PRIME

May 15, 2014

The Philippine Stock Exchange, Inc.
3F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: Ms. Janet A. Encarnacion
Head, Disclosure Department

Gentlemen:

We are attaching the amended SEC 17-Q for the period ended March 31, 2014 specifically pertaining to restatements in the consolidated statements of changes in equity and consolidated statements of cash flows in prior year as a result of adjustments related to the SM Property Group restructuring.

We trust the foregoing meets your requirements.

Very truly yours,

Teresa Cecilia H. Reyes

TERESA CECILIA H. REYES
Vice President – Finance

COVER SHEET

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SEC Registration Number

S M P R I M E H O L D I N G S , I N C . A N D S U B S I D I A R I E S

(Company's Full Name)

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

(Business Address: No. Street City/Town/Province)

Mr. Jeffrey C. Lim

(Contact Person)

831-1000

(Company Telephone Number)

0 3	3 1
Month	*Day*

(Fiscal Year)

1 7 - Q

(Form Type)

Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **MARCH 31, 2014**

2. SEC Identification Number **AS0940000-88** 3. BIR Tax Identification No. **003-058-789**

4. Exact name of registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

5. **PHILIPPINES**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **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**
Address of principal office Postal Code

8. **(632) 831-1000**
Registrant's telephone number, including area code

9. ____________________
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 4 and 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
CAPITAL STOCK, P 1 PAR VALUE	**27,819,137,294**

11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes [**X**] No [ ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Securities Regulation Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [**X**] No [ ]

(b) has been subject to such filing requirements for the past 90 days.
Yes [**X**] No [ ]

SM Prime Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
March 31, 2014 and December 31, 2013
and Three Months Ended March 31, 2014 and 2013

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2014	December 31, 2013 (As restated - Notes 2 and 6)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 22, 28 and 29)	**₱22,862,710**	₱27,141,506
Short-term investments (Notes 8, 22, 28 and 29)	**–**	887,900
Investments held for trading (Notes 9, 22, 28 and 29)	**1,141,304**	1,151,464
Receivables (Notes 10, 17, 22, 28 and 29)	**30,792,963**	27,184,434
Condominium and residential units for sale (Note 11)	**5,435,589**	6,102,653
Land and development - current portion (Note 12)	**13,885,376**	13,281,246
Prepaid expenses and other current assets (Notes 14, 22, 28 and 29)	**9,038,318**	9,936,120
Total Current Assets	**83,156,260**	85,685,323
Noncurrent Assets		
Available-for-sale investments - net of current portion (Notes 13, 22, 28 and 29)	**26,229,318**	23,369,074
Property and equipment - net (Note 15)	**1,447,654**	1,578,893
Investment properties - net (Notes 16, 20 and 22)	**177,123,116**	171,666,409
Land and development - net of current portion (Note 12)	**20,452,296**	21,539,938
Derivative assets (Notes 28 and 29)	**2,010,464**	1,778,810
Deferred tax assets - net (Note 26)	**838,990**	690,525
Other noncurrent assets (Notes 17, 22, 25, 28 and 29)	**29,669,868**	29,274,710
Total Noncurrent Assets	**257,771,706**	249,898,359
	₱340,927,966	₱335,583,682
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 18, 22, 28 and 29)	**₱2,700,000**	₱3,250,000
Accounts payable and other current liabilities (Notes 19, 22, 28 and 29)	**44,153,792**	45,298,216
Current portion of long-term debt (Notes 20, 22, 28 and 29)	**7,286,573**	7,387,260
Income tax payable	**1,196,685**	946,593
Total Current Liabilities	**55,337,050**	56,882,069
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 28 and 29)	**94,871,661**	95,675,730
Tenants' deposits (Notes 27, 28 and 29)	**10,414,961**	10,248,792
Liability for purchased land - net of current portion (Notes 19, 28 and 29)	**1,027,210**	1,117,809
Deferred tax liabilities - net (Note 26)	**1,974,711**	2,022,539
Derivative liabilities (Notes 28 and 29)	**159,356**	159,974
Other noncurrent liabilities (Notes 16, 22, 25, 28 and 29)	**3,400,453**	3,255,244
Total Noncurrent Liabilities	**111,848,352**	112,480,088
Total Liabilities (Carried Forward)	**167,185,402**	169,362,157

