidated revenue in each period.

The entertainment and leisure facilities within the malls, including cinemas, bowling centers and ice skating rinks, are primarily owned by SM Prime, and SM Prime pays management fees to the Management Companies for managing the operations of the entertainment and leisure facilities within the malls. Certain entertainment facilities, such as amusement rides, are operated by third parties, whereby SM Prime receives a percentage of the amusement fees.

Competition

SM Prime's malls compete with other shopping malls in the geographic areas in which they operate. The other major shopping mall operators in the Philippines are Robinsons Land Corporation ("RLC") and Ayala Land, Inc. ("ALI"). As of 30 September 2015, RLC owns and operates 40 malls in the Philippines, 9 in Metro Manila and 31 in urban areas outside Metro Manila. RLC's total assets as at and for the fiscal years ended 30 September 2013, 2014, and 2015 were ₱74.9 billion, ₱85.4 billion, and ₱99.1 billion, respectively. ALI operates over 30 malls and retail spaces in the country. ALI's total assets as at and for the years ended 31 December 2013, 2014, and 2015 were ₱325.5 billion, ₱388.9 billion, and ₱442.3 billion, respectively. SM Prime believes that it is well placed to face increased competition in the shopping mall industry given the competitive advantages it has, including, among others, the location of its existing malls, SM Prime's land bank, its balance sheet strength, a proven successful tenant mix and selection criteria, and the presence of the SM Department Stores, SM Supermarkets, SM Hypermarkets and retail affiliates of the Group within the malls. SM Prime believes that its experience and understanding of the retail industry has also been a contributing factor to its competitive advantage in the industry.

Subsidiaries

SM Prime has six wholly-owned mall related Philippine subsidiaries, namely, Premier Central, Inc., Premier Southern Corp., Consolidated Prime Dev. Corp., San Lazaro Holdings Corporation, Southernpoint Properties Corp. and CHAS Realty and Development Corp. SM Prime holds its interests in SM City Batangas and SM City Lipa, SM City Dasmariñas, SM City Clark, SM City Lanang, and SM Megacentre Cabanatuan through Premier Southern Corp., Consolidated Prime Dev. Corp., Premier Central, Inc., Southernpoint Properties Corp., and CHAS Realty and Development Corp., respectively. First Asia Realty Development Corporation is a 74.2% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM Megamall. First Leisure Ventures Group, Inc. is a 50.0% owned subsidiary of SM Prime, through which SM Prime holds its interest in SM by the Bay. All malls not otherwise mentioned in this paragraph are owned directly by SM Prime.

RESIDENTIAL (PRIMARY)

SM Prime's revenue from residential operations is derived largely from the sale of condominium units. As of 31 March 2016, residential business unit has twenty eight residential projects in the market, twenty six of which are in Metro Manila and two in Tagaytay.

Completed Residential Projects

The following projects have completed their construction but units are still being sold by SM Prime:

Chateau Elysee

Chateau Elysee is a six-cluster, six-storey residential condominium project in a 4.7 hectare lot in Parañaque City, Metro Manila. This project offers one-bedroom and two-bedroom units. Cluster one, comprising 384 units, was launched in 2003 and completed in December 2004. Construction of cluster two with 384 units was completed in May 2006. Construction of cluster three with 400 units was completed in May 2007. Construction of cluster six with 504 units was completed in December 2008. Construction of cluster five, with 560 units was completed in November 2009. Construction of Cluster four with 588 units began in April 2010 and was completed in June 2011. As of 31 March 2016, 97% of the project's 2,820 units in total had been sold.

Mezza Residences

SM Prime's first high-rise project is the Mezza Residences ("Mezza"), which is a mixed-use development project with 38-storey four-tower condominiums and commercial retail area located across from SM City Sta. Mesa, Manila. Each tower has 400 to 800 residential units comprised of one-bedroom to four-bedroom configurations, with floor areas ranging from 21 to 67 sq. m. Mezza consists of 2,332 saleable residential units and 18 commercial units for lease with SaveMore store as the anchor tenant. As of 31 March 2016, construction of Mezza towers one to four was 100% complete and SMDC had sold 93% of the units in Mezza.

Berkeley Residences

Berkeley Residences is a 35-storey high-rise condominium project situated just across Miriam College in Quezon City. Berkeley Residences comprises 1,276 units which were completed in June 2011, of which 99% were sold as of 31 March 2016.

Sea Residences

Sea Residences is a 15-storey residential and commercial condominium project comprising of six buildings with 2,899 residential units and 21 commercial units, located at the Mall of Asia (MOA) Complex Pasay City. Phase One of Sea Residences comprises 1,159 units of which 100% were sold as of 31 March 2016; construction for Phase One started in January 2009 and was completed in March 2012. Phase Two comprises 920 units, of which 99% were sold as of 31 March 2016; construction for Phase Two started in November 2009 and was completed in November 2012. Phase Three of Sea Residences comprises 820 units, of which 99% were sold as of 31 March 2016; construction for Phase Three started in March 2010 and was completed in December 2012.

Princeton Residences

Princeton Residences is a 38-storey high-rise condominium project located along Aurora Blvd., Quezon City which was completed in March 2013. Princeton Residences comprises 1,096 units of which 95% were sold as of 31 March 2016.

Sun Residences

Sun Residences is a project comprising two 40-storey towers located along España Blvd., Quezon City near Welcome Rotonda. Sun Residences Tower 1 comprises 2,057 units of which 98% were sold as of 31 March 2016. Tower 2 comprises 1,982 units of which 96% were sold as of 31 March 2016. Construction of Towers 1 and 2 were completed in November 2013 and June 2014, respectively.

Jazz Residences

Jazz Residences is a mixed use development project comprising four 41-storey towers located at N. Garcia corner Jupiter, Makati City. Towers A, B, C and D of the project consist of 5,367 units of which 95% were sold as of 31 March 2016. Construction of Tower A started in April 2010 and was completed in December 2013 while construction of Tower C started in October 2010 and was completed in May 2014. Construction of Tower D started in July 2011 and was completed in June 2015. Construction of Tower B started in July 2011 and was completed in September 2015.

Blue Residences

Blue Residences is a 40-storey residential condominium situated across from Ateneo De Manila University in Quezon City. Construction of Blue Residences started in October 2010 and was completed in May 2014. It comprises 1,591 units of which 89% were sold as of 31 March 2016.

Grass Residences – Phase 1

Grass Residences – Phase 1 is a three tower 40-storey high-rise condominium project located behind SM City North EDSA, Manila. Tower 1 comprises 1,988 units of which 97% were sold as at 31 March 2016. Construction of Tower 1 started in March 2008 and was completed in October 2011. Tower 2 comprises 2,025 units, of which 95% were sold as at 31 March 2016. Construction of Tower 2 started in November 2010 and was completed in May 2014. Tower 3 comprises 1,990 units, of which 99% were sold as of 31 March 2016. Construction of Tower 3 started in November 2009 and was completed in December 2013.

Light Residences

Light Residences is a mixed use development project with three 40-storey towers located along EDSA, Mandaluyong City. It has a total of 4,227 units, of which 95% were sold as of 31 March 2016. Construction of Phase 1, which consists of the podium and Tower 1, started in May 2010 and was completed in December 2013. Construction of Phase 2 (Tower 3) started in April 2011 and was completed in December 2013. Construction of Phase 3 (Tower 2) commenced in July 2011 and was completed in January 2015.

M Place @ South Triangle

M Place @ South Triangle is a four 25-storey tower condominium in South Triangle, Quezon City. Tower A started construction on January 2011 and was completed in December 2013. Tower A comprises 827 units of which 92% were sold as of 31 March 2016. Tower B started construction in April 2011 and was completed in December 2013. Tower B comprises 912 units of which 74% were sold as of 31 March 2016. Tower C comprises 778 units of which 89% were sold as of 31 March 2016. Construction of Tower C began in November 2011 and was completed in 2015. Tower D comprises of 920 units of which 58% were sold as of 31 March 2016. Construction of Tower D commenced in December 2011 and was completed in January 2015.

Mezza II Residences

Mezza II Residences is a 38-storey residential condominium located just beside the first Mezza Residences

in Quezon City. Construction of Mezza II started in August 2011 and was completed in January 2015. It comprises 1,324 units of which 75% were sold as of 31 March 2016.

Shine Residences

Shine Residences is a 22-storey residential condominium located in Pasig City. Construction of Shine Residences commenced in January 2013 and was completed in December 2015. It comprises 892 units, of which 70% were sold as of 31 March 2016.

Green Residences

Green Residences is a 50-storey residential condominium situated on Taft Avenue, Manila near De La Salle University. Construction of Green Residences started in December 2011 was completed in December 2015. Green Residences comprises 3,378 units of which 92% were sold as of 31 March 2016.

Shell Residences

Shell Residences is a 16-storey residential and commercial condominium project and is located at the MOA Complex in Pasay City. It comprises four buildings with 3,093 residential units of which 99% were sold as of 31 March 2016. Construction of Shell Residences commenced in May 2012 and was completed in December 2015.

Wind Residences – Towers 1 -4

Wind Residences is a residential condominium development with five 20-storey towers located along Emilio Aguinaldo Highway, Tagaytay City. Towers 1 to 4 have a total of 2,874 units of which 89% were sold as of 31 March 2016. Towers 1-4 are ready for occupancy.

Ongoing Residential Projects

Affordable Residential Projects

Grass Residences – Phase 2

Grass Residences – Phase 2 was launched in March 2013, a two tower 43-storey high-rise condominium project located behind SM City North EDSA, Manila. Expected to be completed in 2017, Tower 4 comprises 1,961 units, of which 70% were sold as of 31 March 2016. Expected to be completed in 2019, Tower 5 comprises 1,957 units, of which 15% were sold as of 31 March 2016.

Field Residences

Field Residences is a residential condominium project that will ultimately consist of ten buildings located behind SM Sucat, Parañaque. Buildings 1, 2, 3, 7 and 8 of Field Residences comprise 1,974 units, of which 97% were sold as of 31 March 2016. Construction of buildings 1, 2, 8, 3 and 7 were completed in April 2010, April 2011, December 2011, December 2012 and September 2013, respectively. Building 4 comprises of 602 units, of which 67% were sold as of 31 March 2016. Building 4 is expected to be completed in 2016.

Wind Residences- Tower 5

Wind Residences is a residential condominium development with five 20-storey towers located along Emilio Aguinaldo Highway, Tagaytay City. Tower 5 has a total of 650 units of which 62% were sold as of 31 March 2016. Construction of Tower 5 started in October 2013 and is expected to be completed in 3rd Qtr, 2016

Cool Suites @ Wind Residences

Cool Suites @ Wind Residences is a residential condominium project that will consist of 6 Towers located along Emilio Aguinaldo Highway, Tagaytay City. Cool Suites @ Wind Residences is a Phase 2 Project at the 15-hectare development of Wind Residences. Building 1 was launched in December 2014 with a total of 363 units, of which 52% were sold as of 31 March 2016. Construction of Building 1 will commence in January 2015 and expected to be completed in 2016.

Breeze Residences

Breeze Residences is a 38-storey residential and commercial condominium project and is located along Roxas Boulevard in Pasay City. Breeze Residences comprises 2,133 units, of which 92% were sold as of 31 March 2016. Construction of Breeze Residences commenced in June 2013 and is expected to be completed in 2016.

Grace Residences

Grace Residences is a residential condominium development with four towers located along Levi Mariano Avenue in Taguig City. Towers 1, 2 and 3 have a total of 2,451 units, of which 89% were sold as of 31 March 2016. Tower 4 comprises 1,128 units, of which 37% were sold as of 31 March 2016. Construction of Tower 1 started in May 2013 and was completed in October 2015. Construction of Tower 2 and 3 commenced in October 2013 and May 2014, respectively, and are expected to be completed in 2016. Construction of Tower 4 started in April 2015 and is expected to be completed in 2018.

Trees Residences

Trees Residences is a residential condominium development with nineteen 7-storey towers located near Quezon City. Buildings 1, 2, 3, 5, 6 and 7 ("Phase 1 Buildings") have a total of 2,093 units, of which 78% were sold as of 31 March 2016. Construction of the Phase 1 Buildings commenced in May 2014 and are expected to be completed in 2016. Buildings 8, 9 and 11 ("Phase 2 Buildings") have a total of 1,073 units, of which 52% were sold as of 31 March 2016. Construction of the Phase 2 Buildings commenced in April 2015 and is expected to be completed in 2017.

Shore Complex

Shore Complex comprises of Shore Residences and Shore 2 Residences. Shore Residences is a residential condominium development with four towers located at the MOA Complex in Pasay City. Shore Residences comprises 5,691 units of which 88.70% were sold as of 31 March 2016. Construction of Shore Residences commenced on the second quarter of 2014 and is expected to be completed in 2018.

Shore 2 Residences is a residential condominium development with three towers located just beside Shore Residences in Pasay City. Shore 2 Residences comprises 5,488 units of which 61% were sold as of 31 March 2016. Construction of Shore 2 Residences commenced on the last quarter of 2015 and is expected to be completed in 2019.

Air Residences

Air Residences is a residential condominium situated across Ayala Avenue Extension corner Yakal and Malugay Street, Barangay San Antonio, Makati City. Construction of Air Residences will commence in the second quarter of 2015 and is expected to be completed in 2020. Air Residences comprises of 3,642 units, of which 65% were sold as of 31 March 2016.

Fame Residences

Fame Residences is a residential condominium project that will ultimately consist of four Towers located along EDSA and Mayflower Street, Barangay Highway Hills, Mandaluyong City. Towers 1 and 2 of Fame Residences have a total of 2,552 units, of which 40% were sold as of 31 March 2016. Construction of the project commenced in November 2015. Towers 1 and 2 are expected to be completed in 2019.

South Residences Phase 1

South Residences Phase 1 is a residential condominium project that will ultimately consist of four towers located near SM Southmall in Las Piñas City. Construction commenced on the second half of 2015 and is expected to be completed on the first half of 2019. South Residences Phase 1 comprises 2,010 units.

Spring Residences

Spring Residences is a residential condominium development with four towers located along West Service Road, Barangay Sun Valley, Bicutan, Parañaque City. Towers 1- 4 have a total of 1,655 units. Tower 1 was launched in February, 2016, of which 17% were sold as of 31 March 2016. Construction of Tower 1 will start in July, 2016 and will be completed in December, 2018.

Coast Residences

Coast Residences is a residential condominium project located along Roxas Boulevard, Pasay City. It is a one-tower development with 2,197 residential units. The project was launched last January 2016 and is expected to be completed by first quarter of 2020.

Socialized Residential Projects

Heneral Uno

Heneral Uno is the first horizontal socialized housing project launched in 2012. The project is situated in 25 hectares property in General Trias, Cavite with 2,365 housing units. As of March 31, 2016, it is 99% sold with complete land development and 100% house completion.

Heneral Dos

Launched in 2013 is the 2nd socialized housing project named "Heneral Dos". It is situated in 20 hectares property in General Trias and Trece Martirez, Cavite with a total 1,510 housing units and 30 commercial lot offerings. As of March 31, 2016, it is 93% sold with 98% land development and 60% house completion.

Brisas De Tanza

Brisas De Tanza was launched in 2015 located in Tanza, Cavite. Project gross area is 6.5 hectares with 651 predominantly socialized housing offerings. As of March 31, 2016, it is 88% sold with on-going land development at 82%. Start of house construction will be in the second quarter of 2016.

Primera Subdivision

Primera Subdivision is a pioneering socialized housing development in Sto. Tomas, Batangas. It was launched in 2015 with an area of 11 hectares offering 1,019 housing units. As of March 31, 2016, it is 95% sold with on-going land development at 80%. Start of house construction will be in the second quarter of 2016.

PrimeraROSA Subdivision

PrimeraROSA Subdivision is SM Prime's second socialized housing development in Sto. Tomas, Batangas. The first phase of the 85 hectare landholding in Barangay Sta. Teresita, Sto. Tomas, Batangas was launched last March 2016 with an initial area of 18.8 hectares offering 1,987 socialized housing units. Land development will be awarded by May 2016 and to start not later than the first week of June 2016. House construction is estimated to start within the second quarter of 2017.

Paseo de Heneral Dos Subdivision

Paseo de Heneral Dos Subdivision is SM Prime's last socialized housing project in General Trias, Cavite. It was also launched in March 2016 with a gross area of 2.75 hectares offering the last 247 socialized units in General Trias.

RESIDENTIAL (LEISURE)

SM Prime owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas.

In addition, SM Prime is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline.

Residential Developments in Tagaytay

The Horizon at Tagaytay Midlands

This is a medium-density residential condominium development located inside The Tagaytay Midlands mountain resort community. The development overlooks the Tagaytay Midlands golf course, Taal Lake and Volcano in the west, Mt. Makiling in the south east and the mountain range of Batangas in the south. This has 6 buildings with 108 units of approximately 139 to 152 sq. m. each. The project was launched in 2005 and was fully completed and was 90% sold as at March 31, 2016.

Pueblo Real at Tagaytay Midlands

The development is adjacent to The Horizon, situated on a six hectare property and has 86 lots with an average lot size of 420 sq. m. Approximately 85% of the lots had been sold as of 31 March 2016.

Woodridge Place Phase 2

This is a condominium project at Tagaytay Highlands that was introduced to the market in May 2010. This project consists of two mid-rise buildings with 177 condominium residential units with areas ranging from 41 to 241 sq. m. per unit. Approximately 57% of the units had been sold as of 31 March 2016.

Sierra Lago

This is a lot subdivision development located at Tagaytay Midlands that was launched in November 2010. This development has 185 lots with sizes of approximately 250 to 435 sq. m. Approximately 99% of the lots had been sold as of 31 March 2016.

Aspen Hills

This is a leisure lot development located at Tagaytay Highlands that was launched in summer of 2012. This

development is situated on 27 hectare property which offers lot sizes from 300 to 800 sq. m. The surrounding village is expected to include the Meadows Community Clubhouse, the Little Ranch playground, the Sunshine Picnic Grove and Spinner's Trail. Approximately 49% of the lots had been sold as of 31 March 2016.

The Hillside at Tagaytay Highlands

The Hillside at Tagaytay Highlands is the first lots only subdivision in the Tagaytay Highlands complex which is located near the Sports Center, the Country Club and other recreational facilities. This property boasts of cool year-round climate, gentle rolling terrain, lush greenery and views of the mountainside and Laguna De Bay. On this 156 lot development, lot cuts range from 400 to 640 square meters. Three model units have been constructed to date. Approximately 99% of the lots had been sold as of 31 March 2016.

The Woodlands Point at Tagaytay Highlands

The Woodlands Point at Tagaytay Highlands is a single detached log cabin condominium community located near Fairway 15 of the Tagaytay Highlands Golf Course. HPI will develop 60 single detached log cabins carrying the homey atmosphere of North American cedar log cabin living enhanced by Western red cedar accents and elegant detailing of glass and stone. Currently, 24 log cabins have been completed and 23 have been sold. The 36 log cabins will be constructed as they are sold.

The Woodridge Place Phase I at Tagaytay Highlands

Located in Tagaytay Highlands adjacent to The Woodridge. The Woodridge Place Phase 1 is a condominium development with the views of The Woodlands, Tagaytay Highlands Golf Course, Canlubang, Laguna De Bay and surrounding mountains. Its architectural theme is inspired by the mountain resorts of the Colorado Region. Composed of 7 mid-rise buildings. All buildings have been constructed and sold.

Residential Developments in Pico de Loro

Jacana

Jacana is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It is comprised of two buildings, building A with six floors and building B with seven floors. Construction of Jacana commenced in August 2007 and was completed in February 2010. Of the total 246 residential units, 97% were sold as of 31 March 2016. Construction of Jacana commenced in August 2007 and was completed in February 2010.

Myna

Myna is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Myna commenced in May 2008 and was completed in July 2010. Of the total 246 residential units, 99% were sold as of 31 March 2016. Construction of Myna commenced in May 2008 and was completed in June 2010.

Carola

Carola is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Carola commenced in August 2009 and was completed in August 2012. Of the total 248 residential units, 94% were sold as of 31 March 2016.

Miranda

Miranda is a residential condominium project located at Pico De Loro Cove, Nasugbu, Batangas. It comprises two buildings, building A with six floors and building B with seven floors. Construction of Miranda commenced in August 2009 and was completed in June 2012. Of the total of 248 residential units, 98% were sold as of 31 March 2016.

Pico de Loro Beach and Country Club

Pico de Loro Beach and Country Club is a leisure facility located at Pico de Loro Cove. Costa del Hamilo, as developer, executed a deed of conveyance of the titles to the lots and buildings, and in return owns 4,000 shares, of which 33% were sold as of 31 March 2016. The beach club was completed and opened in 2009, while the country club was completed in June 2010.

Land Bank for Residential (Primary) Development

In 2016, the residential business unit will launch projects located in Quezon City, Parañaque, Las Piñas, Pasay City, Bulacan, Laguna, Pampanga and Cavite.

The Company continues to invest in properties that it believes are in prime locations across the Philippines for existing and future property development projects. It is important to the Company to have access to a steady supply of land for future projects.

Potential land acquisitions are evaluated against a number of criteria, including the attractiveness of the acquisition price relative to the market and the suitability or the technical feasibility of the planned development. The Company identifies land acquisitions through active search and referrals.

The table below sets forth the locations of SM Prime's residential (primary) undeveloped land inventory as of 31 March 2016:

Location	Area (sq. m.)
Metro Manila	526,505
Outside Metro Manila	3,888,942
Total	4,415,447

The Company believes this land bank is sufficient to sustain development and sales. Moreover, the Company's residential business unit continually seeks to increase its land bank in various parts of the Philippines for future residential development through direct acquisitions.

Land Bank for Residential (Leisure) Development

SM Prime owns 542 hectares of land located around the vicinity of Tagaytay Highlands International Golf Club in Tagaytay City, Cavite and Tagaytay Midlands Golf Club in Batangas.

The table below sets forth the location and area of SM Prime's land bank as of 31 March 2016:

Location	Area (sq. m.)
Batangas	4,329,339
Laguna	940,728
Tagaytay	327,764
Total	5,597,831

COMMERCIAL

SM Prime's commercial business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila, as well as the operations and management of such buildings and other property holdings.

Completed Commercial Properties

Mall of Asia (MOA) Complex

SM Prime's flagship project is the MOA Complex in Pasay City, a 60-hectare master planned bayside development with the renowned SM Mall of Asia as its anchor development and main attraction, among other commercial, business, and entertainment establishments within the Complex. A major attraction in the Complex is the landmark 16,000-indoor seating SM Mall of Asia Arena, as well as its adjacent annex building, MOA Arena Annex Building, that houses additional parking spaces and office levels. The MOA complex is also the site of SM Prime's signature business complex, the E-Com Centers, a series of modern and iconic office buildings mostly targeting technology based industries, BPO and shipping companies.

Two E-com Center

Year opened – 2012. Two E-com Center is a 15-storey office and commercial building housing BPOs and technology intensive businesses, as well as location based firms such as shipping and logistics. This iconic structure located in the MOA complex in Pasay City offers 71,570 sq. m. of office and commercial space, and premium views of Manila Bay and the Makati skyline. It is designed by Miami based Arquitectonica, with FS Lim & Associates as local architect of record. Commercial spaces are located at both the ground floor and the fourth floor podium level called the Prism Plaza. Current tenants of the building include SMDC, EXL Service, Sky Logistics/Kitchen, World Energy Corporation, OOCL Philippines, XO Minerals, Microsourcing, Stream International Global Services Philippines Inc., ACS of the Philippines, Ben Line Agencies/Simba Logistics, Klaveness, SITC, IGT, Asia Pilot Capital Holdings, Ocwen Business Solutions, Altisource Business Solutions, Teletech Global, Belle Corporation, CMA CGM, Altron Logistics Inc./Enzo Express Logistics Inc./DSF Consolidated Freight Services Inc., Anscor Swire Ship Management Corporation and Esco Global.

Five E-Com Center

Year opened – 2015. Five E-com Center, which broke ground in the first quarter of 2012, was fully constructed as of 30 June 2015. Similar to its predecessor Two E-com Center, Five E-com Center features architectural designs of Miami based firm Arquitectonica, with FS Lim & Associates as the local architect of record. The 15-level office building covers a GFA of over 129,307 sq. m. and an estimated gross leasable area (GLA) of 82,719 sq. m. Floor plates. Similar to Two E-com Center as well, Five E-com Center also features a mixed-use component on its fourth level podium. Xerox Business Services Philippines, Inc., New Oriental Club 88 Corporation, KHI Design and Technical Services, Inc., Vestas BPC Philippines, Inc., Teletech Customer Care Management (Philippines), Inc., Telstra International Philippines, Inc., Tupperware Brands Philippines, Inc., Grieg Philippines, Inc., Klaveness Shore Services, Inc., F21 Call Center Services Corporation, Regus Business Center, Flight Raja Travels Private Limited – Philippine Branch, CTrade Asia Crowd, Inc., Xiamen Airlines, and ESCO are some of the office tenants, while BDO Unionbank, Inc., China Banking Corporation, Beyond Yoga, Starbucks/ Rustans Coffee Corporation, Jollibee Foods Corporation, Greenwich Pizza / Fresh & Famous Foods, Inc., St. Luke's Medical Center, Inc. and Anytime Fitness Philippines are some of the retail tenants of this building.

SM Makati Cyber One

Year opened – 2008. SM Makati Cyber One is a 4-storey office building located along Gil Puyat Avenue with GFA of approximately 22,100 sq. m. Current tenants of the building include Perimeter E Security, ABM

Global Solutions, Inc., K Force Global Solutions Inc. and Startek International Ltd.

SM Makati Cyber Two

Year opened – 2008. SM Makati Cyber Two is a 4-storey office building with GFA of approximately 16,700 sq. m. The development is along corners of Sen. Gil J. Puyat Avenue (Buendia)/Jupiter/Zodiac Streets, Makati City. The major tenant of the building is VXI Global Holdings B.V. (Philippines). SM Prime also owns the land SM Makati Cyber Two is built upon.

SM Cyber West

Year opened – 2014. A new standalone office building development in the SM Cyber series, SM Cyber West is a 15-level office building development located on a highly visible and prime 2,910 sq. m. owned property at the corner of EDSA and West Avenue. The building was completed in October 2014 that covers a GFA of more or less 41,799 sq. m., with approximately 26,000 sq. m. of GLA for office space. Additionally, it is linked via bridgeways to the SM City North EDSA mall as well as nearby MRT stations. Major tenants of the building include Emerson Electric Asia Ltd. ROHQ and Concentrix Daksh Services Phils. Corp. The remaining leasable area in the ground and second levels features a SaveMore supermarket and other support retail and commercial establishments.

Anza Commercial Building

Year opened – 2014. The building is a 2-storey commercial center located at Makati Avenue corner Anza St., Makati City with a GFA of 2,177 sq. m. The development was completed in the third quarter of 2014. Burger King, Kenny Rogers and Bingo Boutique are the anchor tenants of the building.

Future Commercial Developments

Three E-Com Center

Three E-com Center will be a 15-storey office building with a three level parking podium and the ground level designed to cater the commercial and retail tenants. Similar to Two E-com Center and Five E-com Center, Three E-com Center will feature architectural designs of Miami based firm Arquitectonica. The GFA is expected to be approximately 112,000 sq. m. The project started to break ground last September 2014. SM Prime again pioneers development in the bay area by being the first to offer a Gold LEED certified office building with Three E-Com Center.

Others

Department Stores and Supermarkets

SM Prime also owns several department store and supermarket buildings with a total GFA of approximately 289,000 sq. m. The major tenant of these buildings is the SM Retail Group. The following table sets forth certain information regarding SM Prime's department store and supermarket buildings as at 31 March 2016:

Department Store	Location	Gross Floor Area (sq. m.)	Occupancy
SM Cubao	Quezon City	109,253	98%
SM Makati	Makati City	109,667	99%
SM Iloilo	Iloilo City	26,390	97%

Supermarkets (Hypermarket and Savemore)	Location	Gross Floor Area (sq. m.)	Occupancy
Adriatico	Manila City	15,823	100%
Caloocan	Caloocan City	14,479	100%
Novaliches	Quezon City	5,123	100%
Jaro Iloilo	Iloilo City	3,759	100%
Del Monte	Quezon City	2,884	100%
Kamias	Quezon City	2,277	100%
P. Tuazon	Quezon City	2,082	100%
Pedro Gil	Manila City	1,830	100%
Tandang Sora	Quezon City	1,358	100%

Except for the department stores and the Adriatico and Jaro Supermarkets, SM Prime also owns the land on which the retail establishments listed in the table above are situated.

Warehouses

SM Prime also owns several warehouses with a total GFA of approximately 38,000 sq. m. that are strategically located in various areas that support the retail operations.

Laon Laan Property

The property is located at Laon Laan corner Blumentritt Streets, Sampaloc District, City of Manila. The building GFA is 1,372 sq. m, with a lot area of 1,211 sq. m. This property is currently vacant.

Esplanade Seaside Terminal

Also known as Jetty Terminal in MOA Complex, this was built in compliance to the sea-based mass transit of the MOA Complex master plan. The terminal provides the public a venue where one can easily book cruises and tours giving the public an avenue to a unique dining and leisure experience at the bay.

SM Arena

The SM Arena is a five-storey, first class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events. The arena has a seating capacity of approximately 16,000 for sporting events, and a full-house capacity of 20,000. It occupies approximately two hectares of land and has a GFA of approximately 68,000 sq. m.

Mall of Asia Arena Annex Building

MOA Arena Annex Building is an 11-storey with total GFA of 95,273 sq. m. It is designed to serve the parking needs of MOA Arena with 1,469 parking slots from ground to 7th floor. The 8th to 11th floor, with approximately 30,000 sq. m., are leased out as office space. The current tenants are SM Affiliates and Teleperformance, a BPO company.

Corporate Office Buildings A to F

Corporate Office buildings are composed of Buildings A to F with a total GFA of 46,883 sq. m. Buildings A to E are leased to SM Affiliates while Building F is leased to Teletech Customer Care Management Corp. The Corporate Office buildings A to F were fully occupied as 31 March 2016.

Tagaytay Lot

Tagaytay lot is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total land area of 117,992 sq. m., of which, 45,264 sq. m. was developed by SM Prime as "The Sky Ranch" and the rest of the area is vacant.

Casino Building

Casino Building is located along Gen. Emilio Aguinaldo Highway, within Barangays Mahabang Kahoy and Kaybagay, Tagaytay City with total GFA of 19,394 sq. m. Its only tenant is Philippine Amusement and Gaming Corp. for a 25-year lease term ending on 2033.

Other Commercial Properties

SM Prime acts as a landlord for the following commercial properties leased by SM Food Retail Group:

Lot Location	Area (sq.m)
Imelda Ave., Cainta, Rizal & Int. Imelda Ave., Rosario, Pasig City	41,000
East Service Road, Sucat, Muntinlupa City	40,000
Anabu I-B Imus, Cavite	37,000
II-A;II-B & Lot 1;Along H. Cortes Ext., Subangdaku, Mandaue City	36,000
Km. 7 McArthur Highway, Bangkal, Davao City	34,000
Quirino Highway, Talipapa, Balintawak, Quezon City	30,000
Manila Harbor Center, Tondo, Manila City	26,000
Rosario, Batangas	7,189

Landbank for Commercial Development

The table below sets forth the locations of land inventory as of 31 March 2016:

Location	Area (sq. m.)
Luzon	422,574
Metro Manila	97,522
Visayas	360,631
Total	880,727

Competition

SM Prime's top competitors for commercial properties are ALI and Megaworld Corporation ("Megaworld"). ALI is involved in the development and lease or sale of office buildings, sale of industrial lots and lease of factory buildings, and fee-based management and operations of office buildings. Megaworld is involved in the development of mixed-use communities comprising high-end residential condominiums and commercial properties located in convenient urban locations in Metro Manila, and has launched approximately 320 residential buildings, office buildings and hotel projects. Megaworld's total assets as at and for the years ended 31 December 2014 and 2015 were ₱221.0 billion and ₱251.7 billion, respectively. SM Prime believes its commercial business unit competes primarily on the location of the properties (proximity to schools, malls and public transportation) and aggressive pricing.

HOTELS AND CONVENTION CENTERS

As of 31 March 2016, the hotels and convention centers business unit is composed of five hotels with 1,166 saleable rooms and four convention centers and two trade halls with 35,623 sq. m. of leasable space.

Hotels

Completed Hotel Projects

Taal Vista Hotel

Taal Vista Lodge, located in Tagaytay City, was acquired by the SM Group in July 1988. The Hotel re-opened in 2003 under the new name Taal Vista Hotel with the renovated Mountain Wing (128 rooms), Lobby Lounge, and Restaurant. The Lake Wing was constructed in 2008 with 133 rooms and a 1,000-seater ballroom. In 2009, the hotel became fully operational with total inventory of 261 rooms.

Radisson Blu Cebu

SM Prime inaugurated the 396-room Radisson Blu Hotel in November 2010, strategically located beside SM City Cebu adjacent to the International Port Area. Radisson Blu is the first hotel managed by the Carlson Rezidor Hotel Group in the Asia Pacific Region to be classified under its "Blu" upscale hotel brand category.

The property has been classified under the deluxe hotel category by the Department of Tourism. Its facilities include an in-house spa, fitness center, business center, 800-sq. m. swimming pool, club lounge, two ballrooms and a number of smaller meeting rooms.

Pico Sands Hotel

Formally opened in August 2011, Pico Sands Hotel is a 153 room tropical contemporary hotel located within Pico de Loro Cove, the maiden residential community of Hamilo Coast, the premier seaside development of the SM Group in Nasugbu, Batangas. The spacious rooms are equipped with modern facilities and captivating views of lush mountains and tranquil lagoon.

Park Inn by Radisson Davao

Park Inn by Radisson Davao is strategically located across the SM Lanang Premier Mall and SMX Conventions Center. The 204-room hotel was formally opened on March 22, 2013. Guests are greeted with contemporary interiors and smart design elements complementing the hotel's service philosophy – Adding Color to Life. Facilities include: Restaurant, Bar and Grill (RBG), 4 meeting rooms, fitness center, swimming pool and bar. Park Inn Davao is the first "next generation" mid-scale Park Inn by Radisson brand to be established in the Asia Pacific region.

Park Inn by Radisson Clark

The 154-room Park Inn by Radisson Clark is located in Mabalacat, Pampanga, about 40 miles (60km) northwest of Metro Manila. It is conveniently located beside SM City Clark and Clark Freeport Zone. Clark Freeport Zone is a redevelopment of the former Clark Air Base, a former United States Air Force base in the Philippines. Park Inn by Radisson Clark is the leading 3-star hotel in its market with facilities that include an all-day dining restaurant with 64-seat capacity, a meeting room for 80 pax and a fitness center.

Ongoing Hotel Projects

Conrad Manila

In March 2013, SM Prime signed with Hilton Worldwide an agreement to manage the first "Conrad" branded hotel in the Philippines. The 347-room Conrad Manila will be located within the MOA complex with stunning views of the famed Manila Bay. The eight-storey hotel will incorporate two levels of retail and entertainment facilities on the ground floor. It will also have other hotel facilities as well as a 1,446 sq. m. ballroom and other function and meeting spaces. Conrad Manila formally opened on June 15, 2016. Minor finishing works

are still ongoing and are expected to be fully completed within the third quarter of 2016.

Convention Centers and Tradehalls

The Company has four SMX convention centers and two trade halls. SMX convention centers are located in the MOA Complex, SM Lanang Premier, SM Aura Premier and SM City Bacolod. Trade halls are located in SM Megamall and SM City Cebu. The structure of a convention center is made up of large exhibit floors which can be divided into multiple exhibition and function halls. With its state of the art convention and exhibition facilities, it continues to host major international and local conventions and exhibitions

Competition

The primary competitors of SM Prime's existing hotels are the Marriot for Radisson Blu Cebu, the Anvaya for Pico Sands Hotel in Batangas and the Seda Hotel for Park Inn Davao. Once completed, the Conrad Manila is expected to compete with the Shangri-La Makati, Solaire and the Sofitel Manila. SM Prime's primary competitors for its convention centers are the PICC Convention Center and the World Trade Center.

DEVELOPMENT

The business development group ("BDG") of all the business units (mall, residential, commercial and hotels and convention centers) coordinate on the land banking process, particularly on the use of the land. Each business unit still retains a separate engineering and project management group, as the structures and the requirements for each business unit in relation to construction and design side may be different. However, purchasing and selection of pool of contractors and suppliers may be consolidated to leverage on the size and scale of the mixed-use developments.

The BDG of the mall business unit is responsible for identifying viable sites for the construction of new malls. The BDG determines the viability of a potential plot of land for a new mall site based on the demographics of the area, including the size of the population, its income levels, local government and the local infrastructure, particularly accessibility by public transport. For malls, once a suitable site is selected, based on the factors described above, the BDG then determines the size of the mall to be constructed by SM Prime, which typically may range from a gross area of 30,000 to 150,000 sq. m. The construction and development of each mall is overseen by a third party project management company appointed by SM Prime. The average time for the construction of each mall ranges from 12 to 24 months, depending on the size of the mall. For residential and commercial properties, once a suitable site is selected, based on the factors described above, the groups determine the type of development to be constructed. The construction and development of each residential condominium and commercial office building is overseen by SM Prime's Project Engineering Management Group and a third party project management company appointed by SM Prime. The average time for construction is 36 to 48 months, depending on the size of the project. SM Prime believes it benefits from its significant development experience and focus on immediately developable sites in its construction activities. SM Prime has generally financed land purchases and the construction of its developments from internal funds and borrowings.

The amounts spent by the Company on development activities over the last three years and the percentage of these development costs to total revenues of the Company are set out below.

	Year	Development Cost (in million ₱)	Percentage to Revenue
Land and development	2013	11,109	18.6%
	2014	21,550	32.5%
	2015	12,700	17.8%
Investment properties	2013	24,553	41.1%
	2014	37,257	56.2%
	2015	46,373	64.8%

FINANCING

Financing is handled by the Treasury Finance Group ("TFG"), which has the primary responsibility of ensuring that SM Prime has adequate funds on a daily basis for its capital and operational expenditures including land banking, construction, capital acquisitions, interest and debt servicing. Going forward, TFG will play a more active role with respect to fundraising as it will also service the needs of the other business units.

Sources of funding currently include internally generated funds, borrowings through syndicated loans, notes issuances (private placements), bilateral loans, and bond issuances. At the beginning of each year, TFG coordinates with its Corporate Finance Group to determine the amount of funding requirements based on the annual projected receipts and disbursements.

TFG is also actively engaged in investment placements, foreign exchange trading and derivative transactions to hedge SM Prime's loan portfolio for foreign exchange and interest rate risk exposure.

SECURITY HOLDINGS

SM Prime also holds shares of various Philippine companies, both directly and through SMDC.

The tables set forth below show the company and the number of shares that SM Prime holds as of 31 March 2016.

	No. of shares held	Book value (in ₱ thousand)
<i><u>Securities held directly by SM Prime</u></i>		
BDO Unibank	75,254,191	7,698,504
Ayala Corporation	8,581,204	6,435,903
China Bank	82,444,168	3,227,689
SMIC	97,403	92,484
Prime Media Holding	500,000	650
<i><u>Securities held through SMDC</u></i>		
Belle Corp.	735,553,561	2,199,305
Shang Properties	189,550,548	583,816
Export and Industry Bank	7,829,000	2,036
Picop Resources	40,000,000	8,200
Republic Glass	14,703,000	40,433
Benguet A	88,919	765
Total		20,289,785

INSURANCE, ENVIRONMENT, HEALTH AND SAFETY

SM Prime has its insurance arrangement effected through BDO Insurance Brokers, Inc. ("BDO Insurance") SM Prime believes that it is adequately insured, both in terms of the insured risks and the amount which is covered. The commercial all risks insurance policies are underwritten by Prudential Guarantee Assurance Company, which is supported by a panel of reinsurers whose minimum rating from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, is "A."

SM Prime's policies cover any potential loss of property. Loss of revenue under the business interruption coverage resulting from fire, water damage and acts of God including earthquake, typhoon and flood is provided. Retail affiliates operating inside SM Prime's malls have their own business interruption insurance cover.

Moreover, in order to protect from losses during the construction period, the companies require their contractors to provide all-risk insurance that covers property damage and bodily injury. Losses from possible default of contractors are also covered through performance and guarantee bonds. SM Prime's principal insurance counterparties are BDO Insurance and Prudential Guarantee and Assurance, Inc.

In addition, the comprehensive general liability insurance coverage extends to third-party liability, including loss of life and its corresponding litigation expenses. SM Prime is also insured against terrorism.

SM Prime maintains professional indemnity insurance for its directors and executive officers. SM Prime also maintains other insurance policies including workmen's compensation and personal accident and group hospitalization and surgical insurance for its employees. SM Prime likewise maintains key personnel insurance for its directors and executive officers.

SM Prime and its subsidiaries are subject to various environmental, health and safety regulations in the course of their operations, including but not limited to the Environmental Impact Statement Law, the Toxic Substances and Nuclear Waste Act of 1990, the Philippine Clean Air Act, the Ecological Solid Waste Management Act of 2000 and the Philippine Clean Water Act.

As of the date of this Prospectus, SM Prime is, and each of its principal subsidiaries are, in material compliance with all currently applicable national and local environmental, health and safety laws and regulations.

LEGAL PROCEEDINGS

SM Prime and its subsidiaries may be subject to various legal proceedings and claims that arise in the ordinary course of business. Legal proceedings that are considered to be material by the Company and its subsidiaries are those involving amounts equivalent to at least 5% of the Company's and its subsidiaries' earnings before income tax. As of the date of this Prospectus, SM Prime is a party to the following legal/quasi-judicial cases:

Cordillera Global Network vs. Paje et al.; Adajar vs. Paje et al., SC- GR No. 215988 (Appealing the CA Decision in CA-GR No. 100245; RTC Decision in Civil Case Nos. 7629-R and 7595-R)

This is a civil case filed by Cordillera Global Network, et al. ("Oppositors") against SM Investments Corporation, SM Prime Holdings, Inc. and Shopping Center Management Corporation, together with officials of the Department of Environment and Natural Resources and Department of Public Works and Highways. The Oppositors assailed the expansion of SM City Baguio, specifically, the removal of trees. A Temporary Environmental Protection Order ("TEPO") was issued which prevented the removal of the

affected trees. After a trial on the merits, the Regional Trial Court ("RTC"), in a Decision dated 3 December 2012, upheld the validity of the government issuances and permits, dismissed the cases, and dissolved the TEPO. The RTC Decision was appealed to the Court of Appeals ("CA"). In a Decision dated 12 December 2014, the CA affirmed the RTC Decision. The CA Decision was then appealed to the Supreme Court ("SC") through a Petition for Review dated 23 February 2015. On 24 March 2015, the SC issued a Temporary Restraining Order ("TRO"). As a result, while the affected trees had been removed, the construction works have been stopped. Various motions were filed seeking the immediate dissolution of the TRO. The Petition for Review and these various are pending resolution by the SC.

SM Prime Holdings, Inc. vs. Maranon, Jr. et al.
SP Civil Case No. 11-13803

This is a civil case filed by the Company in connection with its acquisition of the Capitol Property in Bacolod. The Company filed a Petition for Certiorari with Application for Temporary Restraining Order and Preliminary Injunction. It maintains that it legally won the second bidding for the Capitol Property. However, since SM Prime was being required to waive its right to question the proceedings during the second bidding before it can participate in a third round of bidding, it was constrained to file this case. The Regional Trial Court of Bacolod denied the Petition. SM Prime filed a Motion for Reconsideration but the same was also denied by the RTC. SM Prime filed a Notice of Appeal and recently received a Notice from the RTC that the records have been transmitted to the Court of Appeals for proper disposition.

The appeal with the Court of Appeals is docketed as CA-G.R. CEB-SP No. 08549. It was raffled to the Special 20th Division of the Court of Appeals – Cebu City Station. After submission of the respective memoranda, the Court of Appeals declared the case submitted for decision in its Resolution dated April 29, 2015.

In its Decision dated 28 August 2015, the Court of Appeals denied SMPHI's Appeal. On 16 October 2015, SMPHI filed a Motion for Reconsideration. However, in its Resolution dated 8 April 2016, the Court of Appeals, denied SMPHI's Motion for Reconsideration. We are currently drafting the Petition for Review under Rule 45 of the Rules of Court to be filed with the Supreme Court.

SM Prime Holdings, Inc. vs. Maranon, Jr. et al.
Civil Case No. 14-14323

The Company filed a civil case with the Regional Trial Court of Bacolod for the Declaration of Nullity of the Deed of Conditional Sale and Contract of Lease between the Province of Bacolod and Ayala Land, Inc. over the Capitol Property. The RTC has ordered Defendants to file their Answer. SM Prime has received a Joint Answer with Counterclaim of Defendants Province and SangguniangPanlalawigan, but is still awaiting that of Ayala Land, Inc. SM Prime shall file its Reply to the Answers by the Defendants.

Defendant Province of Negros Occidental filed a Motion for Conduct of Hearing on Affirmative Defenses. In an Order dated June 11, 2015, said motion is pending resolution. Other than the JDR which was set on August 14, 2015, no setting has been made pending the resolution of the Province's motion.

On 3 December 2015, SM Prime, through counsel, received the RTC's Resolution dated 13 November 2015 giving the parties sixty (60) days from receipt of the said Resolution to file their respective memoranda on the affirmative defenses raised by the Public Defendants. SM Prime and the Defendants already filed their respective memoranda. Thus, the Defendant's Motion raising Affirmative Defenses are now pending resolution.

Office of the Solicitor General vs. SM Prime Holdings, Inc. et.al.
G.R. No. 177056

SM Prime et al filed an action for Declaratory Relief regarding the National Building Code provisions on parking. Both RTC Makati and the Court of Appeals ruled in favor of the Defendants, saying the National Building Code provisions do not stipulate that parking should be free of charge. The Office of the Solicitor General elevated the said Decision to the Supreme Court.

On September 18, 2009, the Supreme Court has resolved to dismiss the Petition of the Office of the Solicitor General.

Film Development Council of the Philippines vs. SM Prime Holdings, Inc., Civil Case No. 72238

SM Prime is a defendant in the civil case filed by the Film Development Council of the Philippines ("FDCP") before the RTC Pasig questioning SM Prime's remittance of amusement tax withheld to Cebu City instead of the FDCP. While the said case was pending, Cebu City questioned the FDCP Law by filing a Petition for Declaratory Relief before the RTC Cebu. Considering this, the RTC Pasig dismissed the case filed by FDCP and held that the RTC Cebu was in a better position to determine the issues. FDCP thereafter filed a Petition for Certiorari in the Supreme Court to assail the dismissal of the case by the RTC Pasig, which Petition was denied by the Supreme Court with finality. Meanwhile, the RTC Cebu has rendered a decision declaring Sections 13 and 14 of the FDCP Law unconstitutional for having violated the local fiscal autonomy provisions of the 1987 Constitution, which ruling was affirmed by the Supreme Court in a decision promulgated on 16 June 2015. In sum, the Supreme Court ordered that:

1. All amusement taxes remitted to the FDCP prior to the date of finality of the decision shall remain legal and valid.
2. Amusement taxes due to FDCP but unremitted up to the finality of this decision shall be remitted to FDCP within 30 days from the date of finality of the decision.
3. After the finality of this decision, amusement taxes previously covered by the FDCP Law must be remitted to the appropriate local government units.

As the Supreme Court decision has not yet attained finality, both FDCP and Cebu City filed their respective Motions for Reconsideration. No Order from the Supreme Court since then.

***SM Prime Holdings, Inc. vs. Light Rail Transit Authority and Department of Transportation and Communications
Case No. R-PSY-14-16681***

The Company filed a case with the Regional Trial Court of Pasay for Specific Performance with Damages, asking the Department of Transportation and Communications ("DOTC") and the Light Rail Transit Authority ("LRTA") to honor the terms of the Memorandum of Agreement dated 29 September 2009, regarding the construction of the Common Station across SM City North EDSA. The Company's prayer for a Temporary Restraining Order was denied. SM Prime received LRTA's Answers but is still awaiting DOTC's Answer. SM Prime filed an Amended Complaint which removed the application for temporary restraining order and preliminary injunction.

The parties have exchanged drafts of their respective proposed compromise agreement. These drafts are subject of further negotiations.

In the meantime, the RTC already terminated JDR proceedings between the parties. Instead, the RTC awaits the parties' submission of a Joint Motion for the Suspension of Proceedings to be filed by the parties in order not to disrupt the on-going negotiations.

***SM Prime Holdings, Inc. vs. Light Rail Transit Authority and Department of Transportation and Communications
G.R. No. 213324***

SM Prime filed a special civil action for Injunction praying that the DOTC and LRTA be prevented from transferring the location of the Common Station from SM City North EDSA to Trinoma. On 30 July 2014, the Supreme Court issued a continuing temporary restraining order enjoining respondents from proceeding to transfer the Common Station to Trinoma. The Supreme Court gave Respondents 10 days to file their Comment.

In addition to the foregoing legal proceedings, the Company is subject to certain legal matters which are set out below.

SM Aura Premier

SM Aura Premier is located on a property in Taguig City which the Company leases from the city government of Taguig. The property is covered by five Transfer Certificates of Title, all of which are registered under the name of the city government of Taguig. These titles were legally and validly conveyed by the Bases Conversion Development Authority ("BCDA") to Taguig City without any restrictions whatsoever, as and by way of a compromise of a previous territory dispute. The property was removed from the coverage of R.A. 7227, as amended by R.A. 7917. All five titles are clean and do not carry any annotations.

As part of the development of SM Aura Premier, the Company incorporated several and substantial civic center components including, among others, a 4,000 sq. m. space for national government and local government offices, a park in the form of a roof garden which is accessible to the public at all hours, a 457.35 sq. m. chapel, and a 4,400.32 sq. m. trade hall.

Taguig City has filed a Petition for Injunction against the BCDA docketed as Civil Case No. 73900-TG pending before RTC – Pasig City, Branch 266.

Bonifacio South

On 17 October 2012, the Corporation filed a Petition for Certiorari, Prohibition and Mandamus under Rule 65 of the Rules of Court, with application for a Temporary Restraining Order ("TRO") and writ of preliminary injunction (the "Petition"). The Petition seeks to stop Respondents Bases Conversion and Development Authority ("BCDA") and its President and Chief Executive Officer Arnel Paciano Casanova ("Casanova") from enforcing the Supplemental Notice No. 5 (the "Notice"). The Notice declared the supposed termination of the Competitive Challenge for the privatization and development of the Bonifacio South Pointe Property (the "Property"). The Corporation is the Original Proponent for the development of this Property, whose proposal was accepted by the BCDA.

The Supreme Court promulgated its Decision dated 13 August 2014 granting the Petition and ordered the respondents to conduct and complete the Competitive Challenge.

BCDA filed a Motion for Reconsideration on September 26, 2014. In a Resolution dated March 18, 2015, the Supreme Court denied BCDA's Motion for Reconsideration with finality. In the same Resolution, the Supreme Court ordered the issuance of an Entry of Judgment, and expressly ruled that "no further pleadings, motions, letters or other communications shall be entertained." Accordingly, an Entry of Judgment was issued.

This notwithstanding, BCDA filed a Second Motion for Reconsideration dated April 28, 2015, which was denied by the Supreme Court in a Resolution dated September 7, 2015. On 7 December 2015, BCDA still defied the Supreme Court's final and executory Decision and filed its Third Motion for Reconsideration. BCDA's Third Motion for Reconsideration was denied by the Supreme Court in a Resolution dated 7 March 2016.

Aside from the matters above-mentioned, SM Prime is not engaged in or subject to any litigation or arbitration proceedings nor, to the knowledge of the Directors, any threatened claims, which is material in the context of the Offer or which, if determined adversely against SM Prime, would have a material adverse effect on its results of operations or financial position.

As of the date of this Prospectus, SM Prime's principal subsidiaries are not involved in any material legal proceedings or bankruptcy, receivership or similar proceedings.

INTELLECTUAL PROPERTY

SM Prime has intellectual property rights on the use of various trademark and names for each of its commercial and residential development projects. The "SM" name is owned by its parent company, SMIC, and is registered with the Philippine Intellectual Property Office ("IPO"). SM Prime owns the trademark "SM Prime" which registration is set to expire in 2020. SMDC owns the trademark "SM Development", which registration will expire in 2021. Most of SM Prime's projects have been issued a Certificate of Registration by the IPO. SM Prime believes that its trademark and the names of its development projects play a significant role in its effort to create brand recall and strengthen its position in the industry.

Details of SM Prime's other applicable licenses are set out below:

Registered Logo/Brand	Date of Registration
The SM City	November 23, 2009
SM Mall of Asia with slogan "No other mall comes close"	September 3, 2007
SM Southmall	October 1, 2005
SM Supercenter	October 1, 2005
SM Supermalls	October 1, 2005
SM Megamall	January 31, 1995
SM Mall of Asia Complex	January 12, 2009
Cyberzone Logo	June 8, 2009
Interior Zone SM City North EDSA	October 1, 2010
Skygarden SM City North EDSA	October 1, 2010
Skydome SM City North EDSA and device	October 1, 2010
SM Storyland and logo	May 5, 2011
SM Science Discovery Center logo and device	June 24, 2010
SM Skating Rink logo and device	June 24, 2010
SM Bowling logo and device	June 24, 2010
Globalpinoy (old)	July 7, 2011
SM Prime	December 31, 2010
SM City	December 31, 2010
SM Center (inside a circle logo)	December 31, 2010
SM Supermalls	December 31, 2010
SM Malls (inside a circle)	May 11, 2012
E-plus	August 30, 2012
SM Aura Premier	February 28, 2013
Little Stars	September 22, 2013
SM Aura Premier at the Fort	February 13, 2014
E-plus Digital	March 20, 2014
E-plus Tap to Pay	March 20, 2014
Director's Club Cinema	March 20, 2014
Snack Time – horizontal	May 22, 2014
Snack Time – ribbon	May 22, 2014
SM Global Pinoy	February 26, 2015
SM Click and Collect with device	February 20, 2015

Exploreum Where Science Becomes Fun with device	February 26, 2015
Exploreum Icon	March 5, 2015
Skyranch with device	July 16, 2015
Taza Fresh Table	December 10, 2015
SM Skating	December 10, 2015
SM Foodcourt	January 7, 2016
Food on Four	January 7, 2016
SM Megamall Food Hall	January 7, 2016
China Blue	January 7, 2016
SM Bowling Millionaires Cup	February 25, 2016
XD Cinema with device	August 12, 2014
Exploreum SM Science Center with device	August 12, 2014
Exploreum Store with Cartoon characters and device	March 6, 2015
SM Bowling and Leisure Center	March 6, 2015
SM Foodcourt	June 29, 2015
Sine Asia Theater	July 3, 2015
Manila Mavericks	July 3, 2015
Eplus Prime Holdings, Inc.	July 14, 2015
Eplus Global Pinoy Card	July 14, 2015
Eplus Retail Card	July 14, 2015
Eplus Food Card	July 14, 2015
Eplus	July 14, 2015
C Lounge	August 25, 2015
Braisserie on 3	August 25, 2015
S Mall with device	September 23, 2015
Philippine Mavericks	October 14, 2015
SM Food Hall	October 14, 2015
Maison and device	February 5, 2016
Bru Coffee Bar with device	February 23, 2016

CAPITAL EXPENDITURE

SM Prime incurred capital expenditure of approximately ₱43,456 million, ₱59,038 million, ₱59,337 million, and ₱8,436 million in 31 December 2013, 2014, 2015, and 31 March 2016, respectively, related to construction of shopping malls and land banking activities, project development costs of condominium buildings and resort facilities, and hotel development costs.

The Company expects to incur capital expenditures of approximately ₱47.5 billion for the remaining quarters of 2016 and ₱61.4 billion in 2017. This will be funded with internally generated funds and external borrowings.

GOVERNMENT REGULATIONS AND AUTHORIZATIONS

Our legal department is responsible for ensuring our continued compliance with applicable laws and regulations, including any changes or updates that may materially impact or adversely affect the Company and its principal subsidiaries' operations and business.

As of the date of this Prospectus, the Company and its principal subsidiaries are in material compliance with applicable regulatory requirements, including permits and licenses which are necessary to its business operations, the failure to possess any of which would have a material adverse effect on the business and operations of the Company.

See "Regulatory" beginning on page 121 of this Prospectus for a detailed discussion of the government regulations and environmental laws affecting the Company's businesses.

EMPLOYEES

As at 31 March 2016, the Company had 2,251 regular employees. The employees are classified as follows:

	<u>No. of Employees</u>
Rank and file	1,635
Junior/ mid-level managers	444
Senior executive officers	172

Headcount approximately increases by an average rate of 7% annually. The employees are not subject to a collective bargaining agreement. Apart from the basic employment compensation package, the Company does not and will not have any supplemental benefits or incentive arrangements with its employees.

As at 31 March 2016, SM Prime's mall business unit is supported by 6,915 officers and employees of the Management Companies. Management Companies manage and operate the malls, including the provision of manpower, maintenance and engineering and security and promotional activities. The Company complies with minimum compensation and benefits standards as well as other applicable labor and employment regulations.

RELATED PARTY TRANSACTIONS

The Company has transactions with related parties such as SMIC, SM Retail, the Management Companies, BDO Unibank and China Banking Corporation, among others. These transactions generally comprise rent, management fees, service fees, dividend income, cash placement and loans.

Rent

SM Prime has existing lease agreements for office and commercial spaces with related companies (including SM Retail and banking groups and other affiliates).

Management Fees

SM Prime pays management fees to Shopping Center Management Corporation, SM Lifestyle Entertainment, Inc. and Family Entertainment Center, Inc. for the management of the mall premises.

Service Fees

The Company provides manpower and other services to affiliates.

Dividend Income

SM Prime's investments in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans

SM Prime has certain bank accounts and cash placements that are maintained with associate banks BDO Unibank and China Banking Corporation. Such accounts earn interest based on prevailing market interest rates. SM Prime also has borrowed bank loans and long-term debt from BDO Unibank and China Banking Corporation and pays interest based on prevailing market interest rates.

Others

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

For a discussion of related party transactions concerning the Company, see Note 21 to the Company's audited consolidated financial statements as at 31 December 2014 and 2015 and for the three years ended 31 December 2013, 2014 and 2015, and Note 20 to the Company's unaudited interim condensed consolidated financial statements as at 31 March 2016 and for the three-month periods ended 31 March 2016.

MATERIAL CONTRACTS

As of the date of this Prospectus, the Company is not a party to any material contracts, except for contracts entered into in the ordinary course of business.

REGULATORY

REAL ESTATE LAWS AND REGULATIONS

General

P.D. 957, R.A. 4726 and B.P. 220 are the principal statutes which regulate the development and sale of real property as part of a condominium or subdivision project. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which, together with LGUs, enforces these decrees and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with the HLURB and the pertinent LGU of the area in which the project is situated. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require prior approval of the relevant government body or agency.

The development of subdivision and condominium projects can commence only after the relevant government body has issued the development permit.

The issuance of a development permit is dependent on, among others (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project, and (ii) issuance of the barangay clearance, the HLURB locational clearance, DENR permits, and, as applicable, DAR conversion or exemption orders as discussed below. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the HLURB. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a prerequisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB any of the following to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations:

- a surety bond callable upon demand equivalent to 20.0% of the development cost of the unfinished portion of the approved plan, issued by a duly accredited surety company (whether private or government), and acceptable to the HLURB;
- a real estate mortgage executed by the developer as mortgagor in favor of the Republic of the Philippines as mortgagee, represented by the HLURB, over property other than the land used for the project for which the license to sell is being obtained, free from any liens and encumbrance and the value of such property, computed on the basis of the zonal valuation of the BIR, must be at least 20.0% of the total development cost; or
- other forms of security equivalent to 10.0% of the development cost of the unfinished portion of the approved plan which may be in the form of the following:
 - a cash bond;

- a fiduciary deposit made with the cashier and/or disbursing officer of the HLURB;
- a certificate of guaranty deposit issued by any bank or financing institution of good standing in favor of the HLURB for the total development cost;
- a letter from any bank of recognized standing certifying that so much has been set aside from the bank account of the developer in favor of the HLURB, which amount may be withdrawn by the Chief Executive Officer of HLURB or his authorized representative, at any time the developer fails or refuses to comply with his duties and obligations under the bond contract; or
- any irrevocable credit line to be utilized in the development of the project from any bank of recognized standing and a refinancing re-structuring program indicating sources of funding from duly accredited funding institutions.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, on its own initiative or upon a verified complaint from an interested party, for reasons such as insolvency, involvement in fraudulent transactions, misrepresentations concerning the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Real estate dealers, brokers and salesmen are also required to register and secure a certificate of registration with the HLURB before they can sell lots or units in a registered subdivision or condominium project. The certificate of registration will expire on the first day of December of each year.

On June 29, 2009, Republic Act No. 9646 or the Real Estate Service Act of the Philippines ("R.A. 9646") was signed into law. R.A. 9646 strictly regulates the practice of real estate brokers by requiring licensure examinations and attendance in continuing professional education programs.

Subdivision Projects

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with B.P. 220, a Philippine statute regulating the development and sale of real property as part of a condominium project or subdivision, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with P.D. 957, which sets out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under P.D. 957, a developer of a subdivision with an area of one hectare or more is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. In low-density subdivisions (20 family lots and below per gross hectare), a developer is required to reserve at least 3.5% of the gross project area for parks and playgrounds.

HLURB Resolution No. 926, or the "2015 Revised Implementing Rules and Regulations on Time of Completion" ("Resolution 926") was issued on 3 February 2016 and took effect on 14 February 2016. Resolution 926 requires owner or developers of subdivision and condominium projects to construct and provide the facilities, improvements, infrastructures and other forms of development, including water supply and electrical facilities, which are offered and indicated in the approved project plan, within one year from the date of the issuance of the license for the project or such other period of time as may be fixed by the HLURB. Resolution 926 also provided limited grounds upon which developers or owners may be granted additional time to complete a given project.

Republic Act No. 7279 further requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to choose any of the following:

- development of new settlement;
- slum upgrading or renewal of areas for priority development either through zonal improvement programs or slum improvement and resettlement programs;
- joint-venture projects with either the LGU or any of the housing agencies; or
- participation in the community mortgage program.

Condominium Projects

R.A. 4726 regulates the development and sale of condominium projects. R.A. 4726 requires that an annotation be registered on the master deed or on the certificate of title of the land on which the condominium project shall be located. The annotation should indicate, among other things, the description of the land, buildings, common areas and facilities of the condominium project.

A condominium project may be managed by a condominium corporation, an association, a board of governors or a management agent, depending on what is provided in the declaration of restriction of the condominium project. However, whenever the common areas are held by a condominium corporation, such corporation shall constitute the management body of the project.

Real Estate Sales and Installments

The Maceda Law applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units. Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. The Maceda Law also requires the sellers of real estate to refund at least 50% of total payments made should the sale contract be cancelled provided that the buyer has paid at least two years of installments, with an additional 5% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90% of the total payments). Buyers who have paid less than two years of installment and who default on installment payments are given a 60-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund. The Maceda Law does not apply when payments are made through bank financing.

Shopping Malls

Shopping malls are regulated by the local government unit of the city or municipality where the shopping mall is located. Shopping mall operators must secure a mayor's permit or municipal license before operating. Shopping mall operators must also comply with the provisions of Republic Act No. 9514 or the Fire Code, and other applicable local ordinances. Shopping malls that have restaurants and other food establishments as tenants must obtain a sanitary permit from the Department of Health. Shopping malls that discharge commercial wastewater must apply for a wastewater discharge permit from the DENR and pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from DOT. A shopping mall can only be accredited upon complying with the minimum physical, staff and service requirements promulgated by the DOT.

Hotels and Resorts

Hotels were previously classified by the DOT into the following categories: (a) De Luxe Class, (b) First Class, (c) Standard Class and (d) Economy Class.

Memorandum Circular No. 2012-02 promulgated by the DOT in May 2012 imposes new national accreditation standards for hotels, resorts and apartment hotels, pursuant to the Tourism Act of 2009. The Memorandum Circular adopts the star grading system, with five levels of accommodation standards which are equivalent to one to five stars. For instance, a one star rating will be granted to hotels which achieve 251 to 400 points (25% to 40% of the standards) and a five star rating will be granted to hotels which achieve 851 to 1,000 points (85% to 100% of the standards). The accreditation process under the Memorandum Circular No. 2012-02 is currently being implemented by the DOT.

Once an application for accreditation is filed, the DOT sends an inspection team to conduct an audit of the establishment and determine compliance its classification. The Certificate of Accreditation issued by the DOT is valid for two years, unless sooner revoked. The rights over the accreditation are non-transferrable.

Zoning and Land Use

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

Land use may be also limited by zoning ordinances enacted by LGUs. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant LGU. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

Special Economic Zone

Republic Act No. 7916 ("R.A. 7916"), as amended provides for the creation and management of Special Economic Zones ("Ecozones"), which are selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial tourist/recreational, commercial, banking, investment, and financial centers.

PEZA is the government agency that operates, administers and manages designated PEZA Ecozones around the country. These Ecozones are generally established by a proclamation issued by the President of the Philippines, upon recommendation of the PEZA.

An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. There are several activities eligible for PEZA registration and incentives including, but not limited to, IT services, Tourism and Retirement activities.

PEZA registered enterprises locating in an Ecozone are generally entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials.

1. IT enterprises offering IT services (such as call centers, and BPO using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators in a PEZA-registered IT Park, IT Building, or Ecozone. An IT Park is an area which has been developed into a complex capable of providing infrastructures and other support facilities required by IT enterprises, as well as amenities required by professionals and workers involved in IT enterprises, or easy access to such amenities. An IT Building is an edifice, a portion or the whole of which, provides such infrastructure, facilities and amenities.

PEZA requirements for the registration of an IT Park or IT Building differ depending on whether it is located in Metro Manila. Metro Manila is the area that covers the 16 cities of Manila, Caloocan, Las Piñas, Makati, Mandaluyong, Marikina, Muntinlupa, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Malabon, Navotas, San Juan and Taguig and the municipality of Pateros. These PEZA requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board ("NWRB"), and the DENR.

2. Tourism activities involve the establishment and operation of PEZA registered Tourism Ecozones ("PEZA TEZs"). These are areas which have been developed into an integrated resort complex which have tourist facilities and activities. PEZA TEZ developers and locator enterprises are generally entitled to fiscal and non-fiscal incentives. However, on November 13, 2012, PEZA Board Resolution No. 12-610 withdrew particular fiscal incentives from developers and locator enterprises of TEZs in Metro Manila, Cebu City, Mactan Island, and Boracay Island. The same Board Resolution also denied the establishment of new TEZs in the four areas.

PEZA rules for the registration of a TEZ require, among others, an endorsement from the DOT, conversion or exemption orders from the DAR, and clearances, certifications, and endorsements from Department of Agriculture ("DA"), HLURB, Environmental Management Bureau-DENR ("EMB-DENR"), NWRB, and the concerned LGUs.

3. Retirement activities involve the establishment and operation of areas capable of providing retirement infrastructure and other support facilities such as accommodation facilities, health and wellness facilities, sports, recreation centers, and lifestyle facilities, cultural facilities, theme parks, and other amenities required by foreign retirees. Retirement Ecozone developers/operators and retirement Ecozone facilities enterprises are entitled to fiscal and non-fiscal incentives.

EO 1037 created the Philippine Retirement Authority ("PRA"), a government owned and controlled corporation under control and supervision of the office of the Board of Investments ("BOI"). It is mandated to attract foreign nationals and former Filipino citizens to invest, reside, and retire in the Philippines to accelerate the socio-economic development of the country and contribute to the foreign currency reserve of the economy.

PEZA rules for registration of retirement Ecozones and facilities enterprises require, among others, the endorsement from the PRA, and clearances and certifications from the DAR, DA, HLURB, EMB-DENR, NWRB, and the concerned LGUs.

Another government agency which is tasked to administer certain Ecozones is the Tourism Infrastructure and Enterprise Zone Authority ("TIEZA"). The TIEZA is an attached agency to the DOT tasked to designate, regulate, and supervise its own TEZs as well as develop, manage and supervise tourism infrastructure projects in the Philippines. Tourism enterprises are facilities, services, and attractions primarily engaged in tourism to attract visitors. TEZ Operators and Tourism Enterprises registered with the TIEZA may be granted fiscal and non-fiscal incentives. Activities eligible for registration with the TIEZA include, among others, accommodation establishments such as hotels, resorts, apartelles, tourist inns, motels, pension houses, and home stay operators, tourist estate management services, restaurants, shops, and department stores.

TIEZA rules for the registration of a TEZ will depend on the nature of the business and the type of business organization of the applicant. TIEZA registration requirements include, among others, certifications and endorsements from the DAR, the National Historical Institute, DENR, and DOH.

Tax and Other Incentives

Generally, the fiscal incentives enjoyed by PEZA registered enterprises include an income tax holiday ("ITH") for four to six years, depending on the nature and location of the enterprise; thereafter, the enterprise enjoys a preferential tax rate of 5% on gross income earned (the "5% GIT"), in lieu of all national and local taxes (except for real property tax).

"Tourism Ecozone Developer/Operator" refers to the owner and/or operator of a Tourism Development Zone/Tourism Estate seeking registration with PEZA and the required Presidential Proclamation of the Tourism Development Zone/Tourism Estate as a Tourism Ecozone for the availment of incentives provided under R.A. 7916, as amended. "Tourism Development Zone/Tourism Estate" refers to a tract of land with defined boundaries, suitable for development into an integrated resort complex, with prescribed carrying capacities of tourist facilities and activities, such as, but not limited to, sports and recreation centers, accommodations, convention and cultural facilities, food and beverage outlets, commercial establishments and other special interest and attraction activities/establishments, and provided with roads, water supply facilities, power distribution facilities, drainage and sewage systems and other necessary infrastructure and public utilities. A Tourism Development Zone/Tourism Estate must be under unified and continuous management, and can either be a component of an ecozone or the whole ecozone itself. "Tourism Ecozone" refers to a Tourism Development Zone/Tourism Estate which has been granted special economic zone status, through PEZA registration and issuance of the required Presidential Proclamation, with its metes and bounds delineated by the Proclamation pursuant to R.A. 7916, as amended.