	March 31, 2014	December 31, 2013 (As restated - Notes 2 and 6)
Total Liabilities (Brought Forward)	**₱167,185,402**	₱169,362,157
Equity Attributable to Equity Holders of the Parent (Notes 21 and 30)		
Capital stock (Notes 6, 21 and 30)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 6 and 21)	**22,280,423**	22,303,436
Cumulative translation adjustment	**1,256,429**	1,381,268
Net unrealized gain on available-for-sale investments (Note 13)	**22,818,574**	19,958,330
Net fair value changes on cash flow hedges (Note 29)	**549,563**	429,149
Remeasurement loss on defined benefit obligation (Note 25)	**(5,006)**	771
Retained earnings (Note 21):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**52,386,115**	47,807,664
Treasury stock (Notes 21 and 30)	**(3,979,446)**	(3,980,378)
Total Equity Attributable to Equity Holders of the Parent	**170,672,952**	163,266,540
Non-controlling Interests (Note 21)	**3,069,612**	2,954,985
Total Equity	**173,742,564**	166,221,525
	₱340,927,966	₱335,583,682

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands)

	Three Months Ended March 31	
	2014	2013 (As restated - Notes 2 and 6)
REVENUE		
Rent (Notes 22 and 27)	**₱8,555,730**	₱7,629,278
Sales:		
Real estate	**5,016,368**	6,013,070
Cinema ticket	**1,064,191**	760,985
Others (Note 22)	**709,875**	545,638
	15,346,164	14,948,971
COSTS AND EXPENSES (Note 23)	**8,818,504**	8,827,640
INCOME FROM OPERATIONS	**6,527,660**	6,121,331
OTHER INCOME (CHARGES)		
Interest expense (Notes 22, 24, 28 and 29)	**(852,741)**	(815,945)
Interest and dividend income (Notes 13, 22 and 24)	**149,407**	243,078
Restructuring costs (Note 6)	**–**	(348,172)
Others - net (Notes 9, 12, 13, 17, 20, 22 and 29)	**67,354**	25,627
	(635,980)	(895,412)
INCOME BEFORE INCOME TAX	**5,891,680**	5,225,919
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)		
Current	**1,173,770**	1,054,622
Deferred	**24,165**	(43,707)
	1,197,935	1,010,915
NET INCOME	**₱4,693,745**	₱4,215,004
Attributable to		
Equity holders of the Parent (Notes 21 and 30)	**₱4,578,451**	₱4,107,497
Non-controlling interests (Note 21)	**115,294**	107,507
	₱4,693,745	₱4,215,004
Basic/Diluted earnings per share (Note 30)	**₱0.165**	₱0.148

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Three Months Ended March 31	
	2014	2013 (As restated - Notes 2 and 6)
NET INCOME	**₱4,693,745**	₱4,215,004
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Unrealized gain due to changes in fair value in available-for-sale investments (Note 13)	**2,860,244**	3,562,991
Net fair value changes on cash flow hedges (Note 29)	**120,414**	(21,750)
Cumulative translation adjustment	**(124,839)**	216,570
	2,855,819	3,757,811
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods -		
Remeasurement income (loss) on defined benefit obligation (Note 25)	**(6,444)**	60,774
TOTAL COMPREHENSIVE INCOME	**₱7,543,120**	₱8,033,589
Attributable to		
Equity holders of the Parent (Notes 21 and 30)	**₱7,428,493**	₱7,926,082
Non-controlling interests (Note 21)	**114,627**	107,507
	₱7,543,120	₱8,033,589

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 (Notes 21 and 30)											
	Capital Stock (Notes 6, 21 and 30)	Additional Paid-in Capital - Net (Notes 6 and 21)	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments (Note 13)	Remeasurement Loss on Defined Benefit Obligation (Note 25)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Retained Earnings (Note 21) Appropriated	Retained Earnings (Note 21) Unappropriated	Treasury Stock (Notes 21 and 30)	Total	Non-controlling Interests (Note 21)	Total Equity
At January 1, 2014	**₱33,166,300**	**₱22,303,436**	**₱1,381,268**	**₱19,958,330**	**₱771**	**₱429,149**	**₱42,200,000**	**₱47,807,664**	**(₱3,980,378)**	**₱163,266,540**	**₱2,954,985**	**₱166,221,525**
Net income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,578,451**	**–**	**4,578,451**	**115,294**	**4,693,745**
Other comprehensive income (loss)	**–**	**–**	**(124,839)**	**2,860,244**	**(5,777)**	**120,414**	**–**	**–**	**–**	**2,850,042**	**(667)**	**2,849,375**
Total comprehensive income (loss) for the period	**–**	**–**	**(124,839)**	**2,860,244**	**(5,777)**	**120,414**	**–**	**4,578,451**	**–**	**7,428,493**	**114,627**	**7,543,120**
Re-issuance of treasury shares	**–**	**(23,013)**	**–**	**–**	**–**	**–**	**–**	**–**	**932**	**(22,081)**	**–**	**(22,081)**
At March 31, 2014	**₱33,166,300**	**₱22,280,423**	**₱1,256,429**	**₱22,818,574**	**(₱5,006)**	**₱549,563**	**₱42,200,000**	**₱52,386,115**	**(₱3,979,446)**	**₱170,672,952**	**₱3,069,612**	**₱173,742,564**
At January 1, 2013	₱33,166,300	₱19,668,994	₱607,237	₱19,781,021	(₱61,088)	₱–	₱42,200,000	₱36,250,679	(₱3,985,462)	₱147,627,681	₱2,834,304	₱150,461,985
Net income for the period	–	–	–	–	–	–	–	4,107,497	–	4,107,497	107,507	4,215,004
Other comprehensive income (loss)	–	–	216,570	3,562,991	60,774	(21,750)	–	–	–	3,818,585	–	3,818,585
Total comprehensive income (loss) for the period	–	–	216,570	3,562,991	60,774	(21,750)	–	4,107,497	–	7,926,082	107,507	8,033,589
Equity adjustment from common control business combination	–	1,950,098	–	–	–	–	–	(1,950,098)	–	–	–	–
At March 31, 2013	₱33,166,300	₱21,619,092	₱823,807	₱23,344,012	(₱314)	(₱21,750)	₱42,200,000	₱38,408,078	(₱3,985,462)	₱155,553,763	₱2,941,811	₱158,495,574

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Three Months Ended March 31	
	2014	2013 (As restated - Notes 2 and 6)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax and non-controlling interests	**₱5,891,680**	₱5,225,919
Adjustments for:		
Interest expense (Note 24)	**852,741**	815,945
Interest income and dividend income (Notes 13 and 24)	**(149,407)**	(243,078)
Depreciation and amortization (Note 23)	**1,682,939**	1,382,407
Restructuring costs	**–**	348,172
Loss (gain) on:		
Sale of available-for-sale investments	**–**	(4,167)
Fair value changes on derivatives – net	**35,142**	(31,558)
Fair value changes on investment held-for-trading (Note 9)	**12,366**	(99,107)
Sale/retirement of investment properties and property and equipment	**–**	(5,769)
Unrealized foreign exchange loss (gain) - net	**55,542**	777
Operating income before working capital changes	**8,381,003**	7,389,541
Decrease (increase) in:		
Receivables	**(3,482,960)**	(3,733,611)
Condominium and residential units for sale	**736,217**	304,051
Land and development	**(730,692)**	(2,463,021)
Prepaid expenses and other current assets	**896,513**	(496,472)
Increase in:		
Accounts payable and other current liabilities	**155,496**	3,756,710
Tenants deposits	**182,314**	192,542
Cash generated from operations	**6,137,891**	4,949,740
Income tax paid	**(917,969)**	(495,565)
Interest paid	**(15,022)**	(10,077)
Cash provided by operating activities	**5,204,900**	4,444,098
CASH FLOWS FROM INVESTING ACTIVITIES		
Deductions (additions) to:		
Investment properties	**(7,282,079)**	(4,636,362)
Property and equipment	**28,365**	(107,722)
Proceeds from sale of:		
Held-for-trading investments	**–**	299,914
Available-for-sale-investments	**–**	8,398
Pre-termination of short-term investments	**896,300**	–
Interest received	**113,562**	153,926
Dividends received	**35,784**	49,952
Increase in other noncurrent assets	**(405,775)**	(83,754)
Net cash used in investing activities	**(6,613,843)**	(4,315,648)

(Forward)

	Three Months Ended March 31	
	2014	2013 (As restated - Notes 2 and 6)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of loans	**₱–**	₱11,172,625
Payments of:		
Long-term debt	**(1,284,578)**	(945,984)
Dividends	**–**	(72)
Interest	**(1,027,296)**	(755,842)
Bank loans	**(550,000)**	(3,391,756)
Decrease in non-controlling interest	**(667)**	–
Net cash provided by (used in) financing activities	**(2,862,541)**	6,078,971
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(7,312)**	(3,049)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,278,796)**	6,204,372
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**27,141,506**	21,299,366
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱22,862,710**	₱27,503,738

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information and Corporate Restructuring**

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, 2014, SMPH is 51.03% and 25.72% 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 SMPH is 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 involves the following transactions:

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

The corporate restructuring was approved by the Board of Directors (BOD) of SMPH on May 31, 2013 and ratified by the stockholders in a special stockholders meeting held on July 10, 2013. This was subsequently approved by the SEC on October 10, 2013 (see Note 6).

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on May 5, 2014.