"Retirement Ecozone Developer/Operator" refers to a business entity duly endorsed by the PRA and registered with PEZA to develop, operate and maintain a Retirement Ecozone Park/Center and provide the required infrastructure facilities and as may be required for retirement economic zone. PEZA-registered Retirement Economic Zones shall be located in priority areas endorsed by the PRA and must be at least 4 hectares. Retirement Ecozone refers to an estate which is highly developed or which has the potential to be developed into a Retirement Ecozone Park/Center whose metes and bounds are fixed or delimited by Presidential Proclamation. The retirement economic zone shall be planned and designed in accordance with the accreditation standards of the PRA to have support facilities and services required by the retirement industry.

An "IT Park" or "IT Building" is an area or a building (the whole or a part of which) has been developed to provide infrastructure and other support facilities required by an IT Enterprise.

The PEZA Board, through its Board Resolution No. 12-610 dated November 13, 2012, withdrew (i) the 5% GIT incentive to developers of Tourism Economic Zones in Metro Manila, Cebu City, Mactan Island and Boracay Island; and (ii) the ITH incentive and 5% GIT given to locator enterprises of Tourism Enterprise Zones in the aforesaid 4 areas. Nevertheless, tourism enterprise locators in these areas continue to enjoy tax and duty-free importation and zero-VAT rating on local purchase of capital equipment.

The above policy does not have retroactive effect and therefore, existing PEZA TEZ developers and operators and tourism enterprises located in TEZs in the four aforesaid areas shall not be covered by the new PEZA policy. Existing and future PEZA TEZ developers and tourism enterprise locators outside the four areas shall continue to be entitled to four years ITH, as may be provided in and in accordance with the provisions of the Investment Priorities Plan, and tax and duty-free importation of capital equipment required for the technical viability and operation of the registered activities of the enterprises. Upon expiry of the ITH period, PEZA TEZ locators are entitled to the 5% GIT incentive, provided, however, that they have the option to forego their ITH incentive entitlement and immediately avail of the 5% tax GIT incentive upon start of their commercial operations.

All PEZA-registered Tourism Developers/Operators and Locator Enterprises must conform with the development guidelines and operating standards of the DOT, land use and zoning regulations, as well as the policies and guidelines of other concerned government agencies, provided that in the case of

Ecotourism Projects, endorsement from the National Ecotourism Steering Committee shall also be secured prior to PEZA registration.

PEZA-registered Tourism Ecozone Developers/Operators and Locators are entitled to the following non-fiscal incentives: (a) employment of foreign nationals, as provided under R.A. 7916; (b) Special Investor's Resident Visa, as provided under Executive Order No. 63; and (c) Incentives under the Build-Operate-Transfer Law, as may be applicable, subject to prescribed guidelines.

Retirement Economic Zone Developer/Operator of a proposed or partially developed Retirement Ecozone Park/Center shall be entitled to pay a special 5% tax on gross income, in lieu of all national and local taxes, except real property tax on land and shall be entitled to the following non-fiscal incentives: (a) Employment of foreign national; and (b) Special Investor's Resident Visa, as provided under Executive Order No. 63.

Pursuant to Board Resolution No. 12-329 dated July 6, 2012, IT Parks and Buildings to be located in Metro Manila and Cebu City shall no longer be entitled to incentives. Developers and owners of new IT Parks and Buildings to be located outside Metro Manila and Cebu City shall continue to enjoy fiscal incentives. Furthermore, in order to be entitled to PEZA incentives, Ecozones such as, but not limited to manufacturing, agro-industrial, and tourism, the Ecozone must have an area of at least 25 hectares except for single locator economic zones which shall be covered by specific guidelines issued by PEZA.

The Company routinely secures the required governmental approvals for its projects during the planning and construction and marketing stages of project development. The Company is not aware of any pending legislation or governmental regulation that is expected to materially affect its business. The Company believes that it has obtained the required government approvals relevant for each project at its current state of development.

ENVIRONMENTAL LAWS

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. In case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the projects' environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification, indicating that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of

the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase. The ECC also provides for other terms and conditions, any violation of which would result in a fine or the cancellation of the ECC.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Aside from the EIS and IEE, engineering, geological and geo-hazard assessment are also required for ECC applications covering subdivisions, housing and other development and infrastructure projects.

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

The Company incurs expenses for the purposes of complying with environmental laws that consist primarily of payments for Government regulatory fees. Such fees are standard in the industry and are minimal.

PROPERTY REGISTRATION

The Philippines has adopted a Torrens System of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land becomes indefeasible after one year from the date of entry of the decree of registration except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication and service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals or the Supreme Court. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents such as homestead, sales and free patents, must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Register of Deeds. Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months

from the delivery of title. To evidence ownership of condominium units, a Condominium Certificate of Title is issued by the Register of Deeds.

NATIONALITY RESTRICTIONS

The Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning building and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Tenth Regular Foreign Investment Negative List, provide that certain activities are nationalized or partly-nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly-nationalized and thus, landholding companies may only have a maximum of 40% foreign equity.

For as long as the Company or any of its Subsidiaries own land in the Philippines, foreign ownership in the Company is limited to a maximum of 40% of the capital stock of the Company which is outstanding and entitled to vote. Accordingly, the Company shall disallow the issuance or the transfer of Shares to persons other than Philippine Nationals and shall not record transfers in its books if such issuance or transfer would result in the Company ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

In the Philippine Supreme Court case of *Wilson P. Gamboa v. Finance Secretary Margarito B. Teves, et. al.* dated June 28, 2011 (G.R. No. 176579), a case involving a public utility company (which under the Philippine Constitution is also subject to the 60-40 rule on capital ownership), the Philippine Supreme Court ruled that the term "capital", as used in Section 11 of Article XII of the Philippine Constitution, refers only to shares of stocks entitled to vote in the election of directors and not to the total outstanding capital stock. This is because it is the said voting rights which translate to control. Subsequently and acting on the motions for reconsideration filed by various parties, the Supreme Court, sitting *en banc* issued on October 9, 2012 a Resolution (G.R. No. 176579) affirming their earlier ruling and denying such motions for reconsideration.

Pursuant to the above ruling of the Philippine Supreme Court, the SEC, on May 20, 2013, issued Memorandum Circular No. 8 or the *Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities*. The Circular provides that for purposes of determining compliance therewith, the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." A petition for certiorari has since been filed sometime in June 2013, questioning the constitutionality of the Rules on Foreign Ownership (Memorandum Circular No. 8, Series of 2013) promulgated by the SEC. This petition remains pending with the Supreme Court as of this time.

LAND RECLAMATION

Land reclaimed from foreshore and reclaimed areas is public land owned by the Philippine State under the Regalian doctrine, under which the Philippine State owns all lands and waters in Philippine territory. The Government may allow land to become privately owned under relevant laws. The Constitution prohibits corporations from acquiring such public land unless such land is first reclassified as private. An additional rule applies to individual Philippine citizens; such individuals may also acquire public land classified as agricultural land and only up to 12.0 hectares of land classified as such. Commonwealth Act No. 141, or

the Public Land Act, provides that before the Government alienates such public land, the President of the Philippines, upon the DENR's recommendation, must reclassify these lands as alienable or disposable. However, Supreme Court decisions, including those dealing with reclaimed foreshore land, have ruled that such reclassification to make public land alienable may also be implied and a clear intent exhibited by the Government may effect the necessary reclassification.

The Philippine Reclamation Authority (formerly the Public Estates Authority), has been delegated the authority to approve reclamation projects, and is authorized by its charter to develop, lease and sell any and all kinds of lands managed by it; the disposition of reclaimed lands is subject to the above constitutional restrictions.

PROPERTY TAXATION

Real property taxes are payable annually based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

PHILIPPINE COMPETITION ACT

Republic Act No. 10667, or the Philippine Competition Act was signed into law on July 21, 2015 and took effect on August 8, 2015. This is the first antitrust statute in the Philippines and provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the "Commission"), an independent quasi-judicial agency with five commissioners. The Philippine Competition Act prohibits anti-competitive agreements between or among competitors, and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On June 3, 2016 the Commission issued the implementing rules and regulations of the Philippine Competition Act ("IRR"). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) The aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 Billion; and (b) the value of the transaction exceeds ₱1 Billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 Billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 Billion.

Violations of the Philippine Competition Act and its IRR have severe consequences. Under the law and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Fines of between ₱50 million and ₱250 million may also be imposed by the courts on entities that enter into these defined anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market. Directors and management personnel of

such entities, who knowingly and willfully participate in such criminal offenses, may also be sentenced to imprisonment for two to seven years. Treble damages may be imposed by the Commission or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

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 2014 and 2015 and for the years ended 31 December 2013, 2014 and 2015 and the notes thereto, and (iii) the unaudited interim condensed consolidated financial statements as at 31 March 2016 and for the three-month periods ended 31 March 2015 and 2016 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 a leading integrated Philippine real estate company with business units focused on malls, residential, commercial, and hotels and convention centers. SM Prime is the surviving company of a series of transactions involving the real estate companies of the SM Group. For a more detailed discussion of the Reorganization of the Company, please refer to "Description of the Issuer – Description of the Reorganization" section found on page 75 of this Prospectus.

As at 31 March 2016, SMPH is 49.70% and 25.71% directly-owned by SMIC and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

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

Statement of Compliance

The accompanying consolidated financial statements as at 31 December 2014 and 2015 and for each of the three years in the period ended 31 December 2015 have been prepared in compliance with the PFRS.

The accompanying unaudited interim condensed consolidated financial statements as at 31 March 2016 and for the three-month periods ended 31 March 2015 and 2016 have been prepared in accordance with PAS 34, *Interim Financial Reporting*.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS, which were adopted starting January 1, 2016:

- PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
- PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture - Bearer Plants (Amendments)
- PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)
- PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)
- PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)
- PFRS 14, Regulatory Deferral Accounts
- PAS 1, Presentation of Financial Statements - Disclosure Initiative (Amendments)
- Annual Improvements to PFRSs (2012-2014 cycle)

The standards that have been adopted are deemed to have no material impact on the unaudited interim condensed consolidated financial statements of the Company.

FINANCIAL PERFORMANCE

Three months ended 31 March 2016 vs. three months ended 31 March 2015

Revenue

SM Prime recorded consolidated revenues of ₱18.25 billion for the first three months of 2016, an increase of 10% from ₱16.65 billion in the same period 2015, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱10.75 billion in 2016, an increase of 14% from ₱9.44 billion in 2015. The increase in rental revenue was primarily due to the new malls and expansion opened in 2015, namely, SM Seaside City Cebu, SM City Cabanatuan, SM City San Mateo, SM Center Sangandaan and SM City Iloilo Expansion with a total gross floor area of 738,000 square meters. In addition, retail podiums of Light, Shine and Shell Residences also opened in 2015. Out of the total rental revenues, 87% is contributed by the malls. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased due to the opening of SM Cyber West and Five E-Com Center which now enjoy an average occupancy rate of 99%. Also, room rentals from hotels and convention centers contributed to the increase due to improvement in average room rates and occupancy rates and opening of Park Inn Clark in December 2015.

Real Estate Sales

SM Prime recorded a 4% increase in real estate sales in 2016 from ₱5.35 billion to ₱5.55 billion primarily due to higher construction accomplishments of projects launched in 2013 up to 2015 namely Shore, Grass and Air Residences and increase in sales take-up in Field, Jazz and M Place Residences accounting for 57% of total revenues. 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.

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales increased by 8% to ₱1.06 billion in 2016 from ₱0.98 billion in 2015. The major blockbusters screened in 2016 were "Beauty and the Bestie", "Batman vs. Superman: Dawn of Justice", "Deadpool", "Gods of Egypt" and "My Bebe Love", accounting for 48% of gross ticket sales. The major blockbusters shown in 2015 were "Crazy Beautiful You", "The Amazing Praybeyt Benjamin", "Cinderella", "Taken 3" and "That Thing Called Tadhana", accounting for 45% of gross ticket sales.

Other Revenues

Other revenues increased by 1% to ₱0.89 billion in 2016 from ₱0.88 billion in 2015. The increase was mainly due to improvements in bowling operations, merchandise sales and hotels' food and beverages income offset by the decrease in sponsorship income. This account is mainly composed of amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱9.86 billion for the first three months of 2016, an increase of 7% from ₱9.17 billion in the same period 2015, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 2% to ₱2.92 billion in 2016 from ₱2.87 billion in 2015 primarily due to costs related to higher recognized real estate sales. Gross profit margin for residential improved to 47% in 2016 compared to 46% in 2015 as a result of improving cost efficiencies, tighter monitoring and control of construction costs.

Operating Expenses

SM Prime's consolidated operating expenses increased by 10% to ₱6.94 billion in 2016 compared to last year's ₱6.31 billion. Out of the total operating expenses, 68% is contributed by the malls where same-store mall growth in operating expenses is 4%. Contributors to the increase are administrative expenses, depreciation and amortization, business taxes and licenses and marketing and selling expenses, in line with related increase in revenues as well as the opening of new malls and expansions.

Other Income (Charges)

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

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

Interest Expense

SM Prime's consolidated interest expense decreased by 9% to ₱1.00 billion in 2016 compared to ₱1.09 billion in 2015 despite the ₱20.0 billion retail bond and new bank loans availed during 2015 for working capital and capital expenditure requirements mainly due to capitalized interest related to the construction of investment properties.

Interest and Dividend Income

Interest and dividend income decreased by 20% to ₱0.27 billion in 2016 from ₱0.34 billion in 2015. This

account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and AFS investments. The decrease in interest income is due to lower average balance of cash and cash equivalents in 2016 as compared to same period last year. The decrease in dividend income is due to less dividends received on available-for-sale investments held compared to the same period last year.

Equity in net earnings of associates and joint ventures

SM Prime's equity in net earnings of associates and joint ventures increased by 101% to ₱92 million in 2016 from ₱46 million in 2015 due to increase in net income of associates and joint ventures and 2016 share in net income of OCLP Holdings, Inc. not present in same period last year.

Other income (charges) - net

Other charges – net increased by 130% to ₱142 million in 2016 from ₱62 million in 2015 due to increase in amortization of debt issue cost as a result of the new loans and other incidental costs related to mall and commercial projects.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 21% to ₱1.63 billion in 2016 from ₱1.35 billion in 2015. The increase is due to the related increase in taxable income as well as expiration of income tax holiday incentives on a number of residential projects.

Net income attributable to equity holders of the Parent

As a result of the foregoing, net income attributable to equity holders of the Parent for the three months ended March 31, 2016 decreased by 54% to ₱5.84 billion from ₱12.63 billion in the same period last year. Excluding gain on sale of AFS, core net income increased by 12% from ₱5.22 billion.

Year ended 31 December 2015 vs. year ended 31 December 2014

Revenue

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

Rent

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

Real Estate Sales

SM Prime's real estate sales registered ₱22.19 billion almost the same level in 2014. The flat performance

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

Cinema and Event Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

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

Other Income (Charges)

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

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

Interest Expense

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

to the construction of investment properties.

Interest and Dividend Income

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

Equity in net earnings of associates and joint ventures

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

Provision for income tax

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

Net income attributable to equity holders of the Parent

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

Year ended 31 December 2014 vs. year ended 31 December 2013

Revenue

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

Rent

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

Real Estate Sales

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

Cinema Ticket Sales

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

Other Revenues

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

Costs and Expenses

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

Costs of Real Estate

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

Operating Expenses

SM Prime's consolidated operating expenses increased by 11% to ₱26.30 billion in 2014 compared to last year's ₱23.74 billion. Same-store mall growth in operating expenses is 5% and the balance is mainly attributable to the opening of new malls and expansions. Contributors to the increase are depreciation and amortization, administrative expenses, film rentals, and business taxes and licenses, in line with related increase in revenues as well as the opening of new malls and expansions.

Other Income (Charges)

Interest Expense

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

Interest and Dividend Income

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

cash equivalents in 2014 as compared to last year. The decrease in dividend income is due to less dividends received on available-for-sale investments held compared to the same period last year.

Restructuring costs and others – net

Restructuring costs and others – net decreased by 23% to ₱645 million in 2014 from ₱833 million in 2013. In 2013, SM Prime incurred restructuring costs amounting to ₱1.28 billion related to its Reorganization.

Provision for income tax

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

Net income attributable to equity holders of the Parent

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

Year ended 31 December 2013 vs. year ended 31 December 2012

Revenue

SM Prime recorded consolidated revenues of ₱59.79 billion for the year ended 2013, an increase of 5% from ₱57.22 billion for the year ended 2012, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱32.20 billion in 2013, an increase of 11% from ₱28.95 billion in 2012. The increase in rental revenue was primarily due to the full-year effect of new malls opened in 2012, namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier and the opening in 2013 of SM Aura Premier, with a total gross floor area of 698,000 sq. m. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased, primarily as a result of full year recognition of Two-Ecom, which began operations in mid-2012 and is now 98% occupied.

Real Estate Sales

SM Prime recorded an 8% decrease in real estate sales in 2013 to ₱20.78 billion from ₱22.58 billion in 2012. The decrease in real estate sales is primarily due to lower sales take up of projects in 2013 compared to last year. This is attributable to project launches in 2010 and 2011 which were more "blockbusters" namely, Shell, Green and Jazz compared to launches in 2012 of Breeze and Grace. Sale of projects launched in 2013 was towards the last quarter already which is expected to contribute significantly to revenues starting in 2014. Three projects were launched in 2013 namely, Grass Phase 2, Shore and Trees.

Cinema Ticket Sales

SM Prime cinema ticket sales increased by 8% to ₱3.74 billion in 2013 from ₱3.48 billion in 2012. The increase was primarily the result of opening of additional digital cinemas at the new malls which enabled simultaneous nationwide releases and more blockbuster movies screened, both local and international. The major blockbusters shown in 2013 were "Ironman 3," "Man of Steel," "It Takes a Man and a Woman," "Thor: The Dark World," and "My Little Bossing."

Other Revenues

Other revenues likewise increased by 40% to ₱3.08 billion in 2013 from ₱2.21 billion in 2012. The increase was mainly due to opening of new amusement rides in SM by the Bay and the Sky Ranch in Tagaytay and increase in advertising income and sponsorship revenues.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱35.66 billion in the year ended 2013, an increase of 1% from ₱35.15 billion in the year ended 2012, primarily due to the following:

Costs of Real Estate

Consolidated costs of real estate was ₱11.92 billion in 2013, representing a decrease of 15% from ₱13.98 billion in 2012. Apart from the lower recognized real estate costs in line with the lower recognized real estate sales in 2013, the decrease also resulted from tighter cost controls during project engineering stage and stricter monitoring of project costs implemented in 2013, which resulted in improved gross margins. Gross profit margins for residential improved to 43% in 2013 compared to 38% in 2012.

Operating Expenses

SM Prime's consolidated operating expenses increased by 12% to ₱23.74 billion in 2013 compared to last year's ₱21.17 billion. Same-store mall growth in operating expenses is 4%. The increase is attributable to the opening of new malls and expansions, full year operations of commercial properties and launch of new residential projects.

Consolidated marketing and selling expenses increased to ₱3.23 billion in 2013, an increase of 10% from ₱2.93 billion in 2012 due to launch expenses related to new mall openings and mall events, which were partially offset by a reduction in expenses related to SM Residences showrooms and exhibits, out-of-home and media-based advertising, as part of SMDC's overall rationalization of its cost structure.

Other contributors to the increase are business taxes and licenses, depreciation and amortization, and rent expenses, due to the opening of new malls and expansions, commercial properties and residential projects.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 20% to ₱3.69 billion in 2013 compared to ₱3.06 billion in 2012 due to new bank loans availed during 2013 for working capital and capital expenditure requirements.

Restructuring Costs

SM Prime incurred restructuring costs amounting to ₱1.28 billion in 2013. This pertains to actual payments and accrual of transaction costs related to the Reorganization.

Interest and Dividend Income

Interest and dividend income increased slightly by 3% to ₱1.09 billion in 2013 from ₱1.06 billion in 2012. This account is mainly composed of dividend and interest income received from investments held for trading, available-for-sale investments and cash and cash equivalents.

Net income attributable to equity holders of the Parent

As a result of the foregoing, consolidated net income attributable to equity holders of the Parent is flat at ₱16.27 billion in 2013. Excluding restructuring costs of ₱1.28 billion, net income attributable to equity holders of the Parent would have increased by 8% for the twelve months ended 31 December 2013.

FINANCIAL CONDITION

March 31, 2016 vs December 31, 2015

Cash and cash equivalents significantly decreased by 19% from ₱25.87 billion to ₱21.02 billion as of December 31, 2015 and March 31, 2016, respectively. This account includes the remaining proceeds from retail bond issued in 2015 which were subsequently used for working capital and capital expenditure in 2016.

Receivables increased by 2% from ₱31.35 billion to ₱31.84 billion as of December 31, 2015 and March 31, 2016, respectively, mainly due to increase in construction accomplishments of sold units as well as new sales for the period offset by subsequent collections of rental receivables. Out of the total receivables, 76% pertains to sale of real estate and 19% from leases of shopping mall and commercial spaces.

Condominium and residential units decreased by 7% from ₱8.16 billion to ₱7.63 billion as of December 31, 2015 and March 31, 2016, respectively, mainly due to subsequent sales of Ready-For-Occupancy (RFO) units.

Derivative assets decreased by 14% from ₱2.60 billion to ₱2.24 billion as of December 31, 2015 and March 31, 2016, respectively, mainly resulting from net fair value changes on a \$350 million cross currency swap transaction designated as a cash flow hedge. While the increase in derivative liabilities is due to the Principal Only Swap transaction entered into in 2016 to hedge a portion of the Company's foreign currency USD/CNY exposure on some of its USD denominated loans.

Deferred tax assets - net increased by 9% from ₱846 million to ₱923 million as of December 31, 2015 and March 31, 2016, respectively, mainly due to NOLCO. Deferred tax liabilities - net increased by 9% from ₱2.49 billion to ₱2.71 billion as of December 31, 2015 and March 31, 2016, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Other noncurrent assets increased by 4% from ₱35.49 billion to ₱36.87 billion as of December 31, 2015 and March 31, 2016, respectively, mainly due to additional bonds and deposits for real estate acquisitions.

Loans payable decreased by 83% from ₱4.68 billion to ₱0.78 billion as of December 31, 2015 and March 31, 2016, respectively, due to subsequent payment of maturing loans.

Accounts payable and other current liabilities decreased by 5% from ₱38.82 billion to ₱36.80 billion as of December 31, 2015 and March 31, 2016, respectively, mainly due to subsequent payment of trade payables.

Tenants' and customers' deposits increased by 6% from ₱13.22 billion to ₱13.96 billion as of December 31, 2015 and March 31, 2016, respectively, due to the new malls and expansions which opened in the latter part of 2015. Likewise, other noncurrent liabilities increased by 5% from ₱4.75 billion to ₱4.99 billion as of December 31, 2015 and March 31, 2016, respectively, due to increase in retention payable.

As at March 31, 2016 and December 31, 2015, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200.0 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the next five years, the Company expects to incur capital expenditures of around ₱60.0 billion per year. In 2016, it is expected that the capital expenditure requirement will exceed the ₱42.0 billion appropriation, hence the Company will provide future appropriation as the need arises.

The following are the major capital expenditures of the Company:

As at March 31, 2016, SM Prime's malls business unit has fifty six shopping malls in the Philippines with 7.3 million square meters of gross floor area and six shopping malls in China with 0.9 million square meters of gross floor area. For the rest of 2016, SM Prime will open new five malls in the Philippines, as well as expansions of SM City Calamba and SM City Naga. By end 2016, the malls business unit expects to have an estimated combined gross floor area of 8.6 million square meters.

As at March 31, 2016, SM Prime's Commercial Properties Group has five office buildings with an estimated gross leasable area of 205,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2019, respectively.

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay City formally opened on June 15, 2016.

These were approved by the Board of Directors of SM Prime on the following dates: March 22, 2002, July 9, 2004, December 18, 2006, December 28, 2007, August 1, 2011, December 1, 2011 April 24, 2012, and November 26, 2012, respectively.

2015 vs. 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2015 and 2014, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200.0 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the next five years, the Company expects to incur capital expenditures of around ₱60.0 billion per year. In 2016, it is expected that the capital expenditure requirement will exceed the ₱42.0 billion appropriation, hence the Company will provide future appropriation as the need arises.

The following are the major capital expenditures of the Company:

As at December 31, 2015, SM Prime's malls business unit has fifty six shopping malls in the Philippines with 7.3 million square meters of gross floor area and six shopping malls in China with 0.9 million square meters of gross floor area. For 2016, SM Prime will open new five malls in the Philippines, as well as expansions of SM City Calamba and SM City Naga. By end 2016, the malls business unit expects to have an estimated combined gross floor area of 8.6 million square meters.

As at December 31, 2015, SM Prime's Commercial Properties Group has five office buildings with an estimated gross leasable area of 205,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2019, respectively.

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay City formally opened on June 15, 2016.

These were approved by the Board of Directors of SM Prime on the following dates: March 22, 2002, July 9, 2004, December 18, 2006, December 28, 2007, August 1, 2011, December 1, 2011 April 24, 2012, and November 26, 2012, respectively.

2014 vs. 2013

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

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

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

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

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

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

Investment properties increased by 18% from ₱171.67 billion to ₱202.18 billion as of December 31, 2013 and 2014, respectively primarily because of ongoing new mall projects located in Cebu City, Cabanatuan and San Mateo in the Philippines and Zibo and Tianjin in China. Also, the increase is attributable to

landbanking and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five E-Com and Conrad Manila.

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

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

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

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

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

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

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

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

2013 vs. 2012

Cash and cash equivalents significantly increased by 27% from ₱21.30 billion to ₱27.14 billion as of December 31, 2012 and 2013, respectively. This account includes the remaining proceeds from short-term and long-term debt drawn in 2013 which will be used for working capital and capital expenditure requirements.

Investments held for trading decreased by 14% from ₱1.34 billion to ₱1.15 billion as of December 31, 2012 and 2013, respectively, mainly due to pretermination of investment in corporate bonds with an original maturity of 2016.

Receivables increased by 59% from ₱17.15 billion to ₱27.18 billion as of December 31, 2012 and 2013, respectively, mainly due to increase in sales of real estate and rental receivables.

Condominium and residential units for sale significantly increased by 105% from ₱2.97 billion to ₱6.10 billion as of December 31, 2012 and 2013, respectively, mainly due to transfers of costs of completed

condominium towers to inventory coming from Field, Grass Phase 1, Jazz, Light, MPST, Princeton, Sun and Wind.

Likewise, land and development increased by 8% from ₱32.28 billion to ₱34.82 billion as of December 31, 2012 and 2013, respectively, mainly due to cumulative construction costs incurred for residential developments including land banking activities.

Available-for-sale investments slightly decreased by 4% from ₱24.30 billion to ₱23.37 billion as of December 31, 2012 and 2013, respectively, mainly due to early redemption of investment in corporate notes amounting to ₱1.0 billion at par last May 2013.

Investment properties - net increased by 16% from ₱147.85 billion to ₱171.67 billion as of December 31, 2012 and 2013, respectively, primarily because of ongoing new mall projects located in Cauayan City, Cebu City in the Philippines and Zibo and Tianjin in China. Expansions and renovations in SM Megamall which was recently opened last January 28, 2014, SM City Bacolod, SM City Sta. Rosa, SM City Lipa, SM City Clark and SM City Dasmariñas are also in progress. The increase is also attributable to the acquisition of additional land bank and construction costs incurred for ongoing projects of the commercial and the hotel group namely, Five-Ecom, SM Cyberwest and Conrad Hotel.

Derivative assets significantly increased from ₱109.98 million as of December 31, 2012 to ₱1,778.81 million as of December 31, 2013, mainly resulting from unrealized mark-to-market gains on a US\$350 million cross currency swap transaction designated as a cash flow hedge and the outstanding interest rate swaps designated as fair value hedges. On the other hand, derivative liabilities decreased by 35% from ₱244.33 million as of December 31, 2012 to ₱159.97 million as of December 31, 2013, due to mark-to-market gains on interest rate swaps used to hedge interest rate exposure on loans.

Deferred tax assets - net significantly increased from ₱0.49 billion to ₱0.69 billion as of December 31, 2012 and 2013, respectively, mainly resulting from the SM Property group restructuring transaction.

Other noncurrent assets increased by 30% from ₱22.43 billion to ₱29.27 billion as of December 31, 2012 and 2013, respectively, mainly due to investment in associates and deposits for acquisition of properties. This account also includes noncurrent capitalized input tax, deposits to contractors, suppliers and advances and deposits paid for leased properties.

Loans payable decreased from ₱8.97 billion to ₱3.25 billion as of December 31, 2012 and 2013, respectively, due to subsequent payments of maturing loans.

The increase in accounts payable and other current liabilities by 32% from ₱34.40 billion to ₱45.30 billion as of December 31, 2012 and 2013, respectively, is mainly due to payables to mall and residential contractors and suppliers related to ongoing projects and accrued operating expenses.

Long-term debt increased by 44% from ₱71.61 billion to ₱103.06 billion as of December 31, 2012 and 2013, mainly to fund capital expenditures and for working capital requirements.

The increase in tenants' deposits by 14% from ₱8.97 billion to ₱10.25 billion as of December 31, 2012 and 2013, respectively, is due to the new malls and expansions which opened in 2012 and 2013. On the other hand, liability for purchased land – net of current portion decreased from ₱4.20 billion to ₱1.12 billion as of December 31, 2012 and 2013, respectively, due to subsequent payments.

KEY PERFORMANCE INDICATORS

The following are the major financial ratios of the Issuer as at and for the years ended 31 December 2013, 2014 and 2015, and as at and for the three-month period ended 31 March 2016:

	Year ended 31 December			Three months ended 31 March
	2013	2014	2015	2016
Acid test ratio	0.99	1.33	0.84	1.12
Solvency ratio	1.98	2.08	1.99	2.04
Debt to Equity	0.39:0.61	0.39:0.61	0.42:0.58	41:59
Net Debt to Equity	0.32:0.68	0.32:0.68	0.38:0.62	37:63
Return on Equity	0.10	0.10	0.10	0.11
Debt to EBITDA	3.55	3.83	4.12	3.71
Interest Coverage Ratio	8.12	8.24	11.19	10.18
Operating Income to Revenues	0.40	0.42	0.44	0.46
EBITDA Margin	0.50	0.51	0.53	0.56
Net Income to Revenues	0.27	0.28	0.29	0.32

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

- (1) Acid test ratio which measures the ratio of quick assets to current liabilities
- (2) Solvency ratio which measures the ratio of total assets to total liabilities
- (3) Debt to equity which measures the ratio of interest-bearing liabilities to equity;
- (4) Net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment held for trading to equity;
- (5) Return on equity ("ROE") which measures the ratio of net income to capital provided by stockholders;
- (6) Debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities;
- (7) Interest coverage ratio which measures the ratio of EBITDA to interest expense
- (8) Operating income to revenues which basically measures the gross profit ratio;
- (9) EBITDA margin which measures the ratio of EBITDA to gross revenues; and
- (10) Net income to revenues which measures the ratio of net income to gross revenues.

The key financial indicators of the Company are discussed below.

Acid test ratio increased to 1.12 as of March 31, 2016 from 0.84 as of December 31, 2015. Likewise, solvency ratio increased to 2.04 as of March 31, 2016 from 1.99 as of December 31, 2015 due to payments of maturing loans.

Interest-bearing debt to equity slightly decreased to 0.41:0.59 as of March 31, 2016 from 0.42:0.58 as of

December 31, 2015. Likewise, net interest-bearing debt to equity decreased to 0.37:0.63 as of March 31, 2016 from 0.38:0.62 as of December 31, 2015 due to net loan payments.

In terms of profitability, ROE slightly increased to 11% as of March 31, 2016 from 10% as of December 31, 2015.

Debt to EBITDA increased to 3.71:1 as of March 31, 2016 from 3.64:1 as of March 31, 2015 due to issuance of P20.0 billion retail bond in November 2015. Interest coverage ratio also increased to 10.18:1 as of March 31, 2016 from 8.34:1 as of March 31, 2015 as a result of decrease in interest expense and higher EBITDA. EBITDA margin improved to 56% as of March 31, 2016 from 54% as of March 31, 2015.

Consolidated operating income to revenues improved to 46% as of March 31, 2016 from 45% as of March 31, 2015. Net income to revenues likewise improved to 32% as of March 31, 2016 from 31% as of March 31, 2015.

Expansion Plans / Prospects for the Future

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

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

SM Prime currently has twenty eight residential projects in the market, twenty six of which are in Metro Manila and two in Tagaytay. As of March 31, 2016, SM Prime has already launched two new projects and an expansion of existing developments equivalent to 4,000 units to the market in Las Piñas, Bicutan and along Roxas Boulevard and for the rest of the year, SM Prime is still set to launch an additional 7,000 to 8,000 units located in the Mall of Asia Complex, Tagaytay, Quezon City, Bulacan, Cavite and Cabanatuan.

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

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay City is expected to open within the third quarter of 2016.

The Property Group's land banking initiatives will continue in 2016.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

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

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

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.

DESCRIPTION OF PROPERTIES

The Issuer's principally owned properties consist of malls and lands. The land improvements, buildings, equipment, owned by the Issuer have a net book value of ₱233.72 billion as at 31 March 2016. The locations and general descriptions of these properties and equipment are described below.