2. Basis of Preparation

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

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting and Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS and PAS which the Company has adopted starting January 1, 2014:

- PFRS 10, PFRS 12 and PAS 27 - *Investment Entities (Amendments)*, became effective for annual periods beginning on or after January 1, 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*, became effective for annual periods beginning on or after January 1, 2014.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*, became effective retrospectively for annual periods beginning on or after January 1, 2014.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*, became effective for annual periods beginning on or after January 1, 2014.

- Philippine Interpretation IFRIC 21, *Levies*, became effective for annual periods beginning on or after January 1, 2014.

- 2013 improvements to PFRSs, effective 2014.

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

Future Changes in Accounting Policies

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

- PFRS 9, *Financial Instruments*, currently has no mandatory effective date and may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, will become effective for annual periods beginning on or after July 1, 2014. The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied. The amendments will have no significant impact on the Company's consolidated financial statements.

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

Improvements to PFRSs (2010–2012 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after July 1, 2014 and are applied prospectively:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be applied prospectively. This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be applied prospectively. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments shall be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments shall be applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Improvements to PFRSs (2011–2013 cycle)
The annual improvements contain non-urgent but necessary amendments to the following standards effective on or after July 1, 2014 and are applied prospectively:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Company's financial position or performance.

- PAS 40, *Investment Property*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment has no significant impact on the Company's financial position or performance.

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

Company	Country of Incorporation	Percentage of Ownership 2014	2013
First Asia Realty Development Corporation (FARDC)	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp.	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
SMDC and Subsidiaries[(a)]	- do -	**100.0**	100.0
Magenta Legacy, Inc.[(a)]	- do -	**100.0**	100.0
Associated Development Corporation[(a)]	- do -	**100.0**	100.0
HPI[(a)]	- do -	**100.0**	100.0
SM Hotels and Conventions Corp. and Subsidiaries (SMHCC)[(a)]	- do -	**100.0**	100.0
SM Arena Complex Corporation (SMACC)[(a)]	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiaries (Costa)[(a)]	- do -	**100.0**	100.0
Prime Metro Estate, Inc. (PMI)[(a)]	- do -	**60.0**	60.0
Tagaytay Resorts and Development Corporation (TRDC)[(a)]	- do -	**100.0**	100.0
CHAS Realty and Development Corporation and Subsidiaries (CHAS)[(b)]	- do -	**100.0**	100.0

Company	Country of Incorporation	Percentage of Ownership	
		2014	2013
Summerhills Home Development Corp. (SHDC)[(c)]	- do -	**100.0**	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	**100.0**	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries[(c)]	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0

a. Acquired in 2013 as part of SM Property Group corporate restructuring accounted for as common control business combination using pooling of interest method.
b. Acquired in 2013 from unrelated parties accounted for under acquisition method.
c. Acquired in 2013 accounted for as common control business combination using pooling of interest method.

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

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

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority memebers 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 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.

3. 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 which 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 ₱5,016 million and ₱6,013 million for the three months ended March 31, 2014 and 2013, respectively.

Property Acquisition and Business Combination. The Company acquires subsidiaries which own real estate. 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 property.

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

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

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

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

Distinction between Land and Development, Investment Properties and Property and Equipment. The Company determines whether a property qualifies as land and development. In making this judgment, the Company considers whether the 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 ₱212,908 million and ₱208,066 million as at March 31, 2014 and December 31, 2013, respectively (see Notes 12, 15 and 16).

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Rent income amounted to ₱8,556 million and ₱7,629 million for the three months ended March 31, 2014 and 2013, respectively (see Note 27).

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

Rent expense amounted to ₱301 million and ₱306 million for the three months ended March 31, 2014 and 2013, respectively (see Note 27).

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

There was no impairment loss recognized on AFS investments for the three months ended March 31, 2014 and 2013. The carrying values of AFS investments amounted to ₱26,229 million and ₱23,369 million as at March 31, 2014 and December 31, 2013, respectively (see Note 13).

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 year are discussed below.

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

Revenue from sale of real estate amounted to ₱5,016 million and ₱6,013 million for the three months ended March 31, 2014 and 2013, respectively, while cost of real estate sold amounted to ₱2,932 million and ₱3,652 million for the three months ended March 31, 2014 and 2013, respectively (see Note 23).

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

Allowance for impairment losses amounted to ₱350 million and ₱323 million as at March 31, 2014 and December 31, 2013, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱38,986 million and ₱37,462 million as at March 31, 2014 and December 31, 2013, respectively (see Notes 10 and 17).

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

The carrying values of condominium units for sale and land and development amounted to ₱5,138 million and ₱34,338 million as at March 31, 2014, respectively, and ₱5,788 million and ₱34,821 million as at December 31, 2013, respectively (see Notes 11 and 12).

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

The carrying values of AFS investments amounted to ₱26,229 million and ₱23,369 million as at March 31, 2014 and December 31, 2013, respectively (see Note 13).

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

The aggregate carrying values of property and equipment and investment properties amounted to ₱178,571 million and ₱173,245 million as at March 31, 2014 and December 31, 2013, respectively (see Notes 15 and 16).

Impairment of Other Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. Determining the value 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 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 ₱178,571 million and ₱173,245 million as at March 31, 2014 and December 31, 2013, respectively (see Notes 15 and 16).

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

Deferred tax assets recognized in the consolidated balance sheets amounted to ₱1,324 million and ₱1,160 million as at March 31, 2014 and December 31, 2013, respectively, while the unrecognized deferred tax assets amounted to ₱99 million and ₱93 million as at March 31, 2014 and December 31, 2013, respectively (see Note 26).

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

The fair value of financial assets and liabilities are discussed in Note 29.

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

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments are cash placements, shown under current assets, 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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company’s investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱3,152 million and ₱2,930 million as at March 31, 2014 and December 31, 2013, respectively. Included under financial liabilities at FVPL are the Company’s derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱159 million and ₱160 million as at March 31, 2014 and December 31, 2013, respectively (see Note 29).

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

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

Classified under this category are cash and cash equivalents, short-term investments, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under “Prepaid expenses and other current assets” account) and bonds and deposits (included under “Other noncurrent assets” account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱8,193 million and ₱10,277 million as at March 31, 2014 and December 31, 2013, respectively (see Note 29).

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

The Company has no financial assets under this category as at March 31, 2014 and December 31, 2013.

AFS Investments. AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in 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 corporate notes and quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱26,229 million and ₱23,369 million as at March 31, 2014 and December 31, 2013, respectively (see Note 29).

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱109,227 million and ₱109,829 million as at March 31, 2014 and December 31, 2013, respectively (see Note 29).

Classification of Financial Instruments Between Liability and Equity

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

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

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

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

Debt Issue Costs

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

Derivative Financial Instruments

The Company uses various derivative financial instruments such as non-deliverable forwards, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 29). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated as accounting hedges.

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

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

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

Cash Flow Hedges. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Net fair value changes on cash flow hedges" in the consolicated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of income under "Others - net" account (see Note 29).

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

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

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under "Others - net" account in the consolidated statements of income (see Note 29). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

<u>Derecognition of Financial Assets and Liabilities</u>

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

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

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

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

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

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

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

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

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

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

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

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

Land and development and condominium 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 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, 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 acquire 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.

<u>Goodwill</u>

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

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

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.

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

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;

- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;

- No 'new' goodwill is recognized as a result of the business combination;

- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets; and

- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place.

<u>Acquisition of Non-controlling Interests</u>
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.

<u>Property and Equipment</u>
Property and equipment, except land, 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
Building and leasehold improvements	5–10 years or term of the lease, whichever is shorter
Data processing equipment	5–8 years
Transportation equipment	5–6 years
Furniture, fixtures and office equipment	5–10 years

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

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

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

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

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

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

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

Land improvements	5 years
Land use rights	40–60 years
Buildings and improvements	20–35 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or terms of lease whichever is shorter

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

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

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

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

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

<u>Investments in Shares of Stocks of Associates and Joint Ventures</u>
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 comprehensive income. Profit and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate or joint venture. An investment in associate or joint venture is accounted for using the equity method from the date when it becomes an associate or joint venture. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follow:

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

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

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as "Additional paid-in capital - net" account.

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

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

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

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

concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

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

Sale of Cinema and Amusement Tickets. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established.

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.

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

Cost and Expenses

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

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

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

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

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

Defined benefit pension costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Borrowing Costs

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

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 5 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.

5. Segment Information

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

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

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

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

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

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

Inter-segment Transactions

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

Business Segment Data

Three months ended March 31, 2014	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	**₱9,160,715**	**₱5,028,058**	**₱745,047**	**₱412,344**	**₱–**	**₱15,346,164**
Inter-segment	**23,330**	**687**	**45,067**	**57,323**	**(126,407)**	**–**
	₱9,184,045	**₱5,028,745**	**₱790,114**	**₱469,667**	**(₱126,407)**	**₱15,346,164**
Segment results:						
Income (loss) before income tax	**₱4,445,591**	**₱1,054,691**	**₱316,879**	**(₱6,411)**	**₱80,930**	**₱5,891,680**
Benefit from (provision for) income tax	**988,341**	**132,074**	**72,960**	**4,560**	**–**	**1,197,935**
Net income (loss)	**₱3,457,250**	**₱922,617**	**₱243,919**	**(10,971)**	**₱80,930**	**₱4,693,745**
Net income (loss) attributable to:						
Equity holders of the Parent	**₱3,352,202**	**₱922,617**	**₱243,919**	**(₱10,971)**	**₱70,684**	**₱4,578,451**
Non-controlling interests	**105,048**	**–**	**–**	**–**	**10,246**	**115,294**
Other information:						
Capital expenditures	**₱6,459,419**	**₱691,065**	**₱641,656**	**₱192,266**	**₱–**	**₱7,984,406**
Depreciation and amortization	**1,447,812**	**64,820**	**106,621**	**63,686**	**–**	**1,682,939**