Supermalls

The Issuer has 56 malls as at 31 March 2016 in the following locations:

- SM City North EDSA
Edsa cor. North Ave., Quezon City
- SM City Sta. Mesa
Ramon Magsaysay Boulevard cor Araneta, Quezon City, Metro Manila
- SM Megamall
EDSA Corner Julia Vargas Avenue, Ortigas Business District, Mandaluyong City, Metro Manila
- SM City Cebu
North Reclamation Area, Cebu City, Cebu
- SM Southmall
Alabang-Zapote Road, Almanza, Las Piñas City
- SM City Bacoor
General Aguinaldo Highway cor. Tirona Highway, Brgy. Habay, Bacoor, Cavite
- SM City Fairview
Quirino Highway cor. Regalado Ave., Greater Lagro, Quezon City
- SM City Iloilo
Benigno Aquino Jr. Avenue, West Diversion Road, Mandurriao, Iloilo City
- SM City Manila
Concepcion corner Arroceros and San Marcelino Streets, Manila
- SM City Pampanga
Olongapo-Gapan Road, Brgy. San Jose, San Fernando City, Pampanga
- SM City Sucat
Dr. A. Santos Avenue, Brgy. San Dionisio, Parañaque City
- SM City Davao
Quimpo Boulevard corner Tulip Drive, Ecoland Subdivision, Brgy. Matina, Davao City
- SM City Bicutan
Doña Soledad Avenue corner West Service Road, Brgy. Don Bosco, Bicutan, Parañaque City
- SM City Cagayan de Oro
Masterson's Ave, Pueblo de Oro Business Park, Carmen, Cagayan de Oro City
- SM City Lucena
Dalahican Road, corner Maharlika Highway Brgy. Ibabang Dupay, Lucena City
- SM City Baguio
Luneta Hill, Upper Session Road corner Governor Pack Road, Baguio City, Benguet
- SM City Marilao
Km 21 Mc Arthur Highway, Brgy. Ibayo, Marilao Bulacan
- SM City Dasmariñas
Governors Drive, Brgy. Pala-Pala, Dasmariñas, Cavite
- SM City Batangas
Pastor Village, Brgy Pallocan Kanluran, Batangas City
- SM City San Lazaro
Felix Huertas Street corner A.H. Lacson Extension, Sta. Cruz, Manila
- SM Center Valenzuela
Mc Arthur Highway, Brgy. Karuhatan, Valenzuela City

- SM Center Molino
Molino Road, Molino 4, Bacoor, Cavite
- SM City Santa Rosa
National Road, Barrio Tagapo, Sta. Rosa, Laguna
- SM City Clark
M.A. Roxas Highway, Brgy. Malabanas, Angeles City, Pampanga
- SM Mall of Asia
J.W. Diokno Boulevard, Mall of Asia Complex, 1300 Pasay City, Philippines
- SM Center Pasig
Frontera Verde, C5, Brgy. Ugong, Pasig City
- SM City Lipa
Ayala Highway, Lipa City, Batangas
- SM City Bacolod
Rizal St., Bacolod City, Negros Occidental 2
- SM City Taytay
Manila East Road, Brgy. Dolores, Taytay, Rizal
- SM Center Muntinlupa
National Road, Brgy. Tunasan, Muntinlupa City
- SM City Marikina
Marcos Highway, Brgy. Kalumpang, Marikina City
- SM City Rosales
MacArthur Highway, Brgy. Carmen East, Rosales, Pangasinan
- SM City Baliwag
Doña Remedios Trinidad Highway, Brgy. Pagala, Baliwag, Bulacan
- SM City Naga
Central Business District II, Brgy. Triangulo, Naga City
- SM Center Las Piñas
Alabang Zapote Rd., Brgy. Talon Dos, Las Piñas City
- SM City Rosario
General Trias Drive, Brgy. Tejeros, Rosario, Cavite
- SM City Tarlac
Mc Arthur Highway, Brgy. San Roque, Tarlac City
- SM City San Pablo
National Highway, Brgy. San Rafael, San Pablo City
- SM City Calamba
National Road, Brgy. Real, Calamba, Laguna
- SM City Novaliches
Quirino Highway Brgy. San Bartolome, Novaliches, Quezon City
- SM City Masinag
Marcos Highway, Brgy. Mayamot, Antipolo City
- SM City Olongapo
Magsaysay Drive corner Gordon Avenue, Brgy. Pag-Asa, Olongapo City, Zambales
- SM San Fernando
V. Tiomco Street, Brgy. Poblacion, San Fernando City, Pampanga
- SM General Santos
Cor. Santiago Boulevard and San Miguel Street, Barangay Lagao, General Santos City
- SM Lanang
J P Laurel Avenue Lanang, Brgy. San Antonio, Davao City, Davao del Sur
- SM City Consolacion
North Road, Brgy. Lamac, Consolacion, Cebu
- SM Aura Premier
26th Street corner McKinley Parkway, Brgy. Fort Bonifacio, Global City, 1630 Taguig City

- SM City BF Parañaque
Dr. A. Santos Ave. cor Presidents Ave., Brgy. BF Homes, 1700 Parañaque City
- SM City Cauayan
Maharlika Highway, Brgy. District II, 3305 Cauayan City, Isabela, Philippines
- SM Center Angono
Manila East Road, Brgy. San Isidro, 1930 Angono, Rizal
- SM Megacenter Cabanatuan
Gen. Tinio and Melencio Streets, Cabanatuan City, Nueva Ecija
- SM City San Mateo
Gen. Luna Avenue, Brgy. Ampid 1, San Mateo, Rizal
- SM Cabanatuan
Along Maharlika Highway, Brgy. H. Concepcion, Cabanatuan City
- SM Center Sangandaan
M. H. Del Pilar cor. Samson Road, Brgy. 003 Sangandaan, Caloocan City
- Cherry Foodarama Shaw Boulevard
Shaw Boulevard, Brgy. Pleasant Hills, Mandaluyong City
- SM Seaside City Cebu
South Road Properties, Cebu City

There are no mortgages, liens or encumbrances over any properties owned by the Company or its subsidiaries.

Land and Development

Land and development costs pertain to the SMDC's ongoing residential condominium projects. Estimated cost to complete the projects amounted to ₱31,912 million, ₱23,440 million, and ₱38,970 million as at 31 December 2014 and 2015 and as at 31 March 2016, respectively.

SMDC also acquired several parcels of land for future development with aggregate carrying values of ₱6,614 million, ₱917 million, and ₱553 million as at 31 December 2014 and 2015 and as at 31 March 2016, respectively. These costs are included as part of land and development costs.

SMDC acquired Landfactors for ₱300.0 million in 2009, Vancouver Lands, Inc. (VLI) for ₱566.6 million in 2010, Twenty Two Forty One Properties, Inc. (TTFOP) for ₱195.6 million in 2011, Union Madison Realty Company Inc.(UMRC) and 102 E. De Los Santos Realty Co. Inc. (102 EDSA) for ₱758.9 and ₱1,250.8 million, respectively in 2014 and became its wholly-owned subsidiaries. The purchase of Landfactors, VLI and TTFOP were accounted for as an acquisition of asset. Landfactors, VLI and TTFOP own parcels of land which are being developed into commercial/residential condominium projects.

On 30 June 2004, SMDC entered into a joint venture agreement with the Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS. Under the joint venture agreement, GSIS shall contribute all its rights, title and interest in and to the property. In turn, SMDC shall provide financing for the implementation of the project in consideration for a certain percentage share of the value of the total saleable units in the project. On 7 September 2005, the parties amended joint venture agreement to change the property subject for development to 14,430 square meters, more or less, a portion of the Tree Park Area of the GSIS-Baguio Convention Center.

Under the amended joint venture agreement, in the event of a decrease in the investment commitment but not below the amount of ₱1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties as agreed upon based on the original joint venture agreement. In case the reduction goes lower than ₱1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties. As at 30 June 2015, the development of the project has not yet started.

Costa del Hamilo, Inc.

CDHI's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As at 31 December 2010, the Company completed the construction of two condominium projects and the beach and country club. The completed condominium projects were reclassified as inventories in 2010 while the ownership of beach and country club was transferred to Pico de Loro in June 2010.

Depending on market conditions in the next 12 months, the Company may acquire additional properties for its commercial center, real estate development and tourism businesses. These potential acquisitions will depend, among others, on the execution strategies for the Company's expansion plans, and the availability of suitable properties at reasonable market prices.

Leased Properties

As at 31 March 2016, the Issuer and its subsidiaries had 27 leased properties with the details set forth below:

Leased Properties	Annual Lease	Expiration Date	Renewal Option
SM Valenzuela	25,813,639	July 2043	No provision
SM Baguio	62,179,990	October 2053	No provision
SM Muntinlupa	26,502,920	March 2055	No provision
SM Pasig	44,959,886	July 2020	No provision
SM Bacoor	14,612,549	December 2043; December 2044	automatically renewed for another 25 years
SM San Lazaro	9,168,711	July 2028	renewable for another 25 years
SM Calamba	34,632,978	February 2054; April 2060	automatically renewed for another 25 years
SM Pampanga	14,115,760	October 2053	No provision
SM San Pablo	28,415,649	September 2058	automatically renewed for another 25 years
SM Tarlac	10,314,386	April 2054	No provision
SM Naga	17,842,107	August 2055	No provision
SM Bacolod	220,000	February 2032	renewable for another 25 years
SM Taytay	25,074,484	January 2055; August 2055	automatically renewed for another 25 years
SM Masinag	1,789,162	April 2036	automatically renewed for another 25 years
SM Taguig Aura (Head Office)	75,873,101	November 2057; July 2058	automatically renewed for another 25 years
SM Hypermarket Sucat Lopez	7,640,698	July 2035	renewable upon agreement
SM Marketmall Dasmariñas	8,000,000	March 2060	automatically renewed for another 25 years
SM Consolacion Cebu (Head Office)	31,666,464	September 2060	automatically renewed for another 25 years
SM General Santos (Head Office)	21,975,000	February 2059	No provision
SM Olongapo	7,877,275	December 2035	No provision
SM Megamall	6,526,885	December 2031	No provision
SM Clark	89,693,354	June 2028; May 2058	renewable
SM By The Bay	26,561,851	November 2017	No provision
SM Dasmariñas	10,541,520	August 2050	No provision
SM Molino	27,016,093	May 2056	Automatically renewed for another 25 years
SM Manila	23,051,773	2047	Automatically renewed for another 25 years
SM San Mateo	5,410,651	February 2054	No provision
Total Lease Payments	657,476,866		

BOARD OF DIRECTORS AND MANAGEMENT OF THE ISSUER

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the persons who served as a Director and/or executive officer of SM Prime as at the date of this Prospectus:

Office	Name	Citizenship	Age
Chairman Emeritus	Henry Sy, Sr.	Filipino	91
Chairman	Henry T. Sy, Jr.	Filipino	62
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	72
Independent Director	Gregorio U. Kilayko	Filipino	61
Independent Director	Joselito H. Sibayan	Filipino	58
Director and President	Hans T. Sy	Filipino	60
Director	Herbert T. Sy	Filipino	59
Director	Jorge T. Mendiola	Filipino	57
Director and Executive Vice President/Corporate Information Officer	Jeffrey C. Lim	Filipino	54
Adviser to the Board of Directors	Teresita T. Sy	Filipino	65
Adviser to the Board of Directors	Elizabeth T. Sy	Filipino	64
Corporate Secretary/Alternate Compliance Officer	Elmer B. Serrano	Filipino	48
Assistant Corporate Secretary	Marianne M. Guerrero	Filipino	52
Chief Finance Officer/Compliance Officer	John Nai Peng C. Ong	Filipino	45
Vice President – Internal Audit	Christopher S. Bautista	Filipino	56
Head, Malls	Anna Maria S. Garcia	Filipino	60
Head, Residential (Primary)	Jose Mari H. Banzon	Filipino	55
Head, Residential (Leisure)	Shirley C. Ong	Filipino	54
Head, Commercial	Dave L. Rafael	Filipino	57
Head, Hotels and Convention Centers	Ma. Luisa E. Angeles	Filipino	57
Vice President – Finance /Alternate Corporate Information Officer/Alternate Compliance Officer	Teresa Cecilia H. Reyes	Filipino	41
Adviser	Jose T. Sio	Filipino	75
Adviser	Serafin U. Salvador	Filipino	71

MANAGEMENT

Board of Directors

The Directors of the Issuer are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

The following describes the background and business experience of the Issuer's Directors and Executive Officers during the last five years from 2011 to the present:

Henry Sy, Sr. is the Chairman Emeritus of the Board of Directors of SMPH. He was the Chairman of the Board of Directors of SMPH since 1994 until April 2014. He is the founder of the SM Group and is currently, Chairman of SM Investments Corporation (SMIC) and Highlands Prime, Inc. (HPI). He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of SM Group's diversification into the commercial

centers, retail merchandising, financial services, and real estate development and tourism businesses. Mr. Sy earned his Associate of Arts Degree in Commerce Studies at Far Eastern University and was conferred an Honorary Doctorate in Business Management by De La Salle University.

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

Jose L. Cuisia, Jr.* has served as Vice Chairman of the Board of Directors of SMPH since 1994. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He graduated with a Bachelor's Degree in Commerce from De La Salle University and took his MBA at the prestigious Wharton School of the University of Pennsylvania. He was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC in May 2011, and was conferred the Lifetime Contributor Award (public sector) by the Asia CEO Forum in 2015 and the Order of the Sikatuna with the rank of Grand Cross by President Benigno Aquino III in 2016.

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

Joselito H. Sibayan* has spent the past 28 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration (MBA) from University of California in Los Angeles, he was Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operation. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status. He was elected as an Independent Director in 2011.

** Independent director – The Independent Directors of the Company are Messrs. **Jose L. Cuisia, Jr., Gregorio U. Kilayko and Joselito H. Sibayan.** The Company has complied and will comply with the Guidelines set forth by Securities Regulation Code (SRC) Rule 38, as amended, regarding the Nomination and Election of Independent Directors. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

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

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

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

Jeffrey C. Lim is the Executive Vice President of SMPH and a member of its Executive Committee, as well as the President of SMDC. He was elected to the Board of Directors of SMPH in April 2016. He is also a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SMPH's subsidiaries. He is a member of the Management Board of the Asia Pacific Real Estate Association. He holds a Bachelor of Science degree in Accounting from the University of the East and is a Certified Public Accountant.

Teresita T. Sy has served as an Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairperson of BDO Unibank, Inc. and Vice Chairperson of SMIC. She also holds board positions in several companies within the SM Group.

Elizabeth T. Sy was elected as an Adviser to the Board in April 2012. She serves as a member of the Executive Committee and Trust Committee of the Board of Directors of BDO Private Bank, Inc. She is also the Chairperson and President of SM Hotels and Convention Corporation where she steers SM's continuous growth in the tourism, leisure and hospitality industry. Ms. Sy likewise serves as Adviser to the Board of SM Investments Corporation and Co-Chairperson of Pico De Loro Beach and Country Club. She graduated with a degree in Business Administration from Maryknoll College.

Members of the Board of Directors are given a standard per diem of P10,000 per Board meeting, except for the Chairman and Vice Chairman which are given P20,000 per Board meeting.

Elmer B. Serrano is the Corporate Secretary of the SMPH and of SMIC since November 2014. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing law for over two decades. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. He is also the Corporate Secretary of Premium Leisure Corporation, Premium Leisure Amusement Incorporation, Crown Equities, Inc. and its subsidiaries, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was previously a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Marianne M. Guerrero is the Senior Vice President and Head of the Legal Department of SMIC. She is likewise the currently appointed Assistant Corporate Secretary and Alternate Compliance Officer of SMIC. Apart from her roles in SMIC, she is also the Assistant Corporate Secretary and Alternate Corporate Information Officer of SMPH. Prior to joining the SM Group, she was Senior Vice President and Legal Head of United Overseas Bank Philippines. She took her law degree from the Ateneo School of law, and her college degree was from De La Salle University.

Executive Officers

John Nai Peng C. Ong is the Chief Finance Officer, Compliance Officer and a member SMPH's Executive Committee. He holds various board and executive positions in other SMPH's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Ateneo de Zamboanga University. He received his Master in Management from the Asian Institute of Management. Prior to joining the Company in 2014, he was an assurance partner in SGV & Co.

Christopher S. Bautista is the Vice President for Internal Audit (Chief Audit Executive). Prior to joining the Company in 1998, he was the Chief Finance Officer of a large palm oil manufacturer based in Jakarta, Indonesia and was a partner (principal) for several years of an audit and management consulting firm based also in Jakarta. He started his professional career as staff auditor of SGV & Co.

Anna Maria S. Garcia is the Business Unit Head for Malls as President of Shopping Center Management Corp. (SCMC) since 2006. She is the Chairman of Mercantile Stores Group Inc., Chief Executive Officer of Henfels Investments Inc., Board of Director of the Gifts and Graces Fair Trade Foundation Inc. and a member of International Council of Shopping Centers and Philippine Retailers Association of the Philippines. She graduated from University of the Philippines with a degree of BS Foreign Service. Prior to joining SCMC in 1998, she worked as Assistant Vice-President for Department Store Operations, SM Inc.

Jose Mari H. Banzon is the Business Unit Head for Residential (Primary). He holds a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Management of Financial Institutions from De La Salle University. Prior to joining SMDC in 2013, he was executive vice president and general manager of Federal Land, Inc. He had also worked in the corporate banking department of various financial institutions in the Philippines and Hong Kong.

Shirley C. Ong is the Business Unit Head for Residential (Leisure) since 2013. She was the Senior Vice President for Operations of Highlands Prime, Inc. from 2010 to 2013. She is also the Director of the Midlands Golf and Country Club. Before joining the Company, she was First Vice President for Business Development of Filinvest Alabang, Inc from 1995 to 2009. She brings with her over 26 years of experience, 21 years of which has been in various areas of real estate from city development, office/residential, high rise development, residential village development including finance, marketing, sales and property management. She graduated cum laude with a bachelor's degree in Arts, Major in Economics from the University of Sto. Tomas and is a candidate for Masters in Economics at the Institute of Economics Policy Research of the University of Asia & Pacific.

Dave L. Rafael is the Business Unit Head for Commercial. He has a Bachelor of Arts degree from the Ateneo de Manila University and an MBA from the Colgate Darden School of Business Administration, University of Virginia. Prior to joining the Company in 2009, he was with Ayala Land for 21 years holding various positions in shopping center operations, project development, marketing and local and international sales.

Ma. Luisa E. Angeles is the Business Unit Head for Hotels and Convention Centers. She is the Senior Vice President for Operations of SM Hotels and Conventions Corporation since 2014. She holds a Bachelor of Science degree in Hotel and Restaurant Administration from the University of the Philippines. She has 34 years of work expertise in the hotel management industry specifically in sales and marketing. She was with EDSA Shangri-La, Shangri-La Bangkok and Shangri-La Hotel International Management, Ltd. holding various positions for 24 years. Prior to that, she rendered 10 years of service to Hyatt Regency Manila and Hyatt Terraces Baguio.

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC and its

Implementing Rules and Regulations.

Teresa Cecilia H. Reyes is the Vice President for Finance. Prior to her joining the company in June 2004 as a Senior Manager in the Finance Group, she was an Associate Director in the business audit and advisory group of SGV & Co. She graduated from De La Salle University with degrees in Bachelor of Science in Accountancy and Bachelor of Arts in Economics and placed 16th in the 1997 Certified Public Accountants board examinations.

Jose T. Sio is Adviser to the Company. He is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, and Atlas Consolidated Mining and Development Corporation. He is also Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. He holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at SyCip Gorres Velayo & Co. He was voted as CFO of the Year in 2009 by Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based business publications.

Serafin U. Salvador is Adviser to the Company. He is the Managing Partner of Salvador Llanillo & Bernardo. He was formerly Head of the Tax Division and also Tax Principal at SGV & Co. He is a graduate of Bachelor of Laws in the University of the Philippines and attended the Graduate Tax Program at the Graduate School of Law in New York University. He completed his MBA at the Ateneo de Manila University and attended the TOP Management Program in Asian Institute of Management and the Managing Multinational Enterprises at the INSEAD in Fontainebleau, France.

Procedure for Nomination of Directors:

- A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated a director of SMPH (Section 2, Article III, SMPH By-Laws).
- The Nomination Committee meets, pre-screens and checks the qualifications of and deliberates on all persons nominated to be elected to the Board of Directors of SMPH from the pool of candidates submitted by the nominating stockholders in accordance with the provisions of SMPH's By-Laws and Manual of Corporate Governance. The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for the nomination of directors. Said list shall contain all the information about these nominees. Only nominees qualified by the Nomination Committee and whose names appear on the Final List of Candidates shall be eligible for election as Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
- In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee; otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

All new directors undergo an orientation program soon after date of election. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and its Committees, SMPH's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Business Conduct and Ethics, Insider Trading Policy and Corporate Governance Manual.

All directors are also encouraged to participate in continuing education programs at SMPH's expense to promote relevance and effectiveness and to keep them abreast of the latest developments in corporate directorship and good governance.

Aside from the Directors and Executive Officers enumerated above, there are no other employees expected to hold significant executive/officer position in the Company.

The following are directorships held by Directors and Executive Officers in other reporting companies at least, in the last five years:

Henry Sy, Sr.

<u>Name of Corporation</u>	<u>Position</u>
SM Investments Corporation	Chairman
China Banking Corporation	Honorary Chairman
BDO Unibank, Inc.	Chairman Emeritus

Henry T. Sy, Jr.

<u>Name of Corporation</u>	<u>Position</u>
SM Investments Corporation	Vice Chairman

Jose L. Cuisia, Jr.

<u>Name of Corporation</u>	<u>Position</u>
PHINMA Corporation	Regular Director
Holcim Philippines, Inc.	Regular Director
Manila Water Company, Inc.	Independent Director
Century Properties Group, Inc.	Independent Director

Gregorio U. Kilayko

<u>Name of Corporation</u>	<u>Position</u>
Belle Corporation	Independent Director

Joselito H. Sibayan

<u>Name of Corporation</u>	<u>Position</u>
Apex Mining Corporation.	Independent Director

Hans T. Sy

<u>Name of Corporation</u>	<u>Position</u>
China Banking Corporation	Director
SM Investments Corporation	Adviser to the Board

Herbert T. Sy

<u>Name of Corporation</u>	<u>Position</u>
China Banking Corporation	Director
SM Investments Corporation	Adviser to the Board

Teresita T. Sy

Name of Corporation
BDO Unibank, Inc.
SM Investments Corporation

Position
Chairperson
Director/ Vice Chairperson

Elizabeth T. Sy

Name of Corporation
SM Investments Corporation

Position
Adviser to the Board

Involvement in Legal Proceedings

The Issuer is not aware of any of the following events having occurred during the past five years up to the date of this Prospectus that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Issuer:

- (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

CORPORATE GOVERNANCE

The Issuer's platform of governance remains rooted in its Manual on Corporate Governance and its Code of Ethics. The Manual on Corporate Governance (the "Governance Manual"), which is completely aligned with the SEC Revised Code of Corporate Governance, institutionalizes the principles of good corporate governance in the entire organization. It lays down the Issuer's compliance system and identifies the responsibilities of the Board and management in relation to good corporate governance. The Governance Manual also provides for the Issuer's policies on disclosure and transparency, the conduct of communication and training programs on corporate governance, the rights of all shareholders, and the protection of the interests of non-controlling shareholders. Under the Governance Manual, it is the Board's responsibility to foster the long term success of the Issuer and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise with the highest standards of corporate governance, in the best interests of the Issuer, its shareholders and other stakeholders.

The Code of Ethics (the "Code") serves as a guiding principle for the Issuer's directors, officers and employees in the performance of their duties and responsibilities, and in their business transactions with investors, creditors, customers, contractors, suppliers, regulators, and the public.

To supplement the Code, the Issuer adopted policies on acceptance of gifts, insider trading, conflict of interest, related-party transactions, to name a few. The Issuer has also implemented a whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), which was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. The Issuer continues to align with corporate governance best practices through the continuous review and development of its policies and programs in conjunction with the continuous enhancement of its enterprise risk management systems.

The Board is composed of eight (8) directors, three (3) of whom are non-executive independent directors, in the persons of Mr. Jose L. Cuisia, Jr., Mr. Gregorio U. Kilayko, and Mr. Joselito H. Sibayan. Under the Issuer's Governance Manual, an independent director must possess all of the qualifications and none of the disqualifications of a regular director. He must also be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment.

The Board is supported in its corporate governance functions by six committees: the Compensation Committee, the Nomination Committee, Audit Committee, Risk Oversight Committee, Related Party Transactions Committee and the Executive Committee. All Board Committees have adopted their respective charters which identify the Committees' composition, roles and responsibilities, in alignment with the Issuer's Governance Manual.

Annually, the Nomination Committee facilitates the evaluation of the performance of the Board as a whole, its respective Board Committees, the individual directors and the President, based on duties and responsibilities provided in the Issuer's Governance Manual and By-Laws. The annual evaluation also serves as a venue for identifying areas for improvement in terms of trainings, continuing education programs or any other form of assistance that the directors may need in the performance of their duties. The evaluation forms also include support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and the Board advisors.

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

As a testament to the Issuer's unwavering commitment to good corporate governance, ethics and integrity, the ASEAN Corporate Governance Award, the most prestigious in the ASEAN region, recognized the Issuer as one of the Top 50 Publicly Listed Companies in the ASEAN.

Committees of the Board

The Compensation Committee

The Compensation Committee provides oversight on the compensation and benefits of the Company's officers and directors. It ensures that the compensation structure is aligned with the Company's culture, strategy and control environment, and the amount of compensation is in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully. The Compensation Committee is composed of independent director Mr. Gregorio U. Kilayko as Chairman, and Mr. Hans T. Sy and Mr. Joselito H. Sibayan as members.

The Nomination Committee

The Nomination Committee pre-screens and shortlists candidates nominated by stockholders for election to the Company's Board of Directors in accordance with the qualifications and disqualifications

provided in the Revised Manual on Corporate Governance. The Nomination Committee assesses relevant experiences, competencies and track record of candidates in light of the strategic goals and objectives of the Company.

The Nomination Committee also facilitates the annual performance evaluation of the President and directors, Board Committees and the Board as collective body.

The Nomination Committee is currently composed of independent directors Mr. Joselito H. Sibayan, Mr. Gregorio U. Kilayko and Mr. Jose L. Cuisia, Jr. Mr. Sibayan is the Chairman of the Committee.

The Audit Committee

The mandate for the Audit Committee includes the review of the Company's financial reports and subsequent recommendation to the Board for approval, as well as the review of SM Prime's internal control systems, its audit plans and auditing processes. The Audit Committee is currently composed of Mr. Jose L. Cuisia, Jr., Mr. Gregorio U. Kilayko, Mr. Joselito H. Sibayan and Mr. Jorge T. Mendiola. Mr. Cuisia is an independent director and the Chairman of the Committee.

The Risk Oversight Committee

The Risk Oversight Committee assists and advises the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's business and financial risk profile, risk management system and accomplishment of its objectives, and oversees the Company's process for monitoring compliance with policies, laws and regulations, and the Code of Ethics. The Risk Oversight Committee is currently composed of Mr. Jose L. Cuisia, Jr., Mr. Gregorio U. Kilayko, Mr. Joselito H. Sibayan and Mr. Jorge T. Mendiola. Mr. Cuisia is an independent director and the Chairman of the Committee.

The Related Party Transactions Committee

The Related Party Transactions Committee is responsible for reviewing and approving related party transactions in accordance with the Related Party Transactions Policy. The Related Party Transactions Committee is currently composed of independent directors Mr. Joselito H. Sibayan, Mr. Gregorio U. Kilayko and Mr. Jose L. Cuisia, Jr. Mr. Sibayan is the Chairman of the Committee.

The Executive Committee

The Executive Committee functions when the Board of Directors is not in session. Generally, the committee is responsible for assisting the Board in overseeing the implementation of strategies and long-term goals, reviewing major issues facing the organization, monitoring the operating activities of each business group, and defining and monitoring the Company's performance improvement goals. The Executive Committee is composed of Mr. Henry T. Sy, Jr. as Chairman, and Mr. Hans T. Sy, Mr. Herbert T. Sy, Ms. Elizabeth T. Sy, Mr. Jeffrey C. Lim and Mr. John Nai Peng C. Ong as members.

The Corporate Governance Department of the Issuer strives to keep pace with best practices in corporate governance through the further development of policies and projects and the continued conduct of orientation and training programs. The Corporate Governance Department also remains committed to support the advocacy and networking initiatives of public and private institutions that seek to improve corporate governance standards.

EXECUTIVE COMPENSATION

Aside from regular standard per diems, all directors do not receive regular annual salaries from the Company.

The following are the most highly compensated executive officers:

Name and Position

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice-President

John Nai Peng C. Ong
Chief Finance Officer

Anna Maria S. Garcia
Head, Malls

Jose Mari H. Banzon
Head, Residential (Primary)

Summary Compensation Table

	Year	Salary	Bonus
President & 4 Most Highly Compensated Executive Officers	2016 (estimate)	₱105,000,000	₱18,000,000
	2015 (actual)	95,000,000	16,000,000
	2014 (actual)	84,000,000	14,000,000
All other officers* as a group unnamed	2016 (estimate)	₱292,000,000	₱48,000,000
	2015 (actual)	265,000,000	44,000,000
	2014 (actual)	239,000,000	40,000,000

**Managers & up*

Certain officers of the Company are seconded from SMIC.

Other Arrangements

There are no standard or other arrangements pursuant to which the directors of the Issuer are compensated, or are to be compensated, directly or indirectly, by the Issuer for services rendered by such directors as of the date of this Prospectus.

There are no employment contracts between the Issuer and any named executive officer.

There is no compensatory plan nor arrangement with respect to an executive officer which shall result or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Warrants and Options Outstanding

As of the date of this Prospectus, there are no outstanding warrants or options in respect of the Issuer's shares held by the Issuer's President, named executive officers and all directors and officers as a group.

Significant Employees

The Issuer has no individual employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

HOLDERS OF THE ISSUER'S COMMON SHARES

As at 31 March 2016, the following are the top 20 stockholders of the Issuer.

	Stockholder Name	No. of shares	% to Total
1	SM Investments Corporation	14,353,464,952	49.70%
2	PCD Nominee Corp. (Non-Filipino)	5,598,307,907	19.39%
3	PCD Nominee Corp. (Filipino)	1,310,837,499	4.54%
4	Hans T. Sy	685,163,512	2.37%
5	Henry Sy, Jr.	680,818,440	2.36%
6	Teresita T. Sy	666,708,532	2.31%
7	Herbert T. Sy	666,389,522	2.31%
8	Harley T. Sy	661,643,367	2.29%
9	Elizabeth T. Sy	654,115,892	2.27%
10	Felicidad Sy	648,515,413	2.25%
11	Syntrix Holdings, Inc.	317,827,670	1.10%
12	Sysmart Corporation	317,775,948	1.10%
13	Belle Corporation	92,138,513	0.32%
14	Henry Sy, Sr.	82,795,579	0.29%
15	Sybase Equity Investments Corp	52,365,500	0.18%
16	Cutad, Inc.	19,694,544	0.07%
17	HSBB, Inc.	19,694,400	0.07%
18	Lucky Securities, Inc.	3,000,000	0.01%
19	Philippine Air Force Educational Fund, Inc.	2,140,923	0.01%
20	Jose T. Tan &/or Pacita L. Tan	892,126	0.00%
		26,834,290,239	92.92%

As at 31 March 2016, the Issuer had 2,476 shareholders of its common shares. The foreign ownership level in the Issuer is 23%.

DIVIDENDS AND DIVIDEND POLICY

The Company targets a dividend payout of 30% to 35% of the previous year's net income.

As at 31 March 2016, there are no restrictions that would limit the ability of the Issuer to pay dividends to the common stockholders, except with respect to ₱3.355 billion representing the cost of shares held in treasury and ₱47.640 billion representing accumulated equity in net earnings of subsidiaries, associates and joint ventures. These earnings are not available for dividend distribution until such time that the Issuer receives the dividends from the subsidiaries.

In 2015, the Board of Directors (BOD) approved the declaration of cash dividend of ₱0.21 per share or ₱6,065 million to stockholders of record as of May 14, 2015, ₱10 million of which was received by SMDC. This was paid on June 9, 2015.

In 2014, the Board approved the declaration of cash dividends of ₱0.19 per share or ₱5,286 million to stockholders of record as of May 15, 2014, ₱9 million of which was received by SMDC. This was paid on June 10, 2014.

The Company's subsidiaries have no defined dividend policy. The amount of dividend declaration annually by SMPH and its subsidiaries depend on the net income, cash availability and the investment projects as approved by the Board of Directors of SMPH and each of the subsidiaries.

The dividends declared and paid out or issued by the Company's subsidiaries during the years 2013, 2014, and 2015 are set out below.

Subsidiary	Cash Dividends (in million ₱)			Stock Dividends (no. of shares in millions)		
	2013	2014	2015	2013	2014	2015
First Asia Realty Development Corp.	1,200.0	1,200.0	1,500.0	-	-	-
Premier Central, Inc.	-	-	-	-	-	-
Premier Southern Corp.	350.0	-	-	-	-	-
First Leisure Ventures Group, Inc.	40.0	60.0	110	-	-	-
Costa del Hamilo, Inc.	-	-	-	-	-	-
SM Development Corp. and subsidiaries	491.4	-	-	1,100.0	-	-

Aside from the companies listed above, none of the subsidiaries of SM Prime have declared and paid out or issued any cash or stock dividends during the last three years.

MARKET PRICE OF ISSUER'S COMMON EQUITY

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below.

(in ₱)	2016		2015		2014	
	High	Low	High	Low	High	Low
1st Quarter	22.80	18.70	20.60	16.70	15.52	14.10
2nd Quarter	27.30	21.65	21.35	18.40	17.20	14.56
3rd Quarter	NA	NA	22.50	18.10	18.38	15.08
4th Quarter	NA	NA	23.20	19.90	18.00	15.72

The total number of stockholders as at 31 March 2016 was 2,476. Market price of the Issuer's shares as at 11 July 2016 was ₱28.30 per share.

RECENT SALES OF UNREGISTERED SECURITIES

As discussed in Note 19 of the consolidated financial statements, the Company registered with the Securities and Exchange Commission the P20 billion retail bonds issued on November 25, 2015. The issue consists of the five-year and three months or Series D Bonds amounting to ₱17,969 million with a fixed interest rate equivalent to 4.5095% per annum due on February 25, 2021 and ten-year or Series E Bonds amounting to ₱2,031 million with a fixed interest rate equivalent to 4.7990% per annum due on November 25, 2025.

There are no other recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exemption transaction. The Company has no other registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners

As at 31 March 2016, the following are the owners of the Issuer's common stock in excess of 5% of total outstanding shares:

Title of Class	Name & address of record owner & relationship with Issuer	Name of beneficial owner & relationship with record owner	Citizenship	No. of shares held	Percent
Common	SM Investments Corporation (parent company of Issuer) ¹ One E-com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	Same as the record owner	Filipino	14,353,464,952 (b)	49.70%
Common	PCD Nominee Corp. ² MSE Bldg., Ayala Ave., Makati City	PCD Participants ²	Filipino - 4.54% Non-Filipino - 19.39%	6,909,145,406 (r)	23.92%

Notes:

- The following are the individuals holding the direct beneficial ownership of SMIC: Felicidad T. Sy – 3.21%, Henry T. Sy, Jr. - 7.28%, Hans T. Sy - 8.21%, Herbert T. Sy - 8.21%, Harley T. Sy - 7.29%, Teresita T. Sy - 7.11% and Elizabeth T. Sy-5.82%. Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC. They have the power to vote the common shares of SMIC in SM Prime.
- The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.

Security Ownership of Management

As at 31 March 2016, the following are the number of shares owned of record by the Issuer's directors and key executive officers:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership (d) Direct	Percent of Class
Common Stock	Henry Sy, Sr.	Filipino	82,795,579 (i)	0.29%
Common Stock	Jose L. Cuisia, Jr.	Filipino	497,661 (d)(i)	0.00%
Common Stock	Teresita T. Sy	Filipino	666,708,532 (d)(i)	2.31%
Common Stock	Henry T. Sy, Jr.	Filipino	680,818,440 (d)	2.36%
Common Stock	Hans T. Sy	Filipino	685,163,512 (d)(i)	2.37%
Common Stock	Herbert T. Sy	Filipino	666,389,522 (d)(i)	2.31%
Common Stock	Elizabeth T. Sy	Filipino	654,115,892 (d)(i)	2.27%
Common Stock	Gregorio U. Kilayko	Filipino	202,580 (d)(i)	0.00%
Common Stock	Joselito H. Sibayan	Filipino	36,375 (d)	0.00%
Common Stock	Jorge T. Mendiola	Filipino	1,365,167 (d)(i)	0.00%
Common Stock	Jeffrey C. Lim	Filipino	50,000 (i)	0.00%
Common Stock	Christopher S. Bautista	Filipino	37,500 (i)	0.00%
Directors and Executive Officers as a group			3,438,180,760	11.91%

Voting Trust Holders of 5% or More

There are no persons holding more than 5% of a class of shares under a voting trust or any similar agreements.