Three months ended March 31, 2013 (As restated - Notes 2 and 6)	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱7,827,349	₱6,015,770	₱720,015	₱385,837	₱–	₱14,948,971
Inter-segment	2,799	–	100,818	36,027	(139,644)	–
	₱7,830,148	₱6,015,770	₱820,833	₱421,864	(139,644)	₱14,948,971
Segment results:						
Income (loss) before income tax	₱3,887,330	₱1,361,374	₱342,239	(₱30,024)	(₱335,000)	₱5,225,919
Benefit from (provision for) income tax	891,283	20,961	92,981	5,690	–	1,010,915
Net income (loss)	₱2,996,047	₱1,340,413	₱249,258	(35,714)	(₱335,000)	₱4,215,004
Net income (loss) attributable to:						
Equity holders of the Parent	₱2,896,557	₱1,340,412	₱249,259	(₱35,714)	(₱343,017)	₱4,107,497
Non-controlling interests	99,490	–	–	–	8,017	107,507
Other information:						
Capital expenditures	₱8,486,964	₱2,672,034	₱349,823	₱17,306	₱–	₱11,526,127
Depreciation and amortization	1,113,038	51,699	154,437	88,233	–	1,407,407

	March 31, 2014					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
	(In Thousands)					
Segment assets	**₱210,221,351**	**₱96,631,609**	**₱28,405,868**	**₱7,410,084**	**(₱1,740,946)**	**₱340,927,966**
Segment liabilities	**₱108,291,511**	**₱48,071,060**	**₱10,290,278**	**₱1,714,672**	**(₱1,182,119)**	**₱167,185,402**

	December 31, 2013 (As restated - Notes 2 and 6)					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
	(In Thousands)					
Segment assets	₱204,805,990	₱97,345,097	₱28,245,291	₱7,173,803	(₱1,986,499)	₱335,583,682
Segment liabilities	₱108,513,029	₱50,203,798	₱10,324,308	₱1,682,990	(₱1,361,967)	₱169,362,158

For the three months ended March 31, 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.

6. Business Combinations

Common Control Business Combinations
As disclosed in Note 1, SMPH initiated the corporate restructuring 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 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. Total number of SMPH common shares held by SM Land exchanged to complete the tender offer to shareholders of SMDC and HPI is 1,778,427,940.

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

- *Merger of SMPH (the "Surviving entity") and SM Land (the "Absorbed entity")*

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

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

  a) The increase in the authorized capital stock of SMPH by ₱20,000 million, from ₱20,000 million consisting of 20,000 million common shares with a par value of ₱1 per share to ₱40,000 million consisting of 40,000 million common shares with a par value of ₱1 per share, and the consequent amendment of Article VII of the Articles of Incorporation (see Note 21).

  b) The change in SMPH's primary purpose from development and operation of commercial shopping centers to a mixed-use real property developer, and the consequent amendment of Article II of the Articles of Incorporation.

  The merger resulted to equity adjustment from common control business combination, included under "Additional paid-in capital" account, amounting to ₱1,753 million.

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

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

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

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 in the equity section of the consolidated balance sheets.

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

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

The fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition were based on provisional values.

Total identifiable assets acquired amounted to ₱1,577 million, which mainly consist of investment properties amounting to ₱1,385 million and cash and other assets amounting to ₱192 million. Total identifiable liabilities assumed amounted to ₱271 million, which mainly consist of accounts payable and other current liabilities amounting to ₱72 million and deferred tax liabilities amounting to ₱199 million. The resulting identifiable net assets acquired amounted to ₱1,306 million.

Provisional goodwill which relates to the value of expected synergies arising from the acquisition of CHAS amounted to ₱379 million.

The fair value of acquired receivables amounting to ₱73 million (included in "Cash and other assets") approximates their carrying value. No impairment loss was provided on these receivables.

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

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

7. Cash and Cash Equivalents

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱4,519,106**	₱2,869,204
Temporary investments (see Note 22)	**18,343,604**	24,272,302
	₱22,862,710	₱27,141,506

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

Interest income earned from cash in banks and temporary investments amounted to ₱87 million and ₱128 million for the three months ended March 31, 2014 and 2013, respectively (see Note 24).