Change in Control

No change in control in the Issuer has occurred since the beginning of its last fiscal year.

WARRANTS AND OPTIONS

As of the date of this Prospectus, there are no existing or planned stock options / stock warrant offerings.

DESCRIPTION OF DEBT

The Company is subject to covenants under agreements evidencing or governing its outstanding indebtedness, including but not limited to those set forth in loan agreements with local banks and financial institutions. Under these loans, the Company undertook to maintain the financial covenants set forth below.

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

Debt to Equity Ratio is calculated as the ratio of the Company's total interest-bearing debt to total equity. Interest Coverage Ratio is calculated as the consolidated EBITDA of the Company divided by interest expense.

The Company does not believe that these covenants will impose constraints on its ability to finance its capital expenditure program or, more generally, to develop its business and enhance its financial performance. The Company is in full compliance with the covenants required by the creditors.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus 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

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. 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 30% 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

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements: (i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto; (ii) with respect to tax treaty relief, a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under the BIR Revenue Memorandum Order NO. 72-2010; including any clarification, supplement or amendment thereto and, once available, a BIR-certified certificate, ruling or opinion

addressed to the relevant applicant or Bondholder confirming its entitlement to the preferential tax rate under the applicable treaty; (iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided, that the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; 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 the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

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 pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination 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 P1.00 for each P200, 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 bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds 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 arising from such sale, regardless of the original maturity date of the bonds, 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 Bureau of Internal Revenue 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 progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax based on the net gift on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is not a stranger. For this purpose, a stranger is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

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.

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 of the Bonds, documentary stamp tax is payable anew.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER

Audited Consolidated Financial Statements as at 31 December 2014 and 2015 and for the years ended 31 December 2013, 2014 and 2015 for the Issuer and its Subsidiaries

Independent Auditors' Report

SM Prime Holdings, Inc. Consolidated Balance Sheets as at 31 December 2014 and 2015

SM Prime Holdings, Inc. Consolidated Statements of Income for the years ended 31 December 2013,
2014 and 2015

SM Prime Holdings, Inc. Consolidated Statements of Comprehensive Income for the years ended 31
December 2013, 2014 and 2015

SM Prime Holdings, Inc. Consolidated Statements of Changes in Equity for the years ended 31
December 2013, 2014 and 2015

SM Prime Holdings, Inc. Consolidated Statements of Cash Flows for the years ended 31 December 2013,
2014 and 2015

SM Prime Holdings, Inc. Notes to Consolidated Financial Statements

Unaudited Interim Condensed Consolidated Financial Statements as at 31 March 2016 and for the three-month periods ended 31 March 2015 and 2016 for the Issuer and its Subsidiaries

SM Prime Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2015 and 2014
and Years Ended December 31, 2015, 2014
and 2013

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

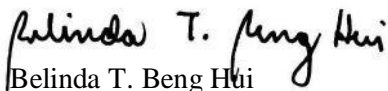
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

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

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018

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

February 22, 2016



Statement of Management's Responsibility for Financial Statements

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

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

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



Henry T. Sy, Jr.
Chairman



Hans T. Sy
President



John Nai Peng C. Ong
Chief Finance Officer

Signed this 22nd of February, 2016

SUBSCRIBED AND SWORN to before me this FEB 23 2016 at PASIG CITY,
affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY T. SY, JR.	EC5035233	August 15, 2015	Manila
HANS T. SY	EB4448660	January 14, 2012	Manila
JOHN NAI PENG C. ONG	EC2047924	September 7, 2014	Manila

Doc. No. 250;
Page No. 51;
Book No. I;
Series of 2016.


Kristine Gail C. Ochoa
Appointment No. 13 (2016-2017)
Notary Public for Pasig City
Until December 31, 2017
Attorneys Roll No. 60847
Suite 2401 The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR No. 1385912; 01.05.16; Pasig City
IBP No. 1018269; 01.06.16; RSM

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

(Amounts in Thousands)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 27 and 28)	₱25,869,908	₱35,245,206
Investments held for trading (Notes 7, 21, 27 and 28)	843,256	967,511
Receivables (Notes 8, 15, 16, 21, 27 and 28)	31,354,286	30,686,968
Condominium and residential units for sale (Note 9)	8,164,981	7,578,885
Land and development (Note 10)	19,814,615	19,571,526
Available-for-sale investments (Notes 11, 21, 27 and 28)	642,274	676,755
Prepaid expenses and other current assets (Notes 12, 21, 27 and 28)	11,302,871	9,289,317
Total Current Assets	97,992,191	104,016,168
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	22,080,000	6,050,884
Available-for-sale investments - net of current portion (Notes 11, 21, 27 and 28)	19,689,781	28,994,983
Property and equipment - net (Note 13)	1,680,382	2,258,387
Investment properties - net (Notes 14 and 19)	230,340,399	192,639,379
Land and development - net of current portion (Note 10)	23,105,553	22,886,306
Derivative assets (Notes 27 and 28)	2,600,799	1,632,814
Deferred tax assets - net (Note 25)	846,111	650,153
Other noncurrent assets (Notes 16, 21, 24, 27 and 28)	35,493,223	29,711,085
Total Noncurrent Assets	335,836,248	284,823,991
	₱433,828,439	₱388,840,159
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 27 and 28)	₱4,675,000	₱2,670,000
Accounts payable and other current liabilities (Notes 18, 21, 27 and 28)	38,819,156	36,378,819
Current portion of long-term debt (Notes 19, 21, 27 and 28)	25,041,044	11,006,880
Income tax payable	955,533	743,506
Total Current Liabilities	69,490,733	50,799,205
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 27 and 28)	125,952,441	115,606,147
Tenants' and customers' deposits - net of current portion (Notes 26, 27 and 28)	13,218,264	13,251,526
Liability for purchased land - net of current portion (Notes 18, 27 and 28)	2,081,708	1,170,855
Deferred tax liabilities - net (Note 25)	2,488,990	1,934,174
Derivative liabilities (Notes 27 and 28)	-	58,705
Other noncurrent liabilities (Notes 16, 24, 27 and 28)	4,753,456	3,781,344
Total Noncurrent Liabilities	148,494,859	135,802,751
Total Liabilities (Carried Forward)	217,985,592	186,601,956



	December 31	
	2015	2014
Total Liabilities (Brought Forward)	₱217,985,592	₱186,601,956
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 5, 20 and 29)	33,166,300	33,166,300
Additional paid-in capital - net (Notes 5 and 20)	39,304,027	39,302,194
Cumulative translation adjustment	1,005,978	840,430
Net unrealized gain on available-for-sale investments (Note 11)	16,621,547	25,905,440
Net fair value changes on cash flow hedges (Note 28)	428,799	249,332
Remeasurement loss on defined benefit obligation (Note 24)	(50,458)	(141,524)
Retained earnings (Note 20):		
Appropriated	42,200,000	42,200,000
Unappropriated	83,168,103	60,921,048
Treasury stock (Notes 20 and 29)	(3,355,474)	(3,355,530)
Total Equity Attributable to Equity Holders of the Parent	212,488,822	199,087,690
Non-controlling Interests (Note 20)	3,354,025	3,150,513
Total Equity	215,842,847	202,238,203
	₱433,828,439	₱388,840,159

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 5, 20 and 29)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net Unrealized Gain on Available- for-Sale Investments (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 28)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 24)	Retained Earnings (Note 20)		Treasury Stock (Notes 20 and 29)	Non-controlling Interests (Note 20)	Total	Total Equity
							Appropriated	Unappropriated				
At January 1, 2015	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440	₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
Net income for the year	-	-	-	-	-	-	-	28,302,092	-	28,302,092	590,501	28,892,593
Other comprehensive income (loss)	-	-	165,548	(9,283,893)	179,467	91,066	-	-	-	(8,847,812)	211	(8,847,601)
Total comprehensive income (loss) for the year	-	-	165,548	(9,283,893)	179,467	91,066	-	28,302,092	-	19,454,280	590,712	20,044,992
Cash dividends (Note 20)	-	-	-	-	-	-	-	(6,064,618)	-	(6,064,618)	-	(6,064,618)
Cash dividends received by a subsidiary	-	-	-	-	-	-	-	9,581	-	9,581	-	9,581
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	(387,200)	(387,200)
Acquisition of non-controlling interests (Note 20)	-	1,833	-	-	-	-	-	-	56	1,889	-	1,889
At December 31, 2015	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
At January 1, 2014	₱33,166,300	₱22,303,436	₱1,381,268	₱19,958,330	₱429,149	₱771	₱42,200,000	₱47,807,664	(₱3,980,378)	₱163,266,540	₱2,954,985	₱166,221,525
Net income for the year	-	-	-	-	-	-	-	18,390,352	-	18,390,352	506,137	18,896,489
Other comprehensive income (loss)	-	-	(540,838)	5,947,110	(179,817)	(142,295)	-	-	-	5,084,160	(849)	5,083,311
Total comprehensive income (loss) for the year	-	-	(540,838)	5,947,110	(179,817)	(142,295)	-	18,390,352	-	23,474,512	505,288	23,979,800
Cash dividends (Note 20)	-	-	-	-	-	-	-	(5,285,636)	-	(5,285,636)	-	(5,285,636)
Cash dividends received by a subsidiary	-	-	-	-	-	-	-	8,668	-	8,668	-	8,668
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	(309,760)	(309,760)
Reissuance of treasury shares (Note 20)	-	17,021,771	-	-	-	-	-	-	623,916	17,645,687	-	17,645,687
Acquisition of non-controlling interests (Note 20)	-	(23,013)	-	-	-	-	-	-	932	(22,081)	-	(22,081)
At December 31, 2014	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440	₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203



Equity Attributable to Equity Holders of the Parent

	Capital Stock (Notes 5, 20 and 29)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net Unrealized Gain on Available- for-Sale Investments (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 28)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 24)	Retained Earnings (Note 20)		Treasury Stock (Notes 20 and 29)	Total	Non-controlling Interests (Note 20)	Total Equity
							Appropriated	Unappropriated				
At January 1, 2013	P33,166,300	P19,668,994	P607,237	P19,781,021	P-	(P61,088)	P42,200,000	P36,250,679	(P3,985,462)	P147,627,681	P2,834,304	P150,461,985
Net income for the year	-	-	-	-	-	-	-	16,274,820	-	16,274,820	451,108	16,725,928
Other comprehensive income (loss)	-	-	774,031	177,309	429,149	61,859	-	-	-	1,442,348	(667)	1,441,681
Total comprehensive income for the year	-	-	774,031	177,309	429,149	61,859	-	16,274,820	-	17,717,168	450,441	18,167,609
Equity adjustment from common control business combination (Note 5)	-	2,480,478	-	-	-	-	-	(26,942)	-	2,453,536	-	2,453,536
Cash dividends (Note 20)	-	-	-	-	-	-	-	(4,690,893)	-	(4,690,893)	-	(4,690,893)
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	(329,760)	(329,760)
Acquisition of non-controlling interests	-	153,964	-	-	-	-	-	-	5,084	159,048	-	159,048
At December 31, 2013	P33,166,300	P22,303,436	P1,381,268	P19,958,330	P429,149	P771	P42,200,000	P47,807,664	(P3,980,378)	P163,266,540	P2,954,985	P166,221,525

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	₱34,910,839	₱23,674,136	₱20,710,091
Adjustments for:			
Loss (gain) on:			
Sale of available-for-sale investments (Note 11)	(7,410,711)	(2,743)	(285,129)
Unrealized foreign exchange	166,435	173,510	(29,994)
Mark-to-market on investments held for trading (Note 7)	101,087	101,076	(93,996)
Maturity of derivatives - net	(40,691)	-	-
Disposal of investments held for trading (Note 7)	693	-	-
Fair value changes on derivatives - net	-	(21,340)	(62,717)
Sale/retirement of investment properties and property and equipment	-	-	(68,579)
Depreciation and amortization (Note 22)	6,966,952	6,579,781	5,980,940
Interest expense (Note 23)	3,379,104	4,099,499	3,686,603
Interest and dividend income (Notes 7, 11 and 23)	(1,168,610)	(731,884)	(1,093,870)
Equity in net earnings of associates and joint ventures (Note 15)	(542,905)	(304,434)	(349,468)
Restructuring costs (Note 5)	-	-	1,276,629
Operating income before working capital changes	36,362,193	33,567,601	29,670,510
Decrease (increase) in:			
Receivables	(695,616)	(3,559,562)	(8,470,424)
Condominium and residential units for sale	5,439,068	2,667,246	4,196,726
Land and development	(6,807,357)	(13,906,967)	(11,109,456)
Prepaid expenses and other current assets	(2,012,614)	(910,972)	2,722,125
Increase (decrease) in:			
Accounts payable and other current liabilities	3,652,508	(9,230,430)	9,456,186
Tenants' and customers' deposits	1,486,421	3,019,113	1,192,142
Cash generated from operations	37,424,603	11,646,029	27,657,809
Income tax paid	(5,486,465)	(4,894,650)	(4,116,235)
Cash provided by operating activities	31,938,138	6,751,379	23,541,574
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	7,466,528	4,258	397,977
Investments held for trading	35,000	150,000	300,448
Investment properties	-	-	99,991
Interest received	647,572	418,076	692,313
Dividends received	552,397	333,980	354,602
Additions to:			
Investment properties (Note 14)	(42,478,023)	(35,510,709)	(24,553,198)
Property and equipment (Note 13)	(235,913)	(158,016)	(440,890)
Available-for-sale investments	-	(357,071)	(2,396)
Investments held for trading	-	(65,416)	-
Proceeds from:			
Pretermination of short-term investments	-	887,900	-
Early redemption of available-for-sale investments	-	-	1,000,000
Investments in associates and joint venture and acquisition of a subsidiary - net of cash acquired (Notes 5 and 15)	(15,443,151)	-	(7,352,729)
Decrease (increase) in other noncurrent assets (Note 16)	(5,774,646)	4,908,379	(862,111)
Net cash used in investing activities	(55,230,236)	(29,388,619)	(30,365,993)

(Forward)



	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 17 and 19)	₱45,993,435	₱48,121,250	₱76,494,060
Payments of:			
Long-term debt (Note 19)	(11,288,366)	(16,175,802)	(20,812,576)
Bank loans (Note 17)	(11,100,000)	(9,070,000)	(33,210,179)
Dividends (Note 20)	(6,442,237)	(5,586,728)	(5,020,653)
Interest	(3,159,806)	(4,183,961)	(4,207,108)
Restructuring costs (Note 5)	-	-	(607,172)
Proceeds from:			
Maturity of derivatives	12,468	-	-
Reissuance of treasury shares (Note 20)	-	17,645,687	-
Net cash provided by financing activities	14,015,494	30,750,446	12,636,372
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(98,694)	(9,506)	30,187
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(9,375,298)	8,103,700	5,842,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	35,245,206	27,141,506	21,299,366
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	₱25,869,908	₱35,245,206	₱27,141,506

See accompanying Notes to Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Corporate Restructuring

Corporate Information

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

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

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

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

Corporate Restructuring

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

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



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

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

2. Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

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

(Forward)



Company	Country of Incorporation	Percentage of Ownership	
		2015	2014
SM Arena Complex Corporation (SMACC) ^(a)	- do -	100.0	100.0
MOA Esplanade Port Inc. (MEPI)	- do -	100.0	-
<i>Hotels and Convention Centers</i>			
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC) ^(a)	- do -	100.0	100.0
<i>a. Acquired in 2013 as part of SM Property Group corporate restructuring accounted for as common control business combination using pooling of interest method.</i>			
<i>b. Acquired in 2013 from unrelated parties accounted for under acquisition method.</i>			
<i>c. Acquired in 2013 accounted for as common control business combination using pooling of interest method.</i>			

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;



- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

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

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

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

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

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

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



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

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

The Company considers each property separately in making its judgment.

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

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

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

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

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

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

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



Estimates and Assumptions

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. The significant components of fair value measurement were determined using verifiable objective



evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect consolidated profit or loss and consolidated other comprehensive income.

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

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

Reclassification of Accounts

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

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies

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

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

Annual Improvements to PFRS (2010 to 2012 cycle)

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

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:



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

Annual Improvements to PFRS (2011 to 2013 cycle)

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.



- PFRS 13, *Fair Value Measurement - Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- PAS 40, *Investment Property*, is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Future Changes in Accounting Policies

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

Deferred

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

Future Standards Effective January 1, 2016

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



not expected to have any impact to the Company as the Company does not have any bearer plants.

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

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

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.
- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments), are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:



- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

Annual Improvements to PFRSs (2012-2014 cycle)

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

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



obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

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

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

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

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



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

Cash and Cash Equivalents

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

Short-term Investments

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

Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

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



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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statements of income under “Others - net” account. Interest income on investments held for trading is included in the consolidated



statements of income under the “Interest and dividend income” account. Instruments under this category are classified as current assets/liabilities if these are held primarily for the purpose of trading or expected to be realized/settled within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets/liabilities.

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

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

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

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

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

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

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company’s management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as



AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months from reporting period. Otherwise, these are classified as noncurrent assets.

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

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

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

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

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

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



Classification of Financial Instruments Between Liability and Equity

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

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

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

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

Debt Issue Costs

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

Derivative Financial Instruments

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

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

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

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



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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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



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

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

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

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

Impairment of Financial Assets

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit



losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

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

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

Offsetting Financial Instruments

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

Land and Development and Condominium and Residential Units for Sale

Land and development and condominium and residential units for sale are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Land and development



and condominium and residential units for sale include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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

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

Prepaid Expenses and Other Current Assets

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

Property Acquisitions and Business Combinations

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

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

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

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

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



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

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

Goodwill

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

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

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

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

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

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

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



Common Control Business Combinations

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

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

Acquisition of Non-controlling Interests

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

Property and Equipment

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

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



of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

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

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

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

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

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

Investment Properties

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

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

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

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

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



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

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

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

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

Investments in Shares of Stocks of Associates and Joint Ventures

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

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

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

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

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



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

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

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

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

Other Noncurrent Assets

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

Impairment of Nonfinancial Assets

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



recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Tenants' Deposits

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

Customers' Deposits

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

Capital Stock and Additional Paid-in Capital

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

Retained Earnings

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

Treasury Stock

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

Dividends

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

Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured.



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

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

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

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

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

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

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

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

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

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



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

Management Fees

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

Cost and Expenses

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

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

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

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

Pension Benefits

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

Defined benefit pension costs comprise the following:

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

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of “Costs and expenses” under “Administrative”



account in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

Company as Lessee. Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease



payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statements of income.

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

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

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

Provisions

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

Borrowing Costs

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

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



Taxes

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

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

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

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

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

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

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

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

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



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

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

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

Business Segments

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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

Events after the Reporting Period

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

4. Segment Information

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

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



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

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

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

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

Inter-segment Transactions

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

Business Segment Data

	2015					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
	<i>(In Thousands)</i>					
Revenue:						
External customers	P42,705,269	P22,931,237	P3,434,135	P2,440,646	P-	P71,511,287
Inter-segment	27,503	-	71,865	5,691	(105,059)	-
	P42,732,772	P22,931,237	P3,506,000	P2,446,337	(P105,059)	P71,511,287
Segment results:						
Income before income tax	P20,380,936	P5,688,535	P1,703,004	P534,543	P6,603,821	P34,910,839
Provision for income tax	(4,863,565)	(623,693)	(365,641)	(165,347)	-	(6,018,246)
Net income	P15,517,371	P5,064,842	P1,337,363	P369,196	P6,603,821	P28,892,593
Net income attributable to:						
Equity holders of the Parent	P14,978,854	P5,064,842	P1,285,379	P369,196	P6,603,821	P28,302,092
Non-controlling interests	538,517	-	51,984	-	-	590,501
Segment assets	P283,013,015	P108,811,859	P31,284,878	P10,804,808	(P86,121)	P433,828,439
Segment liabilities	P160,242,498	P54,148,046	P3,038,706	P642,463	(P86,121)	P217,985,592
Other information:						
Capital expenditures	P35,916,735	P19,522,186	P1,052,206	P2,845,821	P-	P59,336,948
Depreciation and amortization	5,781,043	296,636	549,443	339,830	-	6,966,952



2014						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	P38,642,759	P22,722,516	P2,873,334	P2,001,461	P-	P66,240,070
Inter-segment	57,767	916	71,996	3,229	(133,908)	-
	P38,700,526	P22,723,432	P2,945,330	P2,004,690	(P133,908)	P66,240,070
Segment results:						
Income before income tax	P17,907,345	P4,938,472	P1,074,462	P298,384	(P544,527)	P23,674,136
Provision for income tax	(4,193,180)	(246,225)	(273,729)	(64,513)	-	(4,777,647)
Net income	P13,714,165	P4,692,247	P800,733	P233,871	(P544,527)	P18,896,489
Net income attributable to:						
Equity holders of the Parent	P13,240,587	P4,692,247	P768,174	P233,871	(P544,527)	P18,390,352
Non-controlling interests	473,578	-	32,559	-	-	506,137
Segment assets	P244,909,574	P106,187,067	P28,617,113	P9,391,400	(P264,995)	P388,840,159
Segment liabilities	P127,760,583	P55,362,092	P3,092,728	P651,548	(P264,995)	P186,601,956
Other information:						
Capital expenditures	P32,393,612	P22,546,987	P2,822,857	P1,274,294	P-	P59,037,750
Depreciation and amortization	5,337,698	304,316	612,814	324,953	-	6,579,781
2013						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	P34,332,874	P20,906,585	P2,855,564	P1,600,045	P99,342	P59,794,410
Inter-segment	134,258	9,565	58,734	69,723	(272,280)	-
	P34,467,132	P20,916,150	P2,914,298	P1,669,768	(P172,938)	P59,794,410
Segment results:						
Income (loss) before income tax	P15,773,978	P4,599,152	P1,058,465	(P24,287)	(P697,217)	P20,710,091
Benefit from (provision for) income tax	(3,737,260)	(367,900)	(259,480)	(31,241)	411,718	(3,984,163)
Net income (loss)	P12,036,718	P4,231,252	P798,985	(P55,528)	(P285,499)	P16,725,928
Net income (loss) attributable to:						
Equity holders of the Parent	P11,630,987	P4,231,252	P798,985	(P55,528)	(P330,876)	P16,274,820
Non-controlling interests	405,731	-	-	-	45,377	451,108
Segment assets	P204,805,990	P97,345,097	P28,245,291	P7,173,803	(P1,986,499)	P335,583,682
Segment liabilities	P114,964,693	P50,203,798	P3,872,643	P1,682,990	(P1,361,967)	P169,362,157
Other information:						
Capital expenditures	P25,867,627	P12,439,263	P5,002,947	P146,437	P-	P43,456,274
Depreciation and amortization	4,754,081	233,137	619,279	374,443	-	5,980,940

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

5. Business Combinations

Common Control Business Combinations

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



common control business combinations and was accounted for using the pooling of interest method.

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

- *SM Land's Tender Offers for SMDC and HPI*

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

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

- *Merger of SMPH (the "Surviving entity") and SM Land (the "Absorbed entity")*

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

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

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



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

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

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

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

Other Common Control Business Combinations

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

Business Acquisitions

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

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

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

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

The Company’s consolidated revenue and net income would have increased by ₱80 million and decreased by ₱105 million, respectively, for the year ended December 31, 2013 had the



acquisition of CHAS took place on January 1, 2013. Total revenue and net income of CHAS included in the consolidated financial statements for 2013 are immaterial.

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

6. Cash and Cash Equivalents

This account consists of:

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

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

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

7. Investments Held for Trading

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

The movements in this account are as follows:

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

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

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



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

8. Receivables

This account consists of:

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

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

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

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

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

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



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

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

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

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

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

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

9. Condominium and Residential Units for Sale

This account consists of:

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

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

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

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



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

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

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

10. Land and Development

This account consists of:

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

Land and Development

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

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

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

- SMDC
Land and development include those attributable to SMDC which pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱23,440 million and ₱31,912 million as at December 31, 2015 and 2014, respectively.



- Costa
Costa's land and development projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and macro-infrastructure. Estimated liability pertaining to ongoing macro-infrastructure projects amounted to ₱219 million and ₱290 million as at December 31, 2015 and 2014, respectively.

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

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

Land Held for Future Development

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

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

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

11. Available-for-sale Investments

This account consists of investments in:

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

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

On February 25, 2015, the Company sold a portion of its listed shares of stock to SMIC based on a 5% discount to 30-day volume-weighted average price as of trade date resulting to a realized gain amounting to ₱7,410 million (see Note 21). In 2014 and 2013, shares with acquisition cost of ₱2 million and ₱101 million were sold resulting to a realized gain amounting to ₱3 million and



₱285 million, respectively. Realized gain on sale of available-for-sale investments is shown as component of “Other Income” in the consolidated statements of income.

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

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

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

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

12. Prepaid Expenses and Other Current Assets

This account consists of:

	2015	2014
	<i>(In Thousands)</i>	
Advances and deposits	₱4,829,512	₱2,991,975
Input and creditable withholding taxes	3,467,461	3,203,920
Prepaid taxes and other prepayments	2,108,087	1,948,049
Cash in escrow (see Note 21)	437,639	667,778
Supplies and inventories	402,347	323,285
Advances for project development	–	16,467
Others	57,825	137,843
	₱11,302,871	₱9,289,317

- Advances pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.
- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.
- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.



- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account.

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

Interest income earned from the cash in escrow amounted to ₱24 million, ₱7 million and ₱5 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 23).

13. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
<i>(In Thousands)</i>							
Cost							
Balance at December 31, 2013	₱270,871	₱1,245,729	₱143,240	₱98,999	₱1,065,210	₱-	₱2,824,049
Additions	609	45,537	47,905	12,881	115,600	7,827	230,359
Disposals	-	(92,576)	(6,295)	(1,443)	(24,529)	-	(124,843)
Reclassifications	(54,163)	1,113,654	52,641	44,272	(19,421)	-	1,136,983
Balance at December 31, 2014	217,317	2,312,344	237,491	154,709	1,136,860	7,827	4,066,548
Additions	207	42,180	65,308	87,199	66,112	2,755	263,761
Disposals/retirements	-	(3,553)	(10)	(3,097)	(33,662)	-	(40,322)
Reclassifications (see Notes 10 and 14)	-	(727,330)	(133,075)	8,725	(551,122)	(10,582)	(1,413,384)
Balance at December 31, 2015	₱217,524	₱1,623,641	₱169,714	₱247,536	₱618,188	₱-	₱2,876,603
Accumulated Depreciation and Amortization							
Balance at December 31, 2013	₱105,932	₱542,690	₱80,077	₱53,832	₱462,625	₱-	₱1,245,156
Depreciation and amortization (see Note 22)	23	211,202	67,506	13,878	184,817	-	477,426
Disposals/retirements	-	(39,323)	(3,343)	(1,325)	(8,509)	-	(52,500)
Reclassifications	(105,932)	192,179	13,346	14,132	24,354	-	138,079
Balance at December 31, 2014	23	906,748	157,586	80,517	663,287	-	1,808,161
Depreciation and amortization (see Note 22)	73	128,812	33,417	25,486	83,645	-	271,433
Disposals/retirements	-	(716)	(199)	(1,866)	(9,693)	-	(12,474)
Reclassifications (see Notes 10 and 14)	-	(422,637)	(83,659)	15,590	(380,193)	-	(870,899)
Balance at December 31, 2015	₱96	₱612,207	₱107,145	₱119,727	₱357,046	₱-	₱1,196,221
Net Book Value							
As at December 31, 2014	₱217,294	₱1,405,596	₱79,905	₱74,192	₱473,573	₱7,827	₱2,258,387
As at December 31, 2015	217,428	1,011,434	62,569	127,809	261,142	-	1,680,382

As at December 31, 2015 and 2014, the carrying amount of fully depreciated property and equipment still in use amounted to ₱155 million and ₱159 million, respectively.



14. Investment Properties

The movements in this account are as follows:

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

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

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

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

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

In 2014, shopping mall complex under construction mainly pertains to cost of land amounting to ₱6,576 million and costs incurred for the development of SM Seaside City Cebu, SM City



Cabanatuan, SM Center San Mateo, SM Tianjin and SM Zibo and the expansions and renovations of SM Mall of Asia, SM City Sta. Rosa, SM City Iloilo, SM City Taytay and SM City San Lazaro.

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

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

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

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

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

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

15. Investments in Associates and Joint Ventures

Investments in Associates

This pertains mainly to investments in the following companies:

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

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



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

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

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

Investment in Joint Ventures

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

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

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

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

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



16. Other Noncurrent Assets

This account consists of:

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

Bonds and Deposits

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

Land use rights

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

Time Deposits

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

17. Loans Payable

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

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



18. Accounts Payable and Other Current Liabilities

This account consists of:

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

The terms and conditions of the above liabilities follow:

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

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

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



- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.



19. Long-term Debt

This account consists of:

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

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



Parent Company

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

This includes the following:

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

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

- This represents a P20 billion fixed rate bonds issued on November 25, 2015. The issue consists of the five-year and three months or Series D Bonds amounting to P17,969 million with a fixed interest rate equivalent to 4.5095% per annum due on February 25, 2021 and ten-year or Series E Bonds amounting to P2,031 million with a fixed interest rate equivalent to 4.7990% per annum due on November 25, 2025.

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

- This represents a P20 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to P15,036 million with a fixed interest rate equivalent to 5.1000% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to P2,362 million with a fixed interest rate equivalent to 5.2006% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to P2,602 million with a fixed interest rate equivalent to 5.7417% per annum due on September 1, 2024.

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loans

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

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

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



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

Debt Issue Cost

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

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

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

Repayment Schedule

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

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

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

20. Equity

Capital Stock

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

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



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

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

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

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

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

Additional Paid-in Capital - Net

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

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

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

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

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



Retained Earnings

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

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

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

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

Treasury Stock

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

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

21. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

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



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

	Amount of Transactions			Outstanding Amount [Asset (Liability)]		Terms	Conditions
	2015	2014	2013	2015	2014		
<i>(In Thousands)</i>							
Ultimate Parent							
Rent income	₱48,344	₱44,329	₱115,048	–	–	Noninterest-bearing	Unsecured; not impaired
Rent receivable	–	–	–	₱22,108	₱16,005		
Sponsorship income	–	–	3,898	–	–	Noninterest-bearing	Unsecured; not impaired
Service income	27,903	44,200	53,040	–	–	Noninterest-bearing	Unsecured; not impaired
Service fee receivable	–	–	–	17	–	Noninterest-bearing	Unsecured; not impaired
Interest income	–	–	3,339	–	–	Interest-bearing	Unsecured; not impaired
Due from related parties	–	488	295	449	783	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	91,611	87,276	189,214	–	–	Noninterest-bearing	Unsecured
Accrued rent payable	–	–	–	(1,427)	(1,561)	Noninterest-bearing	Unsecured
Administrative expenses	–	–	9,578	–	–	Noninterest-bearing	Unsecured
Due to related parties	–	–	2,199,471	(26,707)	(31,459)	On demand; noninterest-bearing	Unsecured
Trade payable	37,831	–	–	(39,855)	(2,024)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	84,156	78,750	Noninterest-bearing	Unsecured; not impaired
Dividend income	1,033	1,007	4,597	–	–	Noninterest-bearing	Unsecured
Gain on sale of AFS investments	7,410,301	–	–	–	–	Noninterest-bearing	Unsecured
Banking and Retail Group							
Cash and cash equivalents	116,720,058	183,027,363	5,289,545	18,907,056	29,377,591	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	–	65,416	112,234	563,897	659,676	Noninterest-bearing	Unsecured; not impaired
Rent income	12,419,414	11,379,209	10,393,358	–	–	Noninterest-bearing	Unsecured; not impaired
Rent receivable	–	–	–	2,371,247	2,254,280		
Service income	1,663	2,351	–	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee income	6,533	7,412	–	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	–	–	–	29,405	31,437		
Deferred rent income	–	–	–	(63,548)	(83,548)	Noninterest bearing	Unsecured
Sponsorship income	–	–	3,508	–	–	Noninterest bearing	Unsecured; not impaired
Interest income	260,183	238,595	559,419	–	–	Interest-bearing	Unsecured; not impaired
Accrued interest receivable	–	–	–	44,534	104,836	Noninterest-bearing	Unsecured; not impaired
Marketing fee income	–	–	28,463	–	–	Noninterest-bearing	Unsecured; not impaired
Due from related parties	–	7,261	–	19	8,907	On demand; noninterest-bearing	Unsecured; not impaired
Receivable financed	1,894,719	3,750,848	3,735,340	–	–	Without recourse	Unsecured;
Time deposits	2,160,836	2,249,600	–	4,410,436	2,249,600	Interest-bearing	Unsecured



	Amount of Transactions			Outstanding Amount [Asset (Liability)]		Terms	Conditions
	2015	2014	2013	2015	2014		
	(In Thousands)						
Loans payable and long-term debt	₱-	₱6,915,000	₱15,006,500	(₱961,624)	(₱1,230,000)	Interest-bearing	Combination of secured and unsecured
Interest expense	101,856	658,400	363,738	-	-	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable	-	-	-	(638)	(5,668)	Noninterest-bearing	Unsecured
Rent expense	1,523	288	-	-	-	Noninterest-bearing	Unsecured
Trade payable	4,621	-	-	(5,886)	(1,265)	Noninterest-bearing	Unsecured
Due to related parties	2,592	793	-	(3,385)	(793)	Noninterest-bearing	Unsecured
Management fee expense	3,452	2,135	-	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	-	(876)	(519)	Noninterest-bearing	Unsecured
AFS investments	-	52,886	-	10,968,613	11,843,233	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	230,139	-	763,869	437,639	667,778	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	248,407	241,712	240,037	-	-	Noninterest-bearing	Unsecured
Other Related Parties							
Rent income	50,472	-	-	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	-	28,820	24,520		
Service income	4,702	-	25,315	-	-	Noninterest-bearing	Unsecured; not impaired
Due from related parties	-	-	367,510	100,601	356,184	On demand; noninterest-bearing	Unsecured; not impaired
Management fee income	-	10,912	4,723	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	-	-	-	7,993	11,017		
Trade receivable - others	-	-	11,716	-	-	Noninterest-bearing	Unsecured
Rent expense	4,962	3,927	-	-	-		
Due to related parties	-	56,138	(104,500)	(58,777)	(115,180)	Noninterest-bearing	Unsecured
Accrued expenses	-	-	352,434	(573,192)	(573,192)	Noninterest-bearing	Unsecured
Management fee expense	1,057,603	1,110,626	963,126	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	-	(117,402)	(101,775)	Noninterest-bearing	Unsecured
Administrative expenses	-	-	971	-	-	Noninterest-bearing	Unsecured
Advances for project development	-	-	518,122	-	-	Noninterest-bearing	Unsecured; not impaired
Trade payable	-	-	-	(15,542)	(26,992)	Noninterest-bearing	Unsecured
AFS investments	-	-	-	2,140,461	3,602,136	Noninterest-bearing	Unsecured; not impaired
Sponsorship income	-	-	7,406	-	-	Noninterest-bearing	Unsecured
Interest income	-	-	21,972	-	-	Noninterest-bearing	Unsecured
Dividend income	202,277	14,769	-	-	-	Noninterest-bearing	Unsecured
Gain on disposal of land	-	-	33,314	-	-	Noninterest-bearing	Unsecured

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



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

Rent

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

Management Fees

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

Service Fees

The Company provides manpower and other services to affiliates.