8. Short-Term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱888 million as at December 31, 2013, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated anytime by the Company. In February 2014, time deposit was preterminated with an original maturity of October 2014.

Interest income earned from short-term investments amounted to ₱4 million and ₱7 million for the three months ended March 31, 2014 and 2013, respectively (see Note 24).

9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds and listed common shares amounting to ₱1,141 million and ₱1,151 million as at March 31, 2014 and December 31, 2013, respectively. The Philippine government and corporate bonds have yields ranging from 4.90% to 8.64% in March 31, 2014 and December 31, 2013. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2014 to 2017.

The movements in this account are as follows:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of the period	**₱1,151,464**	₱1,338,777
Disposals		(300,448)
Mark-to-market gains during the year	**(12,366)**	93,996
Unrealized foreign exchange gains (loss)	**2,206**	19,139
At end of the period	**₱1,141,304**	₱1,151,464

Mark-to-market gains 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 ₱4 million and ₱9 million for the three months ended March 31, 2014 and 2013, respectively (see Note 24).

10. Receivables

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Trade:		
Sale of real estate	**₱29,161,577**	₱28,012,712
Rent:		
Third parties	**2,911,965**	2,707,222
Related parties (see Note 22)	**1,960,849**	2,831,744
Others (see Note 22)	**107,944**	130,012
Due from related parties (see Note 22)	**2,136,701**	2,143,506
Receivable from a co-investor	**269,228**	273,878
Advances to suppliers	**234,915**	735,039
Accrued interest (see Note 22)	**154,918**	163,500
Others	**2,398,318**	787,061
	39,336,415	37,784,674
Less allowance for doubtful accounts	**350,453**	322,904
	38,985,962	37,461,770
Less noncurrent portion of receivables from sale of real estate (see Note 17)	**8,192,999**	10,277,336
	₱30,792,963	₱27,184,434

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

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate mainly consist of receivables subject to in-house financing with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5-year term.

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱2,979 million and ₱4,136 million for the period ended March 31, 2014 and December 31, 2013, respectively.

- The terms and conditions relating to related party receivables are further discussed in Note 22.

- Receivables from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 17).

- Advances to suppliers, accrued interest and other receivables are normally collected throughout the financial year.

Interest income earned from receivables from sale of real estate and related parties totaled ₱19 million and ₱31 million for the three months ended March 31, 2014 and 2013, respectively (see Note 24).

The movements in the allowance for doubtful accounts related to receivables from sale of real estate are as follows:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of the period	**₱322,904**	₱188,176
Provision for doubtful accounts	**27,549**	134,728
At end of the period	**₱350,453**	₱322,904

The aging analyses of receivables follows:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Neither past due nor impaired	**₱30,791,480**	₱32,689,037
Past due but not impaired:		
Less than 30 days	**1,618,659**	928,277
31–90 days	**1,964,337**	1,443,720
91–120 days	**695,221**	480,859
Over 120 days	**3,916,265**	1,919,877
Impaired	**350,453**	322,904
	₱39,336,415	₱37,784,674

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

11. Condominium and Residential Units for Sale

This account consists of the following:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Condominium units for sale	**₱5,138,040**	₱5,788,429
Residential units and subdivision lots	**297,549**	314,224
	₱5,435,589	₱6,102,653

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

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of period	**₱5,788,429**	₱2,589,917
Transfer from land and development (see Note 12)	**69,152**	7,329,622
Re-allocation of inventory costs & furnishings	**3,636**	–
Cost of real estate sold (see Note 23)	**(723,177)**	(4,131,110)
At end of period	**₱5,138,040**	5,788,429

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

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

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of period	**₱314,224**	₱379,840
Development costs incurred	**3,316**	–
Cost of real estate sold (see Note 23)	**(19,991)**	(65,616)
At end of period	**₱297,549**	₱314,224

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

12. **Land and Development**

This account consists of the following:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Land and development	**₱32,747,836**	₱33,302,111
Land held for future development	**1,589,836**	1,519,073
	34,337,672	34,821,184
Less current portion	**13,885,376**	13,281,246
	₱20,452,296	₱21,539,938

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

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of period	**₱33,302,111**	₱30,560,111
Development cost incurred	**1,606,458**	15,099,301
Capitalized borrowing cost (see Note 20)	**135,941**	866,061
Land acquisitions	**95,964**	1,760,724
Cost of real estate sold (see Note 23)	**(2,188,885)**	(7,724,013)
Land cost transferred from (to) land held for future development	**(70,220)**	80,131
Transfer to condominium and residential units for sale (see Note 11)	**(69,152)**	(7,329,622)
Reimbursement of costs	**(64,381)**	–
Reclassification to property and equipment (see Note 15)	**–**	(10,582)
At end of period	**₱32,747,836**	₱33,302,111

Borrowing costs capitalized to land and development account amounted to ₱136 million and ₱866 million in March 31, 2014 and December 31, 2013, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.8% to 5.3% in 2014 and 3.8% to 5.1% in 2013.