Dividend Income

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

Cash Placements and Loans

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

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

Others

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

Compensation of Key Management Personnel

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

22. Costs and Expenses

This account consists of:

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



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

23. Interest Income and Interest Expense

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

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

24. Pension Benefits

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

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

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

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

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

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



Net Pension Liability (included under “Other noncurrent liabilities” account)

	2015	2014
	<i>(In Thousands)</i>	
Defined benefit obligation	P385,207	P381,892
Fair value of plan assets	(311,972)	(273,355)
Net pension liability	P73,235	P108,537

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

	2015	2014
	<i>(In Thousands)</i>	
Balance at beginning of the year	P597,354	P361,747
Current service cost	106,465	72,808
Interest cost	28,058	22,696
Actuarial loss (gain):		
Changes in financial assumptions	(115,093)	124,435
Changes in demographic assumptions	(31,645)	(16,190)
Experience adjustments	20,015	46,852
Benefits paid from assets	(10,698)	(4,579)
Transfer to (from) the plan	(430)	556
Others	15,546	(10,971)
Balance at end of the year	P609,572	P597,354

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

	2015	2014
	<i>(In Thousands)</i>	
Related to pension asset	P224,365	P215,462
Related to pension liability	385,207	381,892
	P609,572	P597,354

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

	2015	2014
	<i>(In Thousands)</i>	
Balance at beginning of year	P546,126	P424,822
Contributions	107,082	87,015
Interest income	27,530	29,143
Remeasurement gain (loss)	(28,359)	9,169
Benefits paid	(10,698)	(4,579)
Transfer to (from) the plan and others	(430)	556
Balance at end of year	P641,251	P546,126



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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
	<i>(In Thousands)</i>	
Discount rates	50 (50)	(₱32,436) 35,409
Future salary increases	100 (100)	65,129 (56,282)

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



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

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

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

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

25. Income Tax

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

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

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

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



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

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

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

26. Lease Agreements

Company as Lessor

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

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

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

	2015	2014
	<i>(In Millions)</i>	
Within one year	P1,643	P1,224
After one year but not more than five years	5,272	4,180
After more than five years	3,929	637
	P10,844	P6,041

Consolidated rent income amounted to P40,743 million, P36,497 million and P32,195 million for the years ended December 31, 2015, 2014 and 2013, respectively.



Company as Lessee

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

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

The Company's future minimum lease payables under the noncancellable operating leases as at December 31 are as follows:

	2015	2014
	<i>(In Millions)</i>	
Within one year	₱717	₱744
After one year but not more than five years	3,190	3,138
After five years	25,737	25,867
Balance at end of year	₱29,644	₱29,749

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,317 million, ₱1,187 million and ₱1,295 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 22).

27. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 28).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to cash flow interest rate risk are disclosed in Notes 6, 7 and 19.



The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2015 and 2014, after taking into account the effect of interest rate swaps, approximately 63% and 67%, respectively, of its long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 28).



Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2015 and 2014:

	Interest Rate	2015					Total	Unamortized Debt Issuance Costs	Carrying Value
		1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years			
Fixed Rate									
Philippine peso-denominated corporate notes	5.25%-6.65%	₱16,700	₱16,700	₱16,700	₱16,700	₱9,376,300	₱9,443,100	(₱43,602)	₱9,399,498
Philippine peso-denominated fixed rate notes	4.32%-6.74%	₱5,463,600	₱1,985,100	₱4,559,900	₱6,662,200	₱9,070,400	27,741,200	(91,316)	27,649,884
Philippine peso-denominated fixed rate retail bonds	4.51%-5.20%	₱-	₱-	₱-	₱-	₱40,000,000	40,000,000	(309,400)	39,690,600
Other bank loans	4.25%-9.75%	₱1,200,000	₱412,500	₱-	₱235,000	₱325,000	2,172,500	(3,349)	2,169,151
Floating Rate									
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$270,000	\$-	\$500,000	\$300,000	\$-	50,354,200	(523,656)	49,830,544
U.S. dollar-denominated bilateral loans	LIBOR + spread	\$-	\$50,000	\$-	\$-	\$-	2,353,000	(24,215)	2,328,785
Other U.S. dollar loans	LIBOR + spread	\$-	\$-	\$25,000	\$-	\$-	1,176,500	(14,029)	1,162,471
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱100,000	₱5,360,000	5,760,000	(1,711)	5,758,289
Philippine peso-denominated floating rate notes	PDST-R2+margin%	₱5,046,500	₱4,214,000	₱210,000	₱1,010,000	₱2,030,000	12,510,500	(38,007)	12,472,493
Philippine peso-denominated five-year bilateral loans	PDST-R2+margin%	₱500,000	₱-	₱-	₱-	₱-	500,000	(479)	499,521
China yuan renminbi-denominated five-year loan	CBC rate less 10%	₱8,044	₱8,044	₱8,044	₱8,117	₱-	32,249	-	32,249
							₱152,043,249	(₱1,049,764)	₱150,993,485

PDST-R2 – Philippine Treasury Reference Rates – PM



2014									
	Interest Rates	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	=>5 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	5.57%-6.65%	₱976,700	₱16,700	₱16,700	₱16,700	₱9,393,000	₱10,419,800	(₱51,841)	₱10,367,959
Philippine peso-denominated fixed rate notes	4.00%-6.81%	₱2,073,600	₱5,463,600	₱2,485,100	₱4,559,900	₱14,932,600	29,514,800	(125,555)	29,389,245
Philippine peso-denominated fixed rate retail bonds	5.10%-5.74%	₱-	₱-	₱-	₱-	₱20,000,000	20,000,000	(166,362)	19,833,638
Other bank loans	4.50%-9.75%	₱38,800	₱1,200,000	₱412,500	₱-	₱412,500	2,063,800	(2,549)	2,061,251
Floating Rate									
U.S. dollar-denominated five-year term loans	LIBOR + spread	\$-	\$270,000	\$-	\$500,000	\$210,000	43,825,600	(637,943)	43,187,657
U.S. dollar-denominated bilateral loans	LIBOR + spread	\$50,000	\$-	\$50,000	\$-	\$-	4,472,000	(39,699)	4,432,301
Other U.S. dollar loans	LIBOR + spread	\$-	\$-	\$-	\$25,000	\$-	1,118,000	(17,654)	1,100,346
Philippine peso-denominated corporate notes	PDST-F+margin%	₱4,800,000	₱-	₱-	₱-	₱-	4,800,000	(10,749)	4,789,251
Philippine peso-denominated floating rate notes	PDST-F+margin%	₱96,500	₱4,846,500	₱3,514,000	₱10,000	₱1,740,000	10,207,000	(39,134)	10,167,866
Philippine peso-denominated five-year bilateral loans	PDST-F+margin%	₱-	₱500,000	₱-	₱-	₱-	500,000	(1,036)	498,964
Other bank loans	PDST-F+margin%	₱785,280	₱-	₱-	₱-	₱-	785,280	(731)	784,549
							₱127,706,280	(₱1,093,253)	₱126,613,027

PDST-F – Philippine Dealing System Treasury Fixing



Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax <i>(In Thousands)</i>
2015	100	(P123,780)
	50	(61,890)
	(100)	123,780
	(50)	61,890
2014	100	(P77,004)
	50	(38,502)
	(100)	77,004
	(50)	38,502

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

Foreign Currency Risk

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

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

The Company's foreign currency-denominated monetary assets amounted to US\$796 million (P37,457 million) as at December 31, 2015 and US\$759 million (P33,948 million) as at December 31, 2014. The Company's foreign currency-denominated monetary liabilities amounted to US\$802 million (P37,745 million), US\$764 million (¥4,961 million) and ¥4.45 million as at December 31, 2015, and US\$762 million (P34,082 million) and US\$711 million (¥4,415 million) as at December 31, 2014.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ¥6.4937 to US\$1.00 and ¥6.2055 to US\$1.00, the China Yuan Renminbi to U.S. dollar exchange rate and P47.06 to US\$1.00 and P44.72 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2015 and 2014, respectively.



Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate and U.S. dollar to China Yuan Renminbi, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of \$	Effect on Income Before Tax <i>(In Thousands)</i>	Appreciation (Depreciation) of \$	Effect on Income Before Tax <i>(In Thousands)</i>
2015	1.50	(P2,282)	1.50	(¥286,476)
	1.00	(1,521)	1.00	(190,984)
	(1.50)	2,282	(1.50)	286,476
	(1.00)	1,521	(1.00)	190,984
2014	1.50	(P1,124)	1.50	(¥266,787)
	1.00	(749)	1.00	(177,858)
	(1.50)	1,124	(1.50)	266,787
	(1.00)	749	(1.00)	177,858

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, investments held for trading and current AFS investments amounting to P25,870 million, P843 million and P642 million, respectively, as at December 31, 2015 and P35,245 million, P968 million and P677 million, respectively, as at December 31, 2014 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

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

	2015			Total
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	
	<i>(In Thousands)</i>			
Loans payable	P4,675,000	P-	P-	P4,675,000
Accounts payable and other current liabilities*	37,872,822	-	-	37,872,822
Long-term debt (including current portion)***	31,357,365	120,519,559	25,013,426	176,890,350
Liability for purchased land - net of current portion	-	2,081,708	-	2,081,708
Tenants' and customers' deposits	-	13,019,430	198,834	13,218,264
Other noncurrent liabilities**	-	3,341,067	-	3,341,067
	P73,905,187	P138,961,764	P25,212,260	P238,079,211



	2014			Total
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	
	<i>(In Thousands)</i>			
Loans payable	P2,670,000	P–	P–	P2,670,000
Accounts payable and other current liabilities*	34,231,558	–	–	34,231,558
Long-term debt (including current portion)	15,261,124	88,712,795	45,231,699	149,205,618
Derivative liabilities	–	58,705	–	58,705
Liability for purchased land - net of current portion	–	1,170,855	–	1,170,855
Tenants' and customers' deposits	–	13,082,936	168,590	13,251,526
Other noncurrent liabilities**	–	3,208,432	–	3,208,432
	P52,162,682	P106,233,723	P45,400,289	P203,796,694

* Excluding nonfinancial liabilities amounting to P946 million and P2,147 million as at December 31, 2015 and 2014, respectively.

** Excluding nonfinancial liabilities amounting to P1,412 million and P573 million as at December 31, 2015 and 2014, respectively.

***Long-term debt amounting to US\$270 million was refinanced in January 2016.

Credit Risk

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

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 28.

Since the Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The fair value of the respective units sold is sufficient to cover the credit risk arising from the "Receivable from sale of real estate." The Company has no other significant terms and conditions associated with the use of collateral.

As at December 31, 2015 and 2014, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

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

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

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



As at December 31, 2015 and 2014, the credit quality of the Company's financial assets is as follows:

	2015			Total
	Neither Past Due nor Impaired High Quality	Standard Quality	Past Due but not Impaired	
<i>(In Thousands)</i>				
Loans and Receivables				
Cash and cash equivalents*	₱25,784,727	₱-	₱-	₱25,784,727
Receivables**	16,776,566	5,821,771	8,752,284	31,350,621
Cash in escrow (included under "Prepaid expenses and other current assets")	437,639	-	-	437,639
Real estate receivable - noncurrent (included under "Other noncurrent assets")	7,962,615	-	-	7,962,615
Time deposits (included under "Other noncurrent assets")	4,561,849	-	-	4,561,849
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	843,256	-	-	843,256
Derivative assets	2,600,799	-	-	2,600,799
AFS Investments				
Shares of stocks	20,323,495	8,560	-	20,332,055
	₱79,290,946	₱5,830,331	₱8,752,284	₱93,873,561

* Excluding cash on hand amounting to ₱85 million

** Excluding nonfinancial assets amounting to ₱4 million

	2014			Total
	Neither Past Due nor Impaired High Quality	Standard Quality	Past Due but not Impaired	
<i>(In Thousands)</i>				
Loans and Receivables				
Cash and cash equivalents*	₱35,148,896	₱-	₱-	₱35,148,896
Receivables**	15,352,165	6,604,078	8,726,652	30,682,895
Cash in escrow (included under "Prepaid expenses and other current assets")	667,778	-	-	667,778
Real estate receivable - noncurrent (included under "Other noncurrent assets")	8,341,583	-	-	8,341,583
Time deposits (included under "Other noncurrent assets")	2,412,190	-	-	2,412,190
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	967,511	-	-	967,511
Derivative assets	1,632,814	-	-	1,632,814
AFS Investments				
Shares of stocks	29,663,165	8,573	-	29,671,738
	₱94,186,102	₱6,612,651	₱8,726,652	₱109,525,405

* Excluding cash on hand amounting to ₱96 million

** Excluding nonfinancial assets amounting to ₱4 million



Equity Price Risk

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

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

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2015 and 2014) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

2015		
Change in Equity Price	Effect on Equity After Income Tax	
	<i>(In Millions)</i>	
AFS investments	+4%	₱472
	-4%	(472)
2014		
Change in Equity Price	Effect on Equity After Income Tax	
	<i>(In Millions)</i>	
AFS investments	+9%	₱2,815
	-9%	(2,815)

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

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

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



As at December 31, 2015 and 2014, the Company's gearing ratios are as follows:

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

	2015	2014
	<i>(In Thousands)</i>	
Loans payable	P4,675,000	P2,670,000
Current portion of long-term debt	25,041,044	11,006,880
Long-term debt - net of current portion	125,952,441	115,606,147
Total interest-bearing debt (a)	155,668,485	129,283,027
Total equity attributable to equity holders of the parent	212,488,822	199,087,690
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	P368,157,307	P328,370,717
Gearing ratio (a/b)	42%	39%

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

	2015	2014
	<i>(In Thousands)</i>	
Loans payable	P4,675,000	P2,670,000
Current portion of long-term debt	25,041,044	11,006,880
Long-term debt - net of current portion	125,952,441	115,606,147
Less cash and cash equivalents and investments held for trading	(26,713,164)	(36,212,717)
Total net interest-bearing debt (a)	128,955,321	93,070,310
Total equity attributable to equity holders of the parent	212,488,822	199,087,690
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	P341,444,143	P292,158,000
Gearing ratio (a/b)	38%	32%



28. Financial Instruments

Fair Values

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

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	₱843,256	₱843,256	₱967,511	₱967,511
Derivative assets	2,600,799	2,600,799	1,632,814	1,632,814
	3,444,055	3,444,055	2,600,325	2,600,325
Loans and receivables:				
Noncurrent portion of receivable from sale of real estate	7,962,615	7,833,491	8,341,583	8,255,073
Time deposits (included under "Other noncurrent assets")	4,561,849	4,528,341	2,412,190	2,387,174
AFS investments -				
Shares of stocks	20,332,055	20,332,055	29,671,738	29,671,738
	₱36,300,574	₱36,137,942	₱43,025,836	₱42,914,310
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	₱-	₱-	₱58,705	₱58,705
Other financial liabilities:				
Liability for purchased land - net of current portion	2,081,708	2,066,418	1,170,855	1,158,712
Long-term debt - net of current portion	125,952,441	133,874,562	115,606,147	118,510,996
Tenants' and customers' deposits	13,218,264	13,121,180	13,251,526	12,972,502
Other noncurrent liabilities*	3,341,067	3,319,530	3,208,432	3,171,783
	144,593,480	152,381,690	133,236,960	135,813,993
	₱144,593,480	₱152,381,690	₱133,295,665	₱135,872,698

*Excluding nonfinancial liabilities amounting to ₱1,412 million and ₱573 million as at December 31, 2015 and 2014, respectively.

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

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

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

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 4.1% and 5.2% as at December 31, 2015 and 2014, respectively.

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



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

<u>Debt Type</u>	<u>Fair Value Assumptions</u>
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.18% to 5.59% and from 3.54% to 5.32% as at December 31, 2015 and 2014, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.95% to 2.37% and 1.70% to 1.97% as at December 31, 2015 and 2014, respectively.

Tenants' and Customers' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 4.03% to 4.17% and 2.69% to 5.22% as at December 31, 2015 and 2014, respectively.

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

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

Fair Value Hierarchy

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

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



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

	2015		
	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>		
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	P279,359	P-	P-
Shares	563,897	-	-
Derivative assets	-	2,600,799	-
	843,256	2,600,799	-
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	-	-	7,833,491
Time deposits (included under "Other noncurrent assets")	-	4,528,341	-
AFS investments -			
Shares of stocks	20,323,495	-	8,561
	P21,166,751	P7,129,140	P7,842,052
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	P-	P-	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	2,066,418
Long-term debt - net of current portion	-	-	133,874,562
Tenants' and customers' deposits	-	-	13,121,180
Other noncurrent liabilities*	-	-	3,319,530
	-	-	152,381,690
	P-	P-	P152,381,690

*Excluding nonfinancial liabilities amounting to P1,412 million as at December 31, 2015.



	2014		
	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>		
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	P307,835	P-	P-
Shares	659,676	-	-
Derivative assets	-	1,632,814	-
	967,511	1,632,814	-
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	-	-	8,255,073
Time deposits (included under "Other noncurrent assets")	-	2,387,174	-
AFS investments -			
Shares of stocks	29,663,165	-	8,573
	P30,630,676	P4,019,988	P8,263,646
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	P-	P58,705	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	1,158,712
Long-term debt - net of current portion	-	-	118,510,996
Tenants' and customers' deposits	-	-	12,972,502
Other noncurrent liabilities*	-	-	3,171,783
	-	-	135,813,993
	P-	P58,705	P135,813,993

*Excluding nonfinancial liabilities amounting to P573 million as at December 31, 2014.

During the years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, non-deliverable forwards and non-deliverable currency swaps.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

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



Under the floating-to-fixed cross-currency swaps, it effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents (₱8,134 million for US\$200 million and ₱6,165 million for US\$150 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the twelve-month period ended December 31, 2015.

Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	<i>(In Thousands)</i>			
Unsecured loan	US\$200,000	₱9,412,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	7,059,000	6-month US LIBOR + 1.70%	March 25, 2018

The table below provides the details of SMPH's outstanding cross-currency swaps as at December 31, 2015:

	Notional Amounts		Receive	Pay	US\$:P		Maturity	Fair Value
	US\$	₱			Rate	Rate		
	<i>(In Thousands)</i>						<i>(In Thousands)</i>	
Floating-to-Fixed	US\$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	₱1,162,002	
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	372,570	
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	370,959	
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	343,859	
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	351,409	



Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱2,601 million gain and ₱1,602 million gain as at December 31, 2015 and 2014, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2015 and 2014. Foreign currency translation loss arising from the hedged loan amounting to ₱819 million in 2015, ₱114 million in 2014 and ₱1,239 million in 2013 was recognized in the consolidated statement of income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges

The table below shows information on the Company's interest rate swaps presented by maturity profile.

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



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

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

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

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

- A US\$ interest rate swap agreement with nominal amount of US\$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱19 million gain in 2015.
- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱31 million loss in 2015.

In 2009, SMPH entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$25 million. Under these agreements, SMPH effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013. Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million gain in 2013.

Non-deliverable Currency Forwards and Swaps. In 2015 and 2014, SMPH entered into sell ₱ and buy US\$ currency forward contracts. It also entered into sell US\$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱14 million gain, ₱14 million gain and ₱32 million gain in 2015, 2014 and 2013, respectively.



Fair Value Changes on Derivatives

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

	2015	2014
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,574,109	₱1,618,836
Net changes in fair value during the year	793,985	(293,786)
Fair value of settled derivatives	232,705	249,059
Balance at end of year	₱2,600,799	₱1,574,109

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

In 2014, the net changes in fair value amounting to ₱294 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱263 million, which is charged against “Interest expense” account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱66 million, which is included under “Net fair value changes on cash flow hedges” account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱35 million, which is included under “Others - net” account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2015	2014
	<i>(In Thousands)</i>	
Derivative assets	₱2,600,799	₱1,632,814
Derivative liabilities	-	(58,705)
	₱2,600,799	₱1,574,109

29. EPS Computation

Basic/diluted EPS is computed as follows:

	2015	2014	2013
	<i>(In Thousands, Except Per Share Data)</i>		
Net income attributable to equity holders of the parent (a)	₱28,302,092	₱18,390,352	₱16,274,820
Common shares issued	33,166,300	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	4,332,755	5,291,243	5,394,370
Weighted average number of common shares outstanding (b)	28,833,545	27,875,057	27,771,930
Earnings per share (a/b)	₱0.982	₱0.660	₱0.586



30. Other Matters

Bases Conversion and Development Authority (BCDA) Case

In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order (TRO) against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA.

On November 26, 2012, the Company filed with Supreme Court a Very Urgent Manifestation with Motion to Resolve the Company's Application for TRO and Preliminary Injunction related to the termination by the BCDA of the Competitive Challenge on the submitted unsolicited proposal for privatization and development of a 33.13 hectares Bonifacio South Property located in Fort Bonifacio, Taguig City.

On December 20, 2012, the Company filed with the Supreme Court Urgent Manifestation with Reiterative Motion to Resolve Application for TRO and Preliminary Injunction.

On January 9, 2013, the Supreme Court approved the Company's application and issued a TRO wherein BCDA or any of their representatives and or agents are enjoined from proceeding with the bidding process subject of said "Invitation to Bid", enforcing the Supplemental Notice No. 5 and in any way disposing of the subject lot which acts tend to render the Court's resolution of the petition ineffectual, until further orders from Supreme Court.

On January 14, 2013, the Company's counsel received the Motion for Reconsideration filed by the BCDA with the Supreme Court. The Company's counsel filed its Comment/Opposition to the Motion for Reconsideration on February 11, 2013.

On February 21, 2013, the Company's counsel received copies of the Comment-in-Intervention and Motion for Leave to file Comment-in-Intervention and to admit attached Comment-in-Intervention filed by the Department of National Defense and Armed Forces of the Philippines (DND-AFP). This remains pending as at February 22, 2016.

On March 20, 2013, the Supreme Court issued a resolution denying BCDA's urgent motion to dissolve TRO and noting the Company's Comment/Opposition to the Motion for Reconsideration. The TRO is made permanent in a Decision dated August 13, 2014.

On April 30, 2013, the Company filed its Opposition to the Comment-in-Intervention filed by the DND-AFP.

On May 14, 2013, BCDA and Casanova also filed a Motion for Leave to Refer the Case to the En Banc. The Company filed an Opposition to this Motion. The Supreme Court issued a resolution denying the Motion. BCDA filed a Motion for Reconsideration. The Company filed its Opposition and this remains pending as at February 22, 2016.

On June 5, 2013, BCDA and Casanova filed a Motion to Inhibit the Honorable Presiding Chairman. The Company filed an Opposition to this Motion. On July 31, 2013, the Supreme Court issued a resolution denying the BCDA and Casanova's Motion.

On August 13, 2014, the Supreme Court promulgated its Decision granting the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others.

On September 26, 2014, BCDA and Casanova filed a Motion for Reconsideration of the August 13, 2014 Decision with a Motion to Resolve BCDA and Casanova's Unresolved Motions.



On March 18, 2015, the Supreme Court issued a resolution denying BCDA and Casanova's Motion for Reconsideration dated September 26, 2014 and Motion to Resolve BCDA and Casanova's Unresolved Motions. In the same resolution, the Supreme Court ordered the issuance of an Entry of Judgment. Accordingly, an Entry of Judgment was issued and the Decision dated August 13, 2014 became final and executory on March 18, 2015.

On April 28, 2015, BCDA and Casanova filed a Second Motion for Reconsideration. On June 2, 2015, the Company filed an Opposition to this Motion. On September 7, 2015, the Supreme Court denied the Second Motion for Reconsideration. On November 30, 2015, BCDA and Casanova filed a Third Motion for Reconsideration and this remains pending as at February 22, 2016.

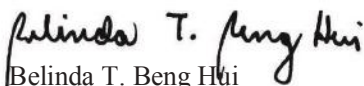


INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building,
Coral Way cor. J.W. Diokno Blvd.,
Mall of Asia Complex,
Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, included in this Form 17-A, and have issued our report thereon dated February 22, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018

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

February 22, 2016



Schedule A

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Financial Assets

As at December 31, 2015

(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet as at December 31, 2015	Income Received and Accrued
Loans and Receivables			
Temporary investments:			
China Construction Bank	RMB 277,380	PHP 2,010,173	
China Industrial Bank	RMB 210,400	1,524,769	
Industrial and Commercial Bank of China	RMB 126,980	920,224	
Standard Chartered Bank	RMB 100,000	724,700	
Bank of East Asia Ltd	RMB 86,350	625,778	
Bank of China	RMB 60,207	436,320	
China Merchants Bank	RMB 20,570	149,071	
Hongkong Shanghai Banking Corporation	RMB 2,597	18,824	
Bank of Communications	RMB 2,000	14,494	
Banco de Oro (BDO)	PHP 13,272,131	13,272,131	
China Banking Corporation	PHP 3,163,228	3,163,228	
Others	PHP 66,802	66,802	
		PHP 22,926,514	PHP 346,173
Financial Assets at FVPL			
Investments held for trading:			
China Banking Corporation	15,158,522 shares	PHP 563,897	PHP 14,036
Travellers International Hotel		248,077	15,307
Bureau of Treasury RTB	PHP 25,000	26,038	2,107
Ayala Corporation	PHP 5,000	5,244	288
Energy Development Corp.			296
Derivative assets	PHP 2,600,799	2,600,799	
		PHP 3,444,055	PHP 32,034
Available -for-sale Investments			
BDO Unibank, Inc.	75,254,191 shares	PHP 7,901,690	PHP 159,881
Ayala Corporation	8,581,204 shares	6,487,390	71,608
China Banking Corporation	82,444,168 shares	3,066,923	74,490
Belle Corporation	735,553,561 shares	2,140,461	202,277
Shang Properties, Inc.	189,550,548 shares	593,293	31,587
SM Investments Corporation	97,403 shares	84,156	1,033
Republic Glass Holding Corporation	14,714,000 shares	38,256	
Picop Resources, Inc.	40,000,000 shares	8,200	
Tagaytay Midlands Golf Club, Inc.	11 shares	5,280	
Philippine Long Distance Telephone Company	253,270 shares	2,533	5
Export & Industry Bank	7,829,000 shares	2,036	
Prime Media Holdings, Inc.	500,000 shares	600	
Benguet Corporation	88,919 shares	489	
Others	848 shares	748	
		PHP 20,332,055	PHP 540,881
		PHP 46,702,624	PHP 919,088

Schedule C

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As at December 31, 2015
(Amounts in Thousands except for Number of Shares)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts		Current	Not Current	Balance at End of Period
			Collected	Written Off			
SM China Companies	₱33,489,230	₱ 4,120,850	₱-	₱-	₱-	₱37,610,080	₱37,610,080
Costa del Hamilo, Inc. and Subsidiary	850,733	42,994	(16,384)	-	-	877,343	877,343
Consolidated Prime Dev. Corp.	984,800	1,143	(593,968)	-	-	391,975	391,975
Premier Central, Inc.	-	286,217	-	-	-	286,217	286,217
Associated Development Corporation	200,000	-	-	-	-	200,000	200,000
SM Arena Complex Corporation	-	118,102	-	-	-	118,102	118,102
Summerhills Home Development Corp.	-	153,406	(41,900)	-	-	111,506	111,506
CHAS Realty and Development Corporation and Subsidiaries	33,092	68,861	-	-	-	101,953	101,953
Premier Southern Corp.	386,299	2,019	(335,937)	-	-	52,381	52,381
SM Development Corporation and Subsidiaries	10,195	12,764	-	-	-	22,959	22,959
SM Hotels and Conventions Corp. and Subsidiaries	56,485	102,884	(156,923)	-	-	2,446	2,446
Magenta Legacy, Inc.	2,144	-	-	-	-	2,144	2,144
Tagaytay Resort and Development Corporation	25	1,255	-	-	-	1,280	1,280
First Leisure Ventures Group, Inc.	716	236	-	-	-	952	952
Prime Metroestate, Inc.	612	1,300,052	(1,300,017)	-	-	647	647
Highlands Prime, Inc.	4	218	-	-	-	222	222
MOA Esplanade Port Inc.	-	200	-	-	-	200	200
San Lazaro Holdings Corporation	1	-	-	-	-	1	1
Southernpoint Properties Corp.	74	1,366	(1,440)	-	-	-	-
	₱36,014,410	₱6,212,567	(₱2,446,569)	₱-	₱-	₱39,780,408	₱39,780,408

Schedule H

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Capital Stock
As at December 31, 2015
(Shares in Thousand)

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,879,232	17,669,545	3,460,743	7,748,944

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2015

Annex I

Unappropriated retained earnings as of January 1, 2015		P 23,696,106,185
Adjustments:		
Less: non-actual/unrealized income, net of applicable tax -		
Unrealized marked-to-market gain on derivatives	23,451,862	
Treasury stock	2,613,705,991	2,637,157,853
Unappropriated retained earnings as of January 1, 2015, as adjusted to available for dividend distribution		<u>21,058,948,332</u>
Net income closed to retained earnings for the period	18,496,752,968	
Less: non-actual/unrealized income, net of applicable tax -		
Unrealized marked-to-market gain on derivatives	-	
Net income actually earned in 2015		<u>18,496,752,968</u>
Add (Less):		39,555,701,300
Cash dividends declared in 2015	(6,064,618,832)	
Treasury stock	55,562	
		<u>(6,064,563,270)</u>
Retained earnings as of December 31, 2015 available for dividend declaration		<u><u>P 33,491,138,030</u></u>

Annex II

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective as at December 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals*	Not Early Adopted		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts*	Not Early Adopted		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*	Not Early Adopted		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
	Amendments to PFRS 9: Hedge accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*	Not Early Adopted		
	Amendments to PFRS 9 (2014 version)*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PFRS 10 and PAS 28: Applying the Consolidation Exception*	Not Early Adopted		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*	Not Early Adopted		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative*	Not Early Adopted		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*	Not Early Adopted		
	Amendment to PAS 16 and PAS 41: Bearer Plants*	Not Early Adopted		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate*	Not Early Adopted		

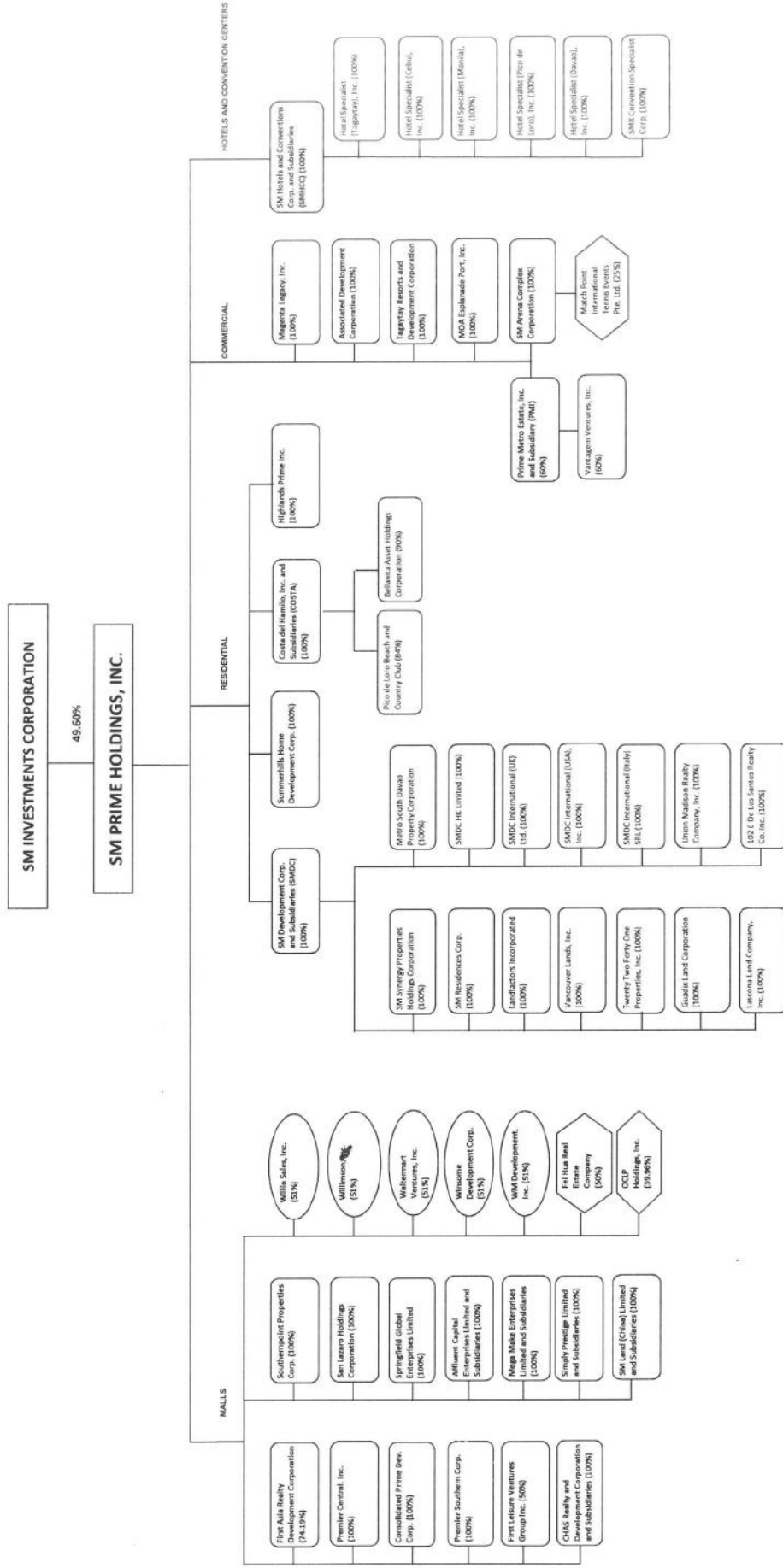
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements*	Not Early Adopted		
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PFRS 10 and PAS 28: Applying the Consolidation Exception*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'*	Not Early Adopted		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*	Not Early Adopted		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants*	Not Early Adopted		
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015		Adopted	Not Adopted	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 – Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC-12	Consolidation – Special Purpose Entities			✓
	Amendment to SIC-12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue – Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets – Web Site Costs			✓

* Standards and interpretations which will become effective subsequent to December 31, 2015.

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2015.



Legend:

- Subsidiary
- Joint Venture
- Associate

Note: % Refers to Effective Ownership

Annex IV

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Financial Ratios – Key Performance Indicators
As of December 31, 2015 and 2014

	Dec 31 2015	Dec 31 2014
i. Current ratio		
<u>Total current assets</u>		
Total current liabilities	1.41	2.05
ii. Debt-to-equity ratio		
<u>Total interest-bearing liabilities</u>		
Total equity attributable to equity holders of the parent + Total interest-bearing liabilities	0.42 : 0.58	0.39 : 0.61
Net debt-to-equity ratio		
<u>Total interest-bearing liabilities less cash and cash equivalents and investment securities</u>		
Total equity attributable to equity holders of the parent + Total interest-bearing liabilities less cash and cash equivalents and investment securities	0.38 : 0.62	0.32 : 0.68
iii. Asset to equity ratio		
<u>Total assets</u>		
Total equity attributable to equity holders of the parent	2.04	1.95
iv. Earnings before interest, income taxes, depreciation and amortization (EBITDA) to interest expense		
<u>EBITDA</u>		
Interest expense	11.19	8.24
Debt to EBITDA		
<u>Total interest-bearing liabilities</u>		
EBITDA	4.12	3.83
v. Return on equity		
<u>Net income attributable to equity holders of the parent</u>		
Total average equity attributable to equity holders of the parent	0.10*	0.10
Return on investment properties		
<u>Net income attributable to equity holders of the parent</u>		
Total average investment properties (excluding construction in progress)	0.12*	0.12

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

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**Retail Bond****As of December 31, 2015****(1) Gross and Net Proceeds as Disclosed in the Final Prospectus**

	₱15.0B Issue Size	₱5.0 B Over-Subscription Option	Total Proceeds (inclusive of Over- Subscription)
Gross Proceeds	₱15,000,000,000	₱5,000,000,000	₱20,000,000,000
Estimated Expenses	143,650,625	42,500,000	186,150,625
Net Proceeds	<u>₱14,856,349,375</u>	<u>₱4,957,500,000</u>	<u>₱19,813,849,375</u>

(2) Actual Gross and Net Proceeds

Gross Proceeds	₱20,000,000,000
Actual Expenses	<u>211,443,803</u>
Net Proceeds	<u>₱19,788,556,197</u>

(3) Each Expenditure Item where the Proceeds were Used

The net proceeds was used to finance capital expenditures of the following:

Projects	Amounts in million
SM City Cabanatuan	₱2,324
SM City Seaside Cebu	1,946
SM Cagayan de Oro 2 and Tower	1,439
SM Mall of Asia – Expansion	779
SM Trece Martires Cavite	431
SM Center Sangandaan	407
SM San Jose Del Monte	253
SM Puerto Princesa	7
TOTAL	<u>₱7,586</u>

(4) As of December 31, 2015, ₱7,586 million was used in financing capital expenditures for the construction and expansion of malls.

**SM Prime Holdings, Inc.
and Subsidiaries**

Interim Condensed Consolidated
Financial Statements
As at March 31, 2016
and for the Three-Month Periods Ended
March 31, 2016 and 2015
(with Comparative Audited Consolidated
Balance Sheet as at December 31, 2015)

and

Report on Review of Interim Condensed
Consolidated Financial Statements



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries, which comprise the interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for three-month periods ended March 31, 2016 and 2015, and other explanatory information. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

SYCIP GORRES VELAYO & CO.



Sherwin V. Yason

Partner

CPA Certificate No. 104921

SEC Accreditation No. 1514-A (Group A),

October 6, 2015, valid until October 5, 2018

Tax Identification No. 217-740-478

BIR Accreditation No. 08-001988-112-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 5321713, January 4, 2016, Makati City

May 10, 2016



Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. is responsible for the preparation and presentation of the interim condensed consolidated financial statements, which comprise the interim consolidated balance sheet as at March 31, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2016 and 2015, in accordance with the Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has reviewed the interim condensed consolidated financial statements of SM Prime Holdings, Inc. in accordance with the Philippine Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and in its report to the stockholders, has concluded that based on their review, nothing has come to their attention that causes them to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34.



Henry T. Sy, Jr.
Chairman



Hans T. Sy
President



John Nai Peng C. Ong
Chief Finance Officer

Signed this 10th of May 2016

SUBSCRIBED AND SWORN to before me this MAR 13 2016 at MAKATI CITY,
affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY T. SY, JR.	EC5035233	August 15, 2015	Manila
HANS T. SY	EB4448660	January 14, 2012	Manila
JOHN NAI PENG C. ONG	EC2047924	September 7, 2014	Manila

DOC. NO. 558
PAGE NO. 113
BOOK NO. XXIII
SERIES OF 2010

ATTY. REINIER S. QUIAMBAO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2016
PTR NO. 5329630 / 01.07.16 / MAKATI CITY
IBP NO. 1023809 / 01.08.16 / TARLAC CITY
TIN 238-251-699 ROLL NO. 62283
MCLE NO. V - 0011532 / 10.06.15

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**INTERIM CONSOLIDATED BALANCE SHEET****March 31, 2016****(With Comparative Audited Figures as at December 31, 2015)***(Amounts in Thousands)*

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 20 and 23)	₱21,024,041	₱25,869,908
Investments held for trading (Notes 6, 20, 23 and 24)	867,596	843,256
Receivables (Notes 7, 15, 20, 23 and 24)	31,840,987	31,354,286
Condominium and residential units for sale (Note 8)	7,633,116	8,164,981
Land and development - current portion (Note 9)	20,469,419	19,814,615
Available-for-sale investments - current portion (Notes 10, 20, 23 and 24)	635,249	642,274
Prepaid expenses and other current assets (Notes 11, 20, 23 and 24)	11,415,719	11,302,871
Total Current Assets	93,886,127	97,992,191
Noncurrent Assets		
Investments in associates and joint ventures (Note 14)	22,148,031	22,080,000
Available-for-sale investments - net of current portion (Notes 10, 20, 23 and 24)	19,663,866	19,689,781
Property and equipment - net (Note 12)	1,685,394	1,680,382
Investment properties - net (Note 13)	233,716,273	230,340,399
Land and development - net of current portion (Note 9)	22,436,782	23,105,553
Derivative assets (Notes 23 and 24)	2,237,103	2,600,799
Deferred tax assets - net	922,972	846,111
Other noncurrent assets (Notes 15, 20, 23 and 24)	36,870,125	35,493,223
Total Noncurrent Assets	339,680,546	335,836,248
	₱433,566,673	₱433,828,439
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 16, 20, 23 and 24)	₱775,000	₱4,675,000
Accounts payable and other current liabilities (Notes 17, 20, 23 and 24)	36,797,691	38,819,156
Current portion of long-term debt (Notes 18, 20, 23 and 24)	9,358,963	25,041,044
Income tax payable	1,708,450	955,533
Total Current Liabilities	48,640,104	69,490,733
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18, 20, 23 and 24)	140,010,885	125,952,441
Tenants' and customers' deposits (Notes 17, 23 and 24)	13,956,118	13,218,264
Liability for purchased land - net of current portion (Notes 17, 23 and 24)	2,026,613	2,081,708
Deferred tax liabilities - net	2,707,123	2,488,990
Derivative liabilities (Notes 23 and 24)	412,980	-
Other noncurrent liabilities (Notes 17, 23 and 24)	4,987,701	4,753,456
Total Noncurrent Liabilities	164,101,420	148,494,859
Total Liabilities (Carried Forward)	212,741,524	217,985,592



	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Total Liabilities (Brought Forward)	₱212,741,524	₱217,985,592
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 19 and 25)	33,166,300	33,166,300
Additional paid-in capital - net	39,304,027	39,304,027
Cumulative translation adjustment	849,206	1,005,978
Net unrealized gain on available-for-sale investments (Note 10)	16,588,626	16,621,547
Net fair value changes on cash flow hedges	104,604	428,799
Remeasurement loss on defined benefit obligation	(50,458)	(50,458)
Retained earnings (Note 19):		
Appropriated	42,200,000	42,200,000
Unappropriated	89,003,985	83,168,103
Treasury stock (Notes 19 and 25)	(3,355,474)	(3,355,474)
Total Equity Attributable to Equity Holders of the Parent	217,810,816	212,488,822
Non-controlling Interests	3,014,333	3,354,025
Total Equity	220,825,149	215,842,847
	₱433,566,673	₱433,828,439

See accompanying Notes to Interim Condensed Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)

	Three-Month Periods Ended March 31	
	2016	2015
	(Unaudited)	
REVENUE		
Rent (Note 20)	₱10,753,180	₱9,439,875
Sales:		
Real estate	5,546,364	5,354,725
Cinema and event ticket	1,059,093	979,048
Others (Note 20)	887,512	876,651
	18,246,149	16,650,299
COSTS AND EXPENSES (Note 21)	9,859,426	9,174,830
INCOME FROM OPERATIONS	8,386,723	7,475,469
OTHER INCOME (CHARGES)		
Interest expense (Notes 20 and 22)	(995,293)	(1,087,982)
Interest and dividend income (Notes 10, 20 and 22)	270,880	337,089
Equity in net earnings of associates and joint ventures (Note 14)	92,260	46,007
Gain on sale of available-for-sale investments (Notes 10 and 20)	10	7,410,301
Others - net (Notes 6 and 18)	(141,646)	(61,703)
	(773,789)	6,643,712
INCOME BEFORE INCOME TAX	7,612,934	14,119,181
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	1,483,398	1,482,864
Deferred	148,054	(136,205)
	1,631,452	1,346,659
NET INCOME	₱5,981,482	₱12,772,522
Attributable to		
Equity holders of the Parent (Notes 19 and 25)	₱5,835,882	₱12,631,340
Non-controlling interests	145,600	141,182
	₱5,981,482	₱12,772,522
Basic/Diluted earnings per share (Note 25)	₱0.202	₱0.438

See accompanying Notes to Interim Condensed Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME***(Amounts in Thousands)*

	Three-Month Periods Ended March 31	
	2016	2015
	<i>(Unaudited)</i>	
NET INCOME	₱5,981,482	₱12,772,522
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income transferred to profit or loss:		
Realized gain from sale of available-for-sale investments (Note 10)	(10)	(7,410,301)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
Unrealized gain (loss) due to changes in fair value in available-for-sale investments (Note 10)	(32,911)	1,404,224
Net fair value changes on cash flow hedges	(324,195)	49,363
Cumulative translation adjustment	(156,772)	2,148
	(513,888)	(5,954,566)
TOTAL COMPREHENSIVE INCOME	₱5,467,594	₱6,817,956
Attributable to		
Equity holders of the Parent	₱5,321,994	₱6,676,774
Non-controlling interests	145,600	141,182
	₱5,467,594	₱6,817,956

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015

(Amounts in Thousands)

Equity Attributable to Equity Holders of the Parent (Notes 19 and 25)												
	Capital Stock (Notes 19 and 25)	Additional Paid-in Capital - Net	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available- for-Sale Investments (Note 10)	Net Fair Value Changes on Cash Flow Hedges	Remeasurement Loss on Defined Benefit Obligation	Retained Earnings (Note 19)		Treasury Stock (Notes 19 and 25)	Non-controlling Interests	Total Equity	
							Appropriated	Unappropriated		Total		
At December 31, 2015 (Audited)	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
Net income for the period	-	-	-	-	-	-	-	5,835,882	-	5,835,882	145,600	5,981,482
Other comprehensive loss	-	-	(156,772)	(32,921)	(324,195)	-	-	-	-	(513,888)	-	(513,888)
Total comprehensive income (loss) for the period	-	-	(156,772)	(32,921)	(324,195)	-	-	5,835,882	-	5,321,994	145,600	5,467,594
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	(485,292)	(485,292)
At March 31, 2016 (Unaudited)	₱33,166,300	₱39,304,027	₱849,206	₱16,588,626	₱104,604	(₱50,458)	₱42,200,000	₱89,003,985	(₱3,355,474)	₱217,810,816	₱3,014,333	₱220,825,149
At December 31, 2014 (Audited)	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440	₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
Net income for the period	-	-	-	-	-	-	-	12,631,340	-	12,631,340	141,182	12,772,522
Other comprehensive income (loss)	-	-	2,148	(6,006,077)	49,363	-	-	-	-	(5,954,566)	-	(5,954,566)
Total comprehensive income (loss) for the period	-	-	2,148	(6,006,077)	49,363	-	-	12,631,340	-	6,676,774	141,182	6,817,956
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	(387,380)	(387,380)
At March 31, 2015 (Unaudited)	₱33,166,300	₱39,302,194	₱842,578	₱19,899,363	₱298,695	(₱141,524)	₱42,200,000	₱73,552,388	(₱3,355,530)	₱205,764,464	₱2,904,315	₱208,668,779

See accompanying Notes to Interim Condensed Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS***(Amounts in Thousands)*

	Three-Month Periods Ended March 31	
	2016	2015
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱7,612,934	₱14,119,181
Adjustments for:		
Depreciation and amortization (Notes 12 and 13)	1,888,493	1,736,523
Interest expense (Note 22)	995,293	1,087,982
Interest and dividend income (Notes 10 and 22)	(270,880)	(337,089)
Equity in net earnings of associates and joint ventures (Note 14)	(92,260)	(46,007)
Loss (gain) on:		
Unrealized foreign exchange	250,956	49,648
Mark-to-market on investments held for trading (Note 6)	(29,559)	7,360
Sale of available-for-sale investments (Note 10)	(10)	(7,410,301)
Fair value changes on derivatives – net	–	(23,277)
Operating income before working capital changes	10,354,967	9,184,020
Decrease (increase) in:		
Receivables	(421,960)	(2,877,276)
Condominium and residential units for sale	1,250,424	662,787
Land and development	(383,414)	449,212
Prepaid expenses and other current assets	(114,410)	(39,943)
Increase (decrease) in:		
Accounts payable and other current liabilities	(2,277,324)	3,199,541
Tenants' and customers' deposits	753,797	14,729
Cash generated from operations	9,162,080	10,593,070
Income tax paid	(728,519)	(599,999)
Cash provided by operating activities	8,433,561	9,993,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale investments (Note 10)	29	7,465,351
Dividends received	52,419	46,449
Interest received	155,528	173,480
Additions:		
Investment properties (Note 13)	(6,271,037)	(9,140,249)
Property and equipment (Note 12)	(68,218)	(75,014)
Increase in other noncurrent assets	(1,177,995)	(1,429,614)
Net cash used in investing activities	(7,309,274)	(2,959,597)

(Forward)



	Three-Month Periods Ended March 31	
	2016	2015
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bank loans and long-term debt (Notes 16 and 18)	₱12,938,792	₱3,967,200
Payments of:		
Long-term debt (Note 18)	(13,562,374)	(199,900)
Bank loans (Note 16)	(3,900,000)	(1,000,000)
Interest	(971,477)	(858,303)
Dividends (Note 19)	(485,292)	(77,620)
Net cash provided by (used in) financing activities	(5,980,351)	1,831,377
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	10,197	(8,449)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,845,867)	8,856,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	25,869,908	35,245,206
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱21,024,041	₱44,101,608

See accompanying Notes to Interim Condensed Consolidated Financial Statements.



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. Corporate Information

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

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

As at March 31, 2016, SMPH is 49.70% and 25.71% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the “SM Group”.

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

The accompanying interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 10, 2016.

2. Basis of Preparation

The accompanying interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) investments which have been measured at fair value.

Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The interim condensed 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 interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in



conjunction with the Company's annual audited consolidated financial statements as at December 31, 2015. These interim condensed consolidated financial statements have been prepared solely for inclusion in the offering circular to be prepared by SMPH for its planned offering of bonds and for no other purposes.

Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries. As at March 31, 2016, there were no significant changes in the composition of the Company and in the Parent Company's ownership interests in its subsidiaries (see Note 14).

Significant Accounting Judgments, Estimates and Assumptions

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

Except as otherwise stated, there were no significant changes in the significant accounting judgments, estimates, and assumptions used by the Company for the three-month period ended March 31, 2016.

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies and Disclosures

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2015, except for the following amendments which the Company has adopted starting January 1, 2016:

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



- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments), will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments did not have any impact on the Company's interim condensed consolidated financial statements.
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments), clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are not applicable to the Company since the Company is not an investment entity nor does it have investment entity associates.
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments), require that a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. These amendments did not have any impact on the Company's interim condensed interim condensed consolidated financial statements.
- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Since the Company is an existing PFRS preparer, this standard does not apply.
- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments), are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
 - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.



Annual Improvements to PFRSs (2012-2014 cycle)

The annual improvements contain non-urgent but necessary amendments to the following standards and are applied prospectively:

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



4. Segment Information

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

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

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

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

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

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

Inter-segment Transactions

Inter-segment transactions are eliminated in the interim condensed consolidated financial statements.

Business Segment Data

	Three-month period ended March 31, 2016 (Unaudited)					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations/ Adjustments	Consolidated Balances
	<i>(In Thousands)</i>					
Revenue:						
External customers	P10,984,245	P5,757,506	P887,154	P617,244	P-	P18,246,149
Inter-segment	6,817	-	14,865	789	(22,471)	-
	P10,991,062	P5,757,506	P902,019	P618,033	(P22,471)	P18,246,149
Segment results:						
Income before income tax	P5,564,221	P1,601,668	P420,662	P121,190	(P94,807)	P7,612,934
Provision for income tax	(1,288,545)	(223,047)	(96,511)	(23,349)	-	(1,631,452)
Net income	P4,275,676	P1,378,621	P324,151	P97,841	(P94,807)	P5,981,482
Net income attributable to:						
Equity holders of the Parent	P4,141,701	P1,378,621	P312,526	P97,841	(P94,807)	P5,835,882
Non-controlling interests	133,975	-	11,625	-	-	145,600
Other information:						
Capital expenditures	P5,360,372	P2,352,525	P133,034	P589,784	P-	P8,435,715
Depreciation and amortization	1,601,626	65,421	150,524	70,922	-	1,888,493



Three-month period ended March 31, 2015 (Unaudited)						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations/ Adjustments	Consolidated Balances
<i>(In Thousands)</i>						
Revenue:						
External customers	₱9,868,407	₱5,503,230	₱767,221	₱506,939	₱4,502	₱16,650,299
Inter-segment	1,243	–	16,973	21,659	(39,875)	–
	₱9,869,650	₱5,503,230	₱784,194	₱528,598	(₱35,373)	₱16,650,299
Segment results:						
Income before income tax	₱4,884,440	₱1,421,131	₱318,038	₱124,060	₱7,371,512	₱14,119,181
Provision for income tax	(1,073,477)	(160,384)	(75,331)	(37,467)	–	(1,346,659)
Net income	₱3,810,963	₱1,260,747	₱242,707	₱86,593	₱7,371,512	₱12,772,522
Net income attributable to:						
Equity holders of the Parent	₱3,680,990	₱1,260,747	₱231,498	₱86,593	₱7,371,512	₱12,631,340
Non-controlling interests	129,973	–	11,209	–	–	141,182
Other information:						
Capital expenditures	₱5,134,201	₱2,371,107	₱2,880,734	₱350,421	₱–	₱10,736,463
Depreciation and amortization	1,431,283	70,969	154,082	80,189	–	1,736,523

March 31, 2016 (Unaudited)						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Segment assets	₱278,500,701	₱108,714,070	₱34,844,992	₱11,616,378	(₱109,468)	₱433,566,673
Segment liabilities	₱158,285,040	₱52,205,997	₱1,738,523	₱621,432	(₱109,468)	₱212,741,524

December 31, 2015 (Audited)						
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
<i>(In Thousands)</i>						
Segment assets	₱283,013,015	₱108,811,859	₱31,284,878	₱10,804,808	(₱86,121)	₱433,828,439
Segment liabilities	₱160,242,498	₱54,148,046	₱3,038,706	₱642,463	(₱86,121)	₱217,985,592

For the three-month periods ended March 31, 2016 and 2015, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

Seasonality

The Company's operations have no significant seasonality.



5. Cash and Cash Equivalents

Cash and cash equivalents comprised the following:

	March 31, 2016	December 31, 2015	March 31, 2015
	(Unaudited)	(Audited)	(Unaudited)
	<i>(In Thousands)</i>		
Cash on hand and in banks (see Note 20)	₱997,211	₱2,943,394	₱2,079,507
Temporary investments (see Note 20)	20,026,830	22,926,514	42,022,101
	₱21,024,041	₱25,869,908	₱44,101,608

Interest income earned from cash in banks and temporary investments amounted to ₱95 million and ₱123 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).

6. Investments Held for Trading

This account consists of investments in Philippine and United States (U.S.) corporate bonds and listed common shares. The Philippine government and corporate bonds have yields ranging from 3.40% to 8.50% as at March 31, 2016 and December 31, 2015. Investments in Philippine corporate bonds amounting to ₱10.3 million and ₱25.0 million matured in June and August 2015, respectively. The Philippine-denominated and U.S. dollar-denominated corporate bonds will mature in 2017.

The movements in this account are as follows:

	March 31, 2016	December 31, 2015
	(Three Months)	(One Year)
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
At beginning of the period	₱843,256	₱967,511
Mark-to-market gain (loss) during the period	29,559	(101,087)
Unrealized foreign exchange gain (loss)	(5,219)	12,525
Disposals - net	-	(35,693)
At end of the period	₱867,596	₱843,256

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

Interest income earned from investments held for trading amounted to ₱4 million and ₱8 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).



7. Receivables

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
<i>(In Thousands)</i>		
Trade:		
Sale of real estate	₱32,896,519	₱31,073,388
Rent:		
Third parties	4,205,586	4,555,888
Related parties (see Note 20)	1,981,954	2,422,175
Others (see Note 20)	8,533	17,996
Receivable from a co-investor	266,629	270,674
Due from related parties (see Note 20)	231,654	101,069
Nontrade	123,141	31,265
Accrued interest (see Note 20)	89,175	108,998
Others (see Note 20)	1,788,251	1,701,307
	41,591,442	40,282,760
Less allowance for impairment	966,325	965,859
	40,625,117	39,316,901
Less noncurrent portion of receivables from sale of real estate (see Note 15)	8,784,130	7,962,615
	₱31,840,987	₱31,354,286

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

Interest income earned from receivables amounted to ₱13 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).

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

	March 31, 2016 (Three Months) (Unaudited)	December 31, 2015 (One Year) (Audited)
<i>(In Thousands)</i>		
At beginning of the period	₱965,859	₱352,847
Provision for impairment - net	466	613,012
At end of the period	₱966,325	₱965,859



8. Condominium and Residential Units for Sale

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Condominium units for sale	₱7,281,818	₱7,780,550
Residential units and subdivision lots	351,298	384,431
	₱7,633,116	₱8,164,981

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

	March 31, 2016 (Three Months) (Unaudited)	December 31, 2015 (One Year) (Audited)
	<i>(In Thousands)</i>	
At beginning of the period	₱7,780,550	₱7,177,902
Transfer from land and development (see Note 9)	703,378	5,720,176
Cost of real estate sold (see Note 21)	(1,202,110)	(5,117,528)
At end of the period	₱7,281,818	₱7,780,550

Condominium units for sale pertain to the completed projects of SM Development Corporation (SMDC), Highlands Prime, Inc. and Costa Del Hamilo, Inc. Condominium units for sale are stated at cost as at March 31, 2016 and December 31, 2015.

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

	March 31, 2016 (Three Months) (Unaudited)	December 31, 2015 (One Year) (Audited)
	<i>(In Thousands)</i>	
At beginning of the period	₱384,431	₱400,983
Transfer from land and development (see Note 9)	15,181	304,988
Cost of real estate sold (see Note 21)	(48,314)	(321,540)
At end of the period	₱351,298	₱384,431

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



9. Land and Development

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Land and development	P41,007,821	P41,053,508
Land held for future development	1,898,380	1,866,660
	42,906,201	42,920,168
Less noncurrent portion	22,436,782	23,105,553
	P20,469,419	P19,814,615

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

	March 31, 2016 (Three Months) (Unaudited)	December 31, 2015 (One Year) (Audited)
	<i>(In Thousands)</i>	
At beginning of the period	P41,053,508	P40,856,084
Development cost incurred	1,917,039	11,165,617
Land acquisitions	371,547	1,203,487
Capitalized borrowing cost	83,158	407,549
Cost of real estate sold (see Note 21)	(1,668,314)	(6,600,008)
Transfer to condominium and residential units for sale (see Note 8)	(718,559)	(6,025,164)
Reclassified from property and equipment (see Note 12)	-	1,327
Others	(30,558)	44,616
At end of the period	P41,007,821	P41,053,508

Land and development include land and cost of ongoing residential projects.

The movements in “Land held for future development” are as follows:

	March 31, 2016 (Three Months) (Unaudited)	December 31, 2015 (One Year) (Audited)
	<i>(In Thousands)</i>	
At beginning of the period	P1,866,660	P1,601,748
Acquisition and transferred-in costs and others	31,720	264,912
At end of the period	P1,898,380	P1,866,660

The average rates used to determine the amount of borrowing costs eligible for capitalization range from 4.05% to 5.72% in 2016 and 4.17% to 5.20% in 2015.

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



10. Available-for-sale Investments

This account consists of investments in:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
<i>(In Thousands)</i>		
Shares of stock:		
Listed (see Note 20)	₱20,289,784	₱20,323,495
Unlisted	9,331	8,560
	20,299,115	20,332,055
Less noncurrent portion	19,663,866	19,689,781
	₱635,249	₱642,274

On February 25, 2015, the Company sold a portion of its listed shares of stock to SMIC based on a 5% discount to 30-day volume-weighted average price as of trade date resulting to a realized gain amounting to ₱7,410 million shown as component of "Other Income" in the interim consolidated statements of income (see Note 20).

Dividend income from investments in listed and unlisted shares of stock amounted to ₱135 million and ₱179 million for the three-month periods ended March 31, 2016 and 2015, respectively.

Unrealized loss on changes in fair value amounting to ₱33 million for the three-month period ended March 31, 2016 and unrealized gain on changes in fair value amounting to ₱1,404 million for the three-month period ended March 31, 2015 were included under other comprehensive income.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
<i>(In Thousands)</i>		
Advances and deposits	₱4,344,581	₱4,829,512
Input and creditable withholding taxes	3,540,140	3,467,461
Prepaid taxes and other prepayments	2,787,878	2,108,087
Supplies and inventories	399,686	402,347
Cash in escrow (see Note 20)	332,069	437,639
Others	11,365	57,825
	₱11,415,719	₱11,302,871



12. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
<i>(In Thousands)</i>							
Cost							
Balance at December 31, 2014	P217,317	P2,312,344	P237,491	P154,709	P1,136,860	P7,827	P4,066,548
Additions	207	42,180	65,308	87,199	66,112	2,755	263,761
Disposals/retirements	-	(3,553)	(10)	(3,097)	(33,662)	-	(40,322)
Reclassifications (see Notes 9 and 13)	-	(727,330)	(133,075)	8,725	(551,122)	(10,582)	(1,413,384)
Balance at December 31, 2015	217,524	1,623,641	169,714	247,536	618,188	-	2,876,603
Additions	324	7,615	3,797	23,213	28,678	4,766	68,393
Disposals/retirements	-	-	(175)	(1,224)	-	-	(1,399)
Balance at March 31, 2016	P217,848	P1,631,256	P173,336	P269,525	P646,866	P4,766	P2,943,597
Accumulated Depreciation and Amortization							
Balance at December 31, 2014	P23	P906,748	P157,586	P80,517	P663,287	P-	P1,808,161
Depreciation and amortization (see Note 21)	73	128,812	33,417	25,486	83,645	-	271,433
Disposals/retirements	-	(716)	(199)	(1,866)	(9,693)	-	(12,474)
Reclassifications(see Notes 9 and 13)	-	(422,637)	(83,659)	15,590	(380,193)	-	(870,899)
Balance at December 31, 2015	96	612,207	107,145	119,727	357,046	-	1,196,221
Depreciation and amortization (see Note 21)	26	25,651	8,023	7,901	21,605	-	63,206
Disposals/retirements	-	-	-	(1,224)	-	-	(1,224)
Balance at March 31, 2016	P122	P637,858	P115,168	P126,404	P378,651	P-	P1,258,203
Net Book Value							
As at December 31, 2015	P217,428	P1,011,434	P62,569	P127,809	P261,142	P-	P1,680,382
As at March 31, 2016	217,726	993,398	58,168	143,121	268,215	4,766	1,685,394

13. Investment Properties

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Cost					
Balance as at December 31, 2014	P40,778,555	P132,389,872	P25,006,748	P38,616,275	P236,791,450
Additions	18,391,404	16,979,710	1,811,820	9,190,394	46,373,328
Reclassifications (see Note 12)	281,629	14,761,945	2,284,279	(15,920,011)	1,407,842
Translation adjustment	64,091	99,036	12,795	78,218	254,140
Disposals	(310,664)	(2,833,882)	(101,076)	-	(3,245,622)
Balance as at December 31, 2015	59,205,015	161,396,681	29,014,566	31,964,876	281,581,138
Additions	481,500	1,679,475	479,588	3,438,173	6,078,736
Reclassifications (see Note 15)	(176,723)	1,441,464	(113,383)	(1,564,100)	(412,742)
Translation adjustment	(17,488)	(335,119)	(37,839)	(200,694)	(591,140)
Disposals	-	-	(1,017)	-	(1,017)
Balance as at March 31, 2016	P59,492,304	P164,182,501	P29,341,915	P33,638,255	P286,654,975
Accumulated Depreciation and Amortization					
Balance as at December 31, 2014	P1,435,566	P28,636,739	P14,079,766	P-	P44,152,071
Depreciation and amortization (see Note 21)	217,002	4,204,068	2,274,449	-	6,695,519
Reclassifications (see Note 12)	9,908	397,325	459,452	-	866,685
Translation adjustment	4,041	16,752	5,437	-	26,230
Disposals	(41,085)	(360,637)	(98,044)	-	(499,766)
Balance as at December 31, 2015	1,625,432	32,894,247	16,721,060	-	51,240,739
Depreciation and amortization (see Note 21)	61,496	1,206,886	556,905	-	1,825,287
Reclassifications (see Note 15)	59,978	(45,281)	(66,218)	-	(51,521)
Translation adjustment	(13,783)	(44,372)	(16,807)	-	(74,962)
Disposals	-	-	(841)	-	(841)
Balance as at March 31, 2016	P1,733,123	P34,011,480	P17,194,099	P-	P52,938,702



	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Net Book Value					
As at December 31, 2015	₱57,579,583	₱128,502,434	₱12,293,506	₱31,964,876	₱230,340,399
As at March 31, 2016	57,759,181	130,171,021	12,147,816	33,638,255	233,716,273

In 2016, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Cagayan de Oro Premier, SM Trece Martires, SM San Jose Del Monte, SM Tianjin and the ongoing expansions of SM Mall of Asia and SM Xiamen.

Construction contracts with various contractors related to the construction of the on-going projects amounted to ₱99,790 million and ₱106,136 million as at March 31, 2016 and December 31, 2015, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱20,835 million and ₱24,304 million as at March 31, 2016 and December 31, 2015, respectively.

Interest capitalized related to the construction of investment properties amounted to ₱506 million and ₱200 million for the three-month periods ended March 31, 2016 and 2015, respectively. Capitalization rates used range from 2.35% to 5.40% and from 2.06% to 6.07%, for the periods ended March 31, 2016 and December 31, 2015, respectively.

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

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

While the valuation of the investment properties as at March 31, 2016 is still on-going, the Company's management believes that there were no conditions present in 2016 and 2015 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

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



14. Investments in Associates and Joint Ventures

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Investments in associates	₱16,602,630	₱16,579,209
Investment in joint ventures	5,545,401	5,500,791
	₱22,148,031	₱22,080,000

Investments in Associates

This pertains to investments in the following companies:

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

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

As at March 31, 2016, OHI's total assets, total liabilities and total equity amounted to ₱24,845 million, ₱21,031 million and ₱3,814 million, respectively, and the carrying value of investment in OHI amounted to ₱15,500 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱13,839 million. The share in profit and total comprehensive income amounted to ₱40 million for the three-month period ended March 31, 2016.

The carrying value of investment in FHREC amounted to ₱1,093 million and ₱1,109 million as at March 31, 2016 and December 31, 2015, respectively, with cumulative equity in net earnings amounting to ₱820 million and ₱832 million as at March 31, 2016 and December 31, 2015, respectively.

Investment in Joint Ventures

This pertains to the 51% ownership interest of the Company in Waltermart. Waltermart is involved in shopping mall operations and currently owns 21 malls across Metro Manila and Luzon.

The aggregate carrying values of investments in joint ventures amounted to ₱5,545 million and ₱5,501 million as at March 31, 2016 and December 31, 2015, respectively. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱430 million and ₱386 million as at March 31, 2016 and December 31, 2015, respectively. The aggregate share in profit and total comprehensive income amounted to ₱52 million and ₱46 million for the three-month periods ended March 31, 2016 and 2015, respectively.

Investments in associates and joint ventures are accounted for using the equity method.

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



15. Other Noncurrent Assets

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Bonds and deposits	₱10,386,706	₱9,454,397
Land use rights	9,762,672	9,563,565
Receivables from sale of real estate - net of current portion (see Note 7)	8,784,130	7,962,615
Time deposits (see Notes 20 and 22)	4,555,715	4,561,849
Deferred input tax	2,262,209	2,805,664
Others	1,118,693	1,145,133
	₱36,870,125	₱35,493,223

Interest income earned from time deposits amounted to ₱20 million and ₱10 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).

16. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱775 million and ₱4,675 million as at March 31, 2016 and December 31, 2015, respectively, with due dates of less than one year. These loans bear interest rates ranging from 2.75% to 3.00% in 2016 and 2.50% to 3.00% in 2015.

For the three-month periods ended March 31, 2016 and 2015, the Company settled ₱3,900 million and ₱1,000 million peso-denominated loans, respectively.

Interest expense incurred from loans payable amounted to ₱12 million and ₱18 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).



17. Accounts Payable and Other Current Liabilities

This account consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Trade:		
Third parties	₱15,330,641	₱17,485,188
Related parties (see Note 20)	52,595	61,283
Accrued operating expenses:		
Third parties	10,929,484	9,647,340
Related parties (see Note 20)	675,220	692,897
Tenants' and customers' deposits	17,404,004	17,641,578
Liability for purchased land	5,731,081	5,602,380
Deferred output VAT	1,278,213	1,289,236
Accrued interest (see Note 20)	889,635	767,172
Payable to government agencies	396,203	630,989
Nontrade	296,530	321,988
Due to related parties (see Note 20)	76,206	88,869
Others	786,536	864,100
	53,846,348	55,093,020
Less noncurrent portion	17,048,657	16,273,864
	₱36,797,691	₱38,819,156

Accrued operating expenses - third parties consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Utilities	₱4,475,363	₱3,870,702
Marketing and advertising	665,596	650,491
Payable to contractors and others	5,788,525	5,126,147
	₱10,929,484	₱9,647,340



18. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance	
					March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
<i>(In Thousands)</i>						
Parent Company						
U.S. dollar-denominated loans:						
Five-year term loans	May 6, 2011 – April 23, 2014	March 21, 2016 – April 14, 2019	LIBOR + spread; semi-annual	Unsecured	₱36,856,000	₱50,354,200
Five-year bilateral loans	December 7, 2012 – August 5, 2013	August 30, 2017	LIBOR + spread; semi-annual	Unsecured	2,303,500	2,353,000
Other U.S. dollar loan	November 20, 2013	September 17, 2018	LIBOR + spread; semi-annual	Unsecured	1,151,750	1,176,500
Philippine peso-denominated loans:						
Five-year and ten-year retail bonds	November 25, 2015	February 25, 2021 – November 25, 2025	4.51%-4.80%; quarterly	Unsecured	20,000,000	20,000,000
Five-year, seven-year and ten-year retail bonds	September 1, 2014	March 1, 2020 – September 1, 2024	5.10%-5.74%; quarterly	Unsecured	20,000,000	20,000,000
Five-year and ten-year floating and fixed rate notes	June 19, 2012	June 20, 2017 – June 19, 2022	PDST-R2 + margin; 5.91%-6.74%; quarterly	Unsecured	7,226,500	7,226,500
Seven-year and ten-year corporate notes	June 13, 2011 – December 21, 2015	December 20, 2020 – December 21, 2022	PDST-R2 + margin; Fixed 6.65%; quarterly	Unsecured	6,520,000	6,520,000
Five-year and seven-year floating rate notes	March 18, 2011 – June 17, 2011	March 19, 2016 – June 18, 2016	PDST-R + margin; quarterly	Unsecured	4,790,000	4,800,000
Five-year, seven-year and ten-year fixed and floating rate notes	January 12, 2012	January 13, 2017 – January 12, 2022	PDST-R2 + margin; 5.86%-6.10%; quarterly	Unsecured	3,993,600	4,229,200
Other bank loans	August 15, 2006 – June 8, 2015	August 15, 2016 – June 8, 2020	PDST-R2 + margin; 5.00%-9.75%; semi-annual and quarterly	Unsecured	1,525,000	1,525,000
Subsidiaries						
U.S. dollar-denominated loan:						
Five-year term loan	January 29, 2016	January 29, 2021	LIBOR + spread; semi-annual	Unsecured	12,453,633	–
Philippine peso-denominated loans:						
Fixed rate term loans	June 3, 2013 – December 29, 2014	October 4, 2016 – June 25, 2023	4.25%-5.94%; semi-annual and quarterly	Unsecured	20,548,500	20,643,500
Fixed rate corporate notes	June 3, 2013 – June 28, 2014	June 3, 2020 – June 3, 2023	5.25%-5.88%; semi-annual	Unsecured	8,683,100	8,683,100
Four-year and five-year floating rate notes	October 31, 2013 – December 28, 2015	October 31, 2017 – December 28, 2020	PDST-R2 + margin; quarterly	Unsecured	3,500,000	4,000,000
Five-year bilateral loan	October 24, 2011	October 24, 2016	PDST-R2 + margin	Unsecured	500,000	500,000
China yuan renminbi-denominated loan:						
Five-year loans	July 28, 2015 – January 14, 2016	December 31, 2019 – June 1, 2020	CBC rate less 10%; quarterly	Secured	467,500	32,249
					150,519,083	152,043,249
Less debt issue cost					1,149,235	1,049,764
					149,369,848	150,993,485
Less current portion					9,358,963	25,041,044
					₱140,010,885	₱125,952,441

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Treasury Reference Rates – PM

CBC – Central Bank of China



China yuan renminbi-denominated five-year term loans represent a ¥66 million out of ¥400 million loan facility obtained on July 28, 2015 to finance the construction of shopping malls. The loans are payable in quarterly installments until December 2019 and June 2020. These loans have a floating rate with a quarterly re-pricing at prevailing rate dictated by People's Bank of China. The loans carry interest rates of 4.75% to 5.00% in 2016 and are secured by a portion of investment properties in China.

Debt issue cost pertaining to the loan availments amounted to ₱211 million. Amortization of debt issue cost for the three-month periods ended March 31, 2016 and 2015 amounted to ₱112 million and ₱102 million, respectively.

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

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
	<i>(In Thousands)</i>		
2016	₱8,534,248	(₱337,258)	₱8,196,990
2017	8,483,138	(322,746)	8,160,392
2018	29,216,688	(206,857)	29,009,831
2019	21,893,309	(134,383)	21,758,926
2020	23,956,027	(95,551)	23,860,476
2021	34,491,813	(29,097)	34,462,716
2022	11,281,660	(12,225)	11,269,435
2023	8,029,460	(6,392)	8,023,068
2024	2,601,700	(3,313)	2,598,387
2025	2,031,040	(1,413)	2,029,627
	₱150,519,083	(₱1,149,235)	₱149,369,848

Interest expense incurred from long-term debt amounted to ₱980 million and ₱1,057 million for the three-month periods ended March 31, 2016 and 2015, respectively (see Note 22).

19. Equity

Capital Stock

As at March 31, 2016 and December 31, 2015, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued.

As at March 31, 2016 and December 31, 2015, the Company has 28,834 million outstanding shares.



Retained Earnings

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

As at March 31, 2016 and December 31, 2015, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million.

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱50,995 million and ₱49,834 million as at March 31, 2016 and December 31, 2015, respectively, representing the cost of shares held in treasury amounting to ₱3,355 million as at March 31, 2016 and December 31, 2015 and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱47,640 million and ₱46,479 million as at March 31, 2016 and December 31, 2015, respectively. The accumulated equity in net earnings of subsidiaries, associates and joint ventures is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock

This includes reacquired capital stock and shares held by a subsidiary totaling 4,333 million shares, stated at acquisition cost of ₱3,355 million as at March 31, 2016 and December 31, 2015.

20. Related Party Transactions

The significant related party transactions entered into by the Company with SMIC, banking and retail group and other related parties and the amounts included in the accompanying interim condensed consolidated financial statements with respect to these transactions follow:

	Amount of Transactions		Outstanding Amount [Asset (Liability)]		Terms	Conditions
	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)		
<i>(In Thousands)</i>						
Ultimate Parent						
Rent income	₱6,011	₱2,500	₱-	₱-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	14,579	22,108		
Service fee receivable	-	-	17	17	Noninterest-bearing	Unsecured; not impaired
Due from related parties	-	-	31	449	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	23,447	21,460	-	-	Noninterest-bearing	Unsecured
Accrued rent payable	-	-	(7,170)	(1,427)	Noninterest-bearing	Unsecured
Due to related parties	-	-	(6,434)	(26,707)	On demand; noninterest-bearing	Unsecured
Trade payable	-	-	(33,955)	(39,855)	Noninterest-bearing	Unsecured
AFS investments	-	-	92,484	84,156	Noninterest-bearing	Unsecured; not impaired
Gain on sale of AFS investments	-	7,410,301	-	-	Noninterest-bearing	Unsecured
Banking and Retail Group						
Cash and cash equivalents	49,805,942	25,609,986	14,323,882	18,907,056	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	-	-	593,456	563,897	Noninterest-bearing	Unsecured; not impaired
Rent income	3,089,154	2,777,930	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	1,940,589	2,371,247		
Service income	-	561	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee income	504	2,979	-	-	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	-	-	29,224	29,405		

(Forward)



	Amount of Transactions		Outstanding Amount		Terms	Conditions
	March 31,	March 31,	March 31,	December 31,		
	2016	2015	2016	2015		
(Unaudited)	(Unaudited)	(Unaudited)	(Audited)			
<i>(In Thousands)</i>						
Deferred rent income	₱-	₱-	₱-	(₱63,548)	Noninterest bearing	Unsecured
Interest income	39,001	64,861	-	-	Interest-bearing	Unsecured; not impaired
Accrued interest receivable	-	-	40,150	44,534	Noninterest-bearing	Unsecured; not impaired
Due from related parties	90	3,356	109	19	On demand; noninterest-bearing	Unsecured; not impaired
Time deposits	-	1,167,643	4,334,134	4,410,436	Interest-bearing	Unsecured
Loans payable and long-term debt	-	-	(961,624)	(961,624)	Interest-bearing	Combination of secured and unsecured
Interest expense	9,438	24,793	-	-	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable	-	-	(402)	(638)	Noninterest-bearing	Unsecured
Rent expense	406	72	-	-	Noninterest-bearing	Unsecured
Trade payable	-	10,893	(5,695)	(5,886)	Noninterest-bearing	Unsecured
Due to related parties	6,237	157	(9,622)	(3,385)	Noninterest-bearing	Unsecured
Management fee expense	610	618	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	(426)	(876)	Noninterest-bearing	Unsecured
AFS investments	-	-	10,926,193	10,968,613	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	-	-	332,069	437,639	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	22,576	-	-	-	Noninterest-bearing	Unsecured
Other Related Parties						
Rent income	12,956	9,484	-	-	Noninterest-bearing	Unsecured; not impaired
Rent receivable	-	-	26,786	28,820		
Service income	2,916	-	-	-	Noninterest-bearing	Unsecured; not impaired
Due from related parties	130,913	18,091	231,514	100,601	On demand; noninterest-bearing	Unsecured; not impaired
Management fee receivable	-	-	7,993	7,993	Noninterest-bearing	Unsecured; not impaired
Rent expense	1,275	1,213	-	-		
Due to related parties	1,373	-	(60,150)	(58,777)	Noninterest-bearing	Unsecured
Accrued expenses	-	279	(573,192)	(573,192)	Noninterest-bearing	Unsecured
Management fee expense	280,911	296,801	-	-	Noninterest-bearing	Unsecured
Accrued management fee	-	-	(94,432)	(117,402)	Noninterest-bearing	Unsecured
Trade payable	-	-	(12,945)	(15,542)	Noninterest-bearing	Unsecured
AFS investments	-	-	2,199,305	2,140,461	Noninterest-bearing	Unsecured; not impaired
Dividend income	69,878	132,400	-	-	Noninterest-bearing	Unsecured

Compensation of Key Management Personnel

The aggregate compensation and benefits related to key management personnel for the three-month periods ended March 31, 2016 and 2015 consist of short-term employee benefits amounting to ₱96 million and ₱92 million, respectively, and post-employment benefits (pension benefits) amounting to ₱12 million in both periods.

21. Costs and Expenses

This account consists of:

	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)
<i>(In Thousands)</i>		
Cost of real estate sold (see Notes 8 and 9)	₱2,918,738	₱2,867,633
Depreciation and amortization (see Notes 12 and 13)	1,888,493	1,736,523
Administrative	1,556,737	1,435,165
Business taxes and licenses (Forward)	961,559	876,522



	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)
Marketing and selling expenses	₱835,783	₱672,249
Film rentals	568,718	517,801
Rent (see Note 20)	348,531	314,993
Management fees (see Note 20)	334,703	306,186
Insurance	105,175	97,078
Others	340,989	350,680
	₱9,859,426	₱9,174,830

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

22. Interest Income and Interest Expense

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

	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)
	<i>(In Thousands)</i>	
Interest income on:		
Cash and cash equivalents (see Note 5)	₱95,040	₱123,303
Time deposits (see Note 15)	20,158	10,486
Investments held for trading (see Note 6)	4,317	8,124
Others (see Note 7)	16,190	15,877
	₱135,705	₱157,790
Interest expense on:		
Long-term debt (see Note 18)	₱980,310	₱1,057,233
Loans payable (see Note 16)	11,953	17,892
Others	3,030	12,857
	₱995,293	₱1,087,982

23. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 24).



The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks.

Interest Rate Risk

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

Foreign Currency Risk

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

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

The Company's foreign currency-denominated monetary assets amounted to US\$531 million (₱24,475 million) as at March 31, 2016 and US\$796 million (₱37,457 million) as at December 31, 2015. The Company's foreign currency-denominated monetary liabilities amounted to US\$811 million (₱37,360 million) and US\$499 million (₱3,218 million) as at March 31, 2016, and US\$802 million (₱37,745 million) and US\$764 million (₱4,961 million) as at December 31, 2015.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ¥6.4536 to US\$1.00 and ¥6.4937 to US\$1.00, the China Yuan Renminbi to U.S. dollar exchange rate and ₱46.07 to US\$1.00 and ₱47.06 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at March 31, 2016 and December 31, 2015, respectively.

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.



Credit Risk

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

Equity Price Risk

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

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

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

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

24. Financial Instruments

Fair Values

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

	March 31, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
			<i>(In Thousands)</i>	
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	₱867,596	₱867,596	₱843,256	₱843,256
Derivative assets	2,237,103	2,237,103	2,600,799	2,600,799
	3,104,699	3,104,699	3,444,055	3,444,055
Loans and receivables:				
Noncurrent portion of receivables from sale of real estate	8,784,130	8,637,958	7,962,615	7,833,491
Available-for-sale investments	20,299,115	20,299,115	20,332,055	20,332,055
	₱32,187,944	₱32,041,772	₱31,738,725	₱31,609,601



	March 31, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	P412,980	P412,980	P-	P-
Other financial liabilities:				
Liability for purchased land - net of current portion	2,026,613	1,992,889	2,081,708	2,066,418
Long-term debt - net of current portion	140,010,885	143,223,012	125,952,441	133,874,562
Tenants' and customers' deposits	13,956,118	13,723,890	13,218,264	13,121,180
Other noncurrent liabilities*	3,489,479	3,431,412	3,341,067	3,319,530
	159,483,095	162,371,203	144,593,480	152,381,690
	P159,896,075	P162,784,183	P144,593,480	P152,381,690

*Excluding nonfinancial liabilities amounting to P1,498 million and P1,412 million as at March 31, 2016 and December 31, 2015, respectively.

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

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

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

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 3.39% and 4.10% as at March 31, 2016 and December 31, 2015, respectively.

Time Deposits. Time deposits (included under "Other noncurrent assets") serves as collateral for use of credit lines obtained by the Company for related party banks. This is being rolled over for periods of less than one year until the maturity of the loan. The carrying amount reported in the interim consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.69% to 5.41% and 2.18% to 5.59% as at March 31, 2016 and December 31, 2015, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest



Debt Type	Fair Value Assumptions
	payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.94% to 4.81% and 1.95% to 2.37% as at March 31, 2016 and December 31, 2015, respectively.

Tenants' and Customers' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 3.15% to 3.63% and 4.03% to 4.17% as at March 31, 2016 and December 31, 2015, respectively.

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

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

Fair Value Hierarchy

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

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

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

	March 31, 2016 (Unaudited)		
	Level 1	Level 2	Level 3
	<i>(In Thousands)</i>		
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	P274,140	P-	P-
Shares	593,456	-	-
Derivative assets	-	2,237,103	-
	867,596	2,237,103	-
Loans and receivables:			
Noncurrent portion of receivables from sale of real estate	-	-	8,637,958
Available-for-sale investments	20,289,784	-	9,331
	P21,157,380	P2,237,103	P8,647,289



	March 31, 2016 (Unaudited)		
	Level 1	Level 2	Level 3
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	P-	P412,980	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	1,992,889
Long-term debt - net of current portion	-	-	143,223,012
Tenants' and customers' deposits	-	-	13,723,890
Other noncurrent liabilities*	-	-	3,431,412
	-	-	162,371,203
	P-	P412,980	P162,371,203

*Excluding nonfinancial liabilities amounting to P1,498 million as at March 31, 2016.

	December 31, 2015 (Audited)		
	Level 1	Level 2	Level 3
<i>(In Thousands)</i>			
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	P279,359	P-	P-
Shares	563,897	-	-
Derivative assets	-	2,600,799	-
	843,256	2,600,799	-
Loans and receivables:			
Noncurrent portion of receivables from sale of real estate	-	-	7,833,491
Available-for-sale investments	20,323,495	-	8,560
	P21,166,751	P2,600,799	P7,842,051

Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	P-	P-	P-
Other financial liabilities:			
Liability for purchased land - net of current portion	-	-	2,066,418
Long-term debt - net of current portion	-	-	133,874,562
Tenants' and customers' deposits	-	-	13,121,180
Other noncurrent liabilities*	-	-	3,319,530
	-	-	152,381,690
	P-	P-	P152,381,690

*Excluding nonfinancial liabilities amounting to P1,412 million as at December 31, 2015.

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

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates arising primarily from its long-term floating rate debt obligations and to manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross-currency swaps, non-deliverable forwards and non-deliverable currency swaps.



Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 18). Details of the hedged loans are as follows:

Under the floating-to-fixed cross-currency swaps, it effectively converted the hedged US dollar-denominated loans into Philippine peso-denominated loans. Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US\$ for their agreed Philippine peso equivalents (₱8,134 million for \$200 million and ₱6,165 million for \$150 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.
- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US\$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

Principal only Swaps. In 2016, SM Land (China) Limited entered into principal only swap transactions to hedge the foreign currency exposures on its U.S. dollar-denominated five-year term syndicated loan and advances (the hedged items) obtained on February 16, 2016 to March 22, 2016 (see Note 18).

Under the principal only swap, it effectively converted the hedged US dollar-denominated loan and advances into China renminbi-denominated loans. Details of the principal only swap are as follow:

- Swap the face amount of the loans and advances at US\$ for their agreed China renminbi equivalents (¥2,472 million for US\$380 million) with the counterparty banks and net settled at maturity date.
- Pay premium interest based on China renminbi notional amount on a semi-annual basis.

The table below provides the details of SM Land's outstanding principal only swap as at March 31, 2016:

	Notional Amounts <i>(In Thousands)</i>	US\$:¥ Rate	Maturity	Fair Value Loss
Principal only	US\$100,000	6.528	March 23, 2018	(₱169,830)
Principal only	50,000	6.569	March 23, 2018	(124,470)
Principal only	50,000	6.458	January 29, 2021	(13,412)
Principal only	50,000	6.369	January 29, 2021	(2,343)
Principal only	50,000	6.480	January 29, 2021	(9,021)
Principal only	30,000	6.483	January 29, 2021	(7,172)
Principal only	25,000	6.514	August 30, 2017	(43,280)
Principal only	15,000	6.514	August 30, 2017	(26,046)
Principal only	10,000	6.514	August 30, 2017	(17,406)

As the terms of the swaps have been negotiated to match the terms of the hedged items, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the interim consolidated statements of income for the three months ended March 31, 2016.



Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	<i>(In Thousands)</i>			
Unsecured loan	US\$200,000	₱9,214,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,910,500	6-month US LIBOR + 1.70%	March 25, 2018
Unsecured loan	180,000	8,302,422	6-month US LIBOR + 1.45%	January 29, 2021

The table below provides the details of SMPH's outstanding cross-currency swaps as at March 31, 2016:

	Notional Amounts		Receive	Pay	US\$:P Rate	Maturity	Fair Value Gain
	<i>(In Thousands)</i>						<i>(In Thousands)</i>
Floating-to-Fixed	US\$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	₱1,029,037
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018	318,418
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	326,637
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	280,249
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018	282,762

Hedge Effectiveness Results

As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps amounting to ₱1,824 million gain and ₱2,601 million gain as at March 31, 2016 and December 31, 2015, respectively, which movement was taken to equity under other comprehensive income. No ineffectiveness was recognized in the interim consolidated statements of income for the three-month periods ended March 31, 2016 and 2015. Foreign currency translation gain arising from the hedged loan recognized in the interim consolidated statements of income amounted to ₱453 million and ₱7 million for the three-month periods ended March 31, 2016 and 2015, respectively. Foreign exchange loss equivalent to the same amounts were recycled from equity to the interim consolidated statements of income during the same period.

The reconciliation of the amounts of derivative assets and liabilities recognized in the interim consolidated balance sheets follows:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Derivative assets	₱2,237,103	₱2,600,799
Derivative liabilities	(412,980)	–
	₱1,824,123	₱2,600,799



25. **EPS Computation**

Basic/diluted EPS is computed as follows:

	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)
	<i>(In Thousands, Except Per Share Data)</i>	
Net income attributable to equity holders of the parent (a)	₱5,835,882	₱12,631,340
Common shares issued	33,166,300	33,166,300
Less weighted average number of treasury stock	4,332,692	4,332,787
Weighted average number of common shares outstanding (b)	28,833,608	28,833,513
Earnings per share (a/b)	₱0.202	₱0.438





Building a better
working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT ON INTERIM SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

We have reviewed in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, the interim condensed consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the "Group") as at March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015 and have issued our report thereon dated May 10, 2016. Our review was made for the purpose of expressing a conclusion on the interim condensed consolidated financial statements taken as whole. The schedules listed in the Index to the Interim Condensed Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the interim condensed consolidated financial statements. These schedules have been subjected to the procedures applied in the review of the interim condensed consolidated financial statements and, based on our review, nothing has come to our attention that causes us to believe that the information required to be set forth therein has not been prepared, in all material respects, in relation to the interim condensed consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason

Sherwin V. Yason

Partner

CPA Certificate No. 104921

SEC Accreditation No. 1514-A (Group A),

October 6, 2015, valid until October 5, 2018

Tax Identification No. 217-740-478

BIR Accreditation No. 08-001988-112-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 5321713, January 4, 2016, Makati City

May 10, 2016



SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
March 31, 2016

Consolidated Financial Statements

A. Statement of Management's Responsibility for Financial Statements	Attached
B. Independent Auditor's Report	Attached
C. Interim Consolidated Balance Sheets as at March 31, 2015 and December 31, 2015	Attached
D. Interim Consolidated Statements of Income for the periods ended March 31, 2016 and 2015	Attached
E. Interim Consolidated Statements of Comprehensive Income for the periods ended March 31, 2016 and 2015	Attached
F. Interim Consolidated Statements of Changes in Equity for the periods ended March 31, 2016 and 2015	Attached
G. Interim Consolidated Statements of Cash Flows for the periods ended March 31, 2016 and 2015	Attached
H. Notes to Interim Consolidated Financial Statements	Attached

Supplementary Schedules

Report of Independent Public Accountants on Supplementary Schedules	Attached
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Annex 68-E

A. Financial Assets	Attached
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Sponsors	*
C. Amounts Receivable from Related parties which are Eliminated During the Consolidation of Financial Statements	Attached
D. Intangible Assets and Other Assets	*
E. Long-Term Debt	*
F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)	*
G. Guarantees of Securities of Other Issues	*
H. Capital Stock	Attached

Additional Components

Annex I: Reconciliation of Retained Earnings Available for Dividend Declarations	Attached
Annex II: List of Philippines Financial Reporting Standards effective as of March 31, 2016	Attached
Annex III: Map of Relationship of the Companies within the Group	Attached
Annex IV: Financial Ratios - Key Performance Indicators	Attached
Annex V: Recently Offered Securities to the Public (Retail Bond)	Attached

*These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

Schedule A

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Financial Assets

As at March 31, 2016

(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet as at March 31, 2016	Income Received and Accrued
Loans and Receivables			
Temporary investments:			
Banco de Oro Unibank, Inc (BDO)	PHP 12,013,366	PHP 12,013,366	
China Banking Corporation	PHP 1,302,239	1,302,239	
China Construction Bank	RMB 183,800	1,312,664	
Standard Chartered Bank	RMB 181,000	1,292,105	
Industrial and Commercial Bank of China	RMB 167,300	1,194,305	
Bank of East Asia Ltd	RMB 143,450	1,024,047	
China Industrial Bank	RMB 132,080	942,879	
Bank of China	RMB 61,248	437,231	
BDO	USD 7,325	337,441	
Hongkong Shanghai Banking Corporation	USD 1,292	9,225	
Others	PHP 161,328	161,328	
		PHP 20,026,830	PHP 91,007
Financial Assets at FVPL			
Investments held for trading:			
China Banking Corporation	15,158,522 shares	PHP 593,456	PHP 0
Travellers International Hotel		242,858	3,914
Bureau of Treasury RTB	PHP 25,000	26,038	331
Ayala Corporation	PHP 5,000	5,244	72
Derivative assets	PHP 2,237,103	2,237,103	
		PHP 3,104,699	PHP 4,317
Available -for-sale Investments			
BDO	75,254,191 shares	PHP 7,698,504	PHP 22,576
Ayala Corporation	8,581,204 shares	6,435,903	24,714
China Banking Corporation	82,444,168 shares	3,227,689	
Belle Corporation	735,553,561 shares	2,199,305	69,878
Shang Properties, Inc.	189,550,548 shares	583,816	18,007
SM Investments Corporation	97,403 shares	92,484	
Republic Glass Holding Corporation	14,703,000 shares	40,433	
Picop Resources, Inc.	40,000,000 shares	8,200	
Tagaytay Midlands Golf Club, Inc.	11 shares	6,050	
Philippine Long Distance Telephone Company	253,270 shares	2,533	
Export & Industry Bank	7,829,000 shares	2,036	
Prime Media Holdings, Inc.	500,000 shares	650	
Benguet Corporation	88,919 shares	765	
Others	848 shares	747	
		PHP 20,299,115	PHP 135,175
		PHP 43,430,644	PHP 230,499

Schedule C

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As at March 31, 2016
(Amounts in Thousands except for Number of Shares)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
SM China Companies	P37,610,080	P631,553	(P13,645,920)	P-	P-	P24,595,713	P24,595,713
Costa del Hamilo, Inc. and Subsidiary	877,343	750	(39,653)	-	-	838,440	838,440
Consolidated Prime Dev. Corp.	391,975	16,715	(262)	-	-	408,428	408,428
Premier Central, Inc.	286,217	96,600	(175)	-	-	382,642	382,642
Associated Development Corporation	200,000	4,961	(4,961)	-	-	200,000	200,000
SM Arena Complex Corporation	118,102	-	(28,102)	-	-	90,000	90,000
Summerhills Home Development Corp.	-	1,095	-	-	-	1,095	1,095
CHAS Realty and Development Corporation and Subsidiaries	101,953	500	(5)	-	-	102,448	102,448
Premier Southern Corp.	52,381	20,500	-	-	-	72,881	72,881
SM Development Corporation and Subsidiaries	134,465	21,271	(33,122)	-	-	122,614	122,614
SM Hotels and Conventions Corp. and Subsidiaries	2,446	56,252	(48,707)	-	-	9,991	9,991
Magenta Legacy, Inc.	2,144	-	(144)	-	-	2,000	2,000
Tagaytay Resort and Development Corporation	1,280	1,215	-	-	-	2,495	2,495
First Leisure Ventures Group, Inc.	952	-	(255)	-	-	697	697
Prime Metrostate, Inc.	647	1,893	(2,540)	-	-	-	-
Highlands Prime, Inc.	222	8,726	(587)	-	-	8,361	8,361
MOA Esplanade Port Inc.	200	-	(200)	-	-	-	-
San Lazaro Holdings Corporation	1	250,050	-	-	-	250,051	250,051
Southernpoint Properties Corp.	-	-	-	-	-	-	-
	P39,780,408	P1,112,081	(P13,804,633)	P-	P-	P27,087,856	P27,087,856

Schedule H

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Capital Stock

As at March 31, 2016

(Shares in Thousand)

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,879,232	17,669,866	3,438,181	7,771,185

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**Reconciliation of Retained Earnings Available for Dividend Declaration****Annex 1**

As of March 31, 2016

Unappropriated retained earnings as of January 1, 2016		₱ 36,128,240,321
Adjustments:		
Less: non-actual/unrealized income, net of applicable tax -		
Unrealized marked-to-market gain on derivatives	-	
Treasury stock	2,613,650,429	2,613,650,429
Unappropriated retained earnings as of January 1, 2016, as adjusted to available for dividend distribution		33,514,589,892
Net income closed to retained earnings for the period	4,341,396,002	
Less: non-actual/unrealized income, net of applicable tax -		
Unrealized marked-to-market gain on derivatives	-	
Net income actually earned in 2016		4,341,396,002
		37,855,985,894
Add (Less):		
Cash dividends declared in 2016	-	
Treasury stock	-	
		-
Retained earnings as of March 31, 2016		
available for dividend declaration		<u>₱ 37,855,985,894</u>

Annex II

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective as at March 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
	Amendments to PFRS 9: Hedge accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*	Not Early Adopted		
	Amendments to PFRS 9 (2014 version)*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10 and PAS 28: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative			✓
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓

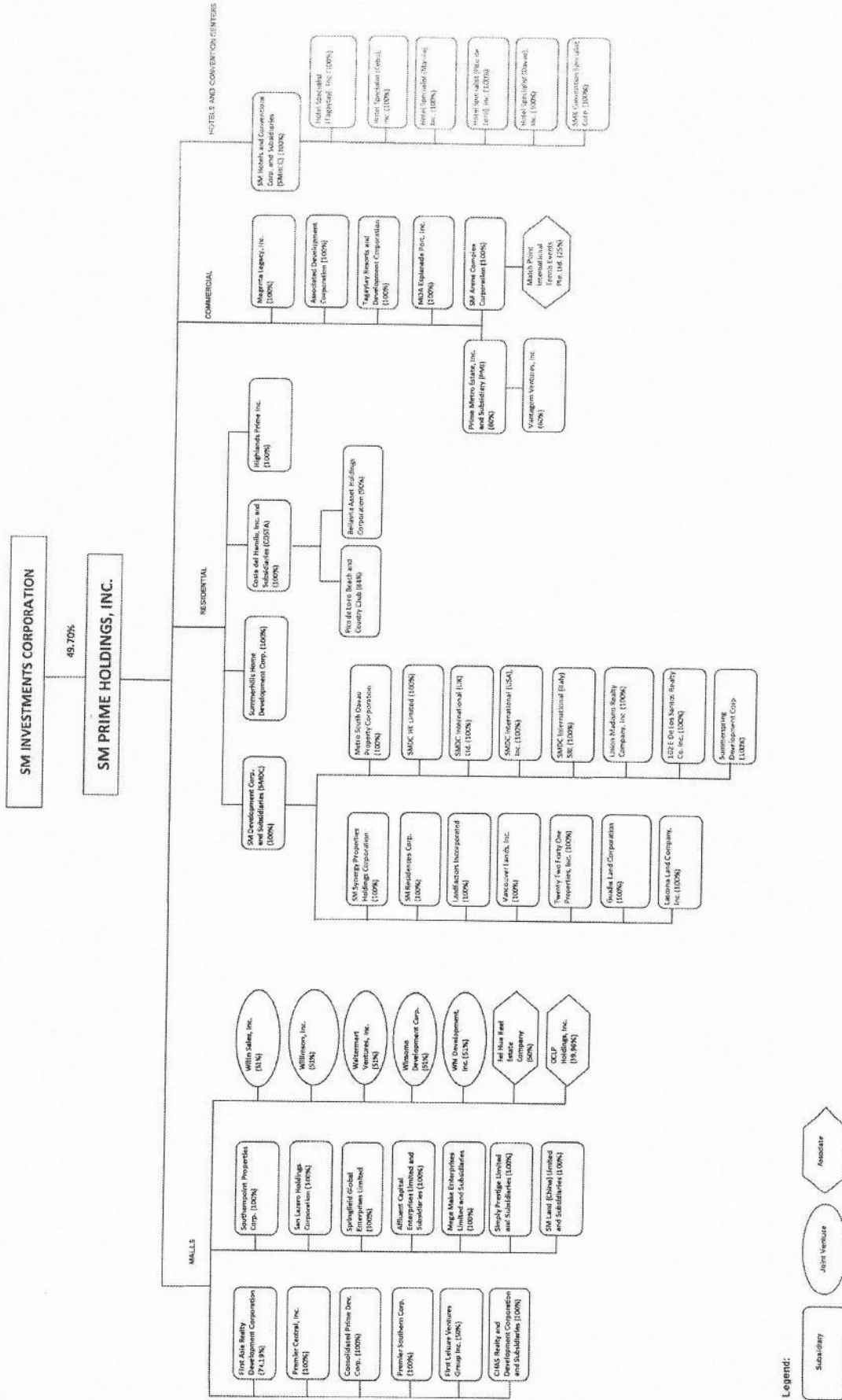
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10 and PAS 28: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
	PAS 40	Investment Property	✓	
Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property		✓		
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 – Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC-12	Consolidation – Special Purpose Entities			✓
	Amendment to SIC-12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue – Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets – Web Site Costs			✓

* Standards and interpretations which will become effective subsequent to March 31, 2016.

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the period ended March 31, 2016.



Legend:
 Subsidiary (rectangle)
 Joint Venture (oval)
 Associate (hexagon)
 Note: % Refers to Effective Ownership

Annex IV

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES Financial Ratios – Key Performance Indicators As of March 31, 2016 and 2015

	March 31, 2016	March 31, 2015
i. Current ratio		
$\frac{\text{Total current assets}}{\text{Total current liabilities}}$	1.93	1.67
Acid-Test Ratio		
$\frac{\text{Total current assets less Condominium units for sale, Land and development (current portion) and prepaid expenses and other current assets}}{\text{Total current liabilities}}$	1.12	1.15
ii. Debt-to-equity ratio		
$\frac{\text{Total interest-bearing liabilities}}{\text{Total equity attributable to equity holders of the parent + Total interest-bearing liabilities}}$	41:59	39:61
Net debt-to-equity ratio		
$\frac{\text{Total interest-bearing liabilities less cash and cash equivalents and investment securities}}{\text{Total equity attributable to equity holders of the parent + Total interest-bearing liabilities less cash and cash equivalents and investment securities}}$	37:63	30:70
Solvency Ratio		
$\frac{\text{Total assets}}{\text{Total liabilities}}$	2.04	2.08
iii. Asset to equity ratio		
$\frac{\text{Total assets}}{\text{Total equity attributable to equity holders of the parent}}$	1.99	1.96
iv. Interest Service Coverage		
$\frac{\text{Earnings before interest income, taxes, depreciation and amortization (EBITDA)}}{\text{Interest expense}}$	10.18	8.34
Debt to EBITDA		
$\frac{\text{Total interest-bearing liabilities}}{\text{EBITDA}}$	3.71	3.64
v. Net Income Margin		
$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total Revenue}}$	0.32	0.31*
Return on equity		
$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total average equity attributable to equity holders of the parent}}$	0.11	0.10*
Return on investment properties		
$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Total average investment properties (excluding construction in progress)}}$	0.12	0.13*

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

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Retail Bond
As of March 31, 2016

(1) Gross and Net Proceeds as Disclosed in the Final Prospectus

	₱15.0B Issue Size	₱5.0 B Over-Subscription Option	Total Proceeds (inclusive of Over- Subscription)
Gross Proceeds	₱15,000,000,000	₱5,000,000,000	₱20,000,000,000
Estimated Expenses	143,650,625	42,500,000	186,150,625
Net Proceeds	<u>₱14,856,349,375</u>	<u>₱4,957,500,000</u>	<u>₱19,813,849,375</u>

(2) Actual Gross and Net Proceeds

Gross Proceeds	₱20,000,000,000
Actual Expenses	<u>211,443,803</u>
Net Proceeds	<u>₱19,788,556,197</u>

(3) Each Expenditure Item where the Proceeds were Used

The net proceeds was used to finance capital expenditures of the following:

Projects	Amounts in million
SM City Seaside Cebu	₱3,245
SM Cagayan de Oro 2 and Tower	2,506
SM City Cabanatuan	2,450
SM Mall of Asia – Expansion	1,417
SM Trece Martires Cavite	911
SM San Jose Del Monte	820
SM Center Sangandaan	606
SM Puerto Princesa	186
TOTAL	<u>₱12,141</u>

(4) As of March 31, 2016, ₱12,141 million was used in financing capital expenditures for the construction and expansion of malls.

PARTIES TO THE OFFER

Issuer

SM PRIME HOLDINGS, INC.

Joint Issue Managers, Joint Bookrunners, and Joint Lead Underwriters

**BDO CAPITAL & INVESTMENT CORPORATION
BPI CAPITAL CORPORATION
CHINA BANK CAPITAL CORPORATION
FIRST METRO INVESTMENT CORPORATION**

Participating Underwriters

**EAST WEST BANKING CORPORATION
PNB CAPITAL AND INVESTMENT CORPORATION
UNITED COCONUT PLANTERS BANK**

Trustee

PHILIPPINE NATIONAL BANK TRUST BANKING GROUP

Registrar and Paying Agent

PHILIPPINE DEPOSITORY AND TRUST CORPORATION

Legal Counsel to the Underwriters

ANGARA ABELLO CONCEPCION REGALA & CRUZ

Independent Auditors

SGV & Co.