SMDC
Land and development costs include those attributable to SMDC which pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱22,146 million and ₱32,645 million as at March 31, 2014 and December 31, 2013, respectively.

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

As at March 31, 2014 and December 31, 2013, the development of macro-infrastructure is still ongoing.

HPI
Estimated cost to complete HPI's ongoing projects amounted to ₱1,320 million and ₱1,364 million as at March 31, 2014 and December 31, 2013, respectively.

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

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of period	**₱1,519,073**	₱1,595,891
Acquisition and transferred-in costs	**543**	(80,131)
Disposal of land	**–**	15,099
Transfer from (to) land and development costs	**70,220**	(11,786)
At end of period	**₱1,589,836**	₱1,519,073

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

13. **Available-for-Sale Investments**

This account consists of investments in:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Shares of stock:		
Listed (see Note 22)	**₱26,221,270**	₱23,360,756
Unlisted	**8,048**	8,318
	₱26,229,318	₱23,369,074

- Listed shares of stock pertain to investments in publicly-listed companies. A portion of investments amounting to ₱4,011 million and ₱10,365 million as at March 31, 2014 and December 31, 2013, respectively, were pledged as collateral for a portion of the Company's long-term loans (see Note 20).

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

Dividend income from investments in listed and unlisted shares of stock amounted to ₱36 million and ₱50 million in March 31, 2014 and 2013, respectively.

In March 31, 2013, shares with acquisition cost of ₱4 million were sold resulting to a realized gain, included in "Others - net" account in the consolidated statements of income, amounting to ₱4 million, respectively.

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

	March 31, 2014	March 31, 2013 (As restated- see Note 6)
	(In Thousands)	
At beginning of the period	**₱19,958,330**	₱19,781,021
Unrealized gain due to changes in fair value	**2,860,244**	3,558,824
Transferred to profit or loss -		
Realized gain from sale of AFS investments	**–**	4,167
At end of the period	**₱22,818,574**	₱23,344,012

14. **Prepaid Expenses and Other Current Assets**

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Input and creditable withholding taxes	**₱3,242,174**	₱3,235,635
Advances and deposits	**2,881,869**	4,034,093
Prepaid taxes and other prepayments	**1,385,279**	1,845,150
Cash in escrow (see Note 22)	**1,025,850**	439,119
Supplies and inventories	**316,273**	271,045
Advances for project development (see Note 22)	**48,448**	88,615
Others	**138,425**	22,463
	₱9,038,318	₱9,936,120

- Advances pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. Deposits include advance payments for land acquisition amounting to ₱816 million and ₱809 million as at March 31, 2014 and December 31, 2013, respectively. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Prepaid taxes and other prepayments mainly consist of advance payments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with the Company'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. Interest income earned from the cash in escrow amounted to ₱0.16 million and ₱0.90 million in March 31, 2014 and 2013, respectively (see Note 24).

- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development.

15. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2012 (As restated - see Note 6)	₱269,218	₱1,054,730	₱94,199	₱97,807	₱932,336	₱31,333	₱2,479,623
Additions	2,156	240,919	48,928	3,978	144,909	–	440,890
Disposals/retirements	–	(70,491)	(3)	(2,621)	(9,028)	–	(82,143)
Reclassifications (see Notes 12 and 16)	(503)	20,571	116	(165)	(3,007)	(31,333)	(14,321)
Balance at December 31, 2013 (As restated - see Note 6)	270,871	1,245,729	143,240	98,999	1,065,210	–	2,824,049
Additions	–	11,147	2,983	1,434	12,265	–	27,829
Disposals/retirements	–	(59,436)	(50)	(109)	(17,277)	–	(76,872)
Reclassifications (see Notes 12 and 16)	(160,363)	157,128	49,080	37,868	(83,713)	–	–
Balance at March 31, 2014	₱110,508	₱1,354,568	₱195,253	₱138,192	₱976,485	₱–	₱2,775,006
Accumulated Depreciation and Amortization							
Balance at December 31, 2012 (As restated - see Note 6)	₱94,431	₱394,989	₱37,746	₱48,627	₱306,764	₱–	₱882,557
Depreciation and amortization (see Note 23)	11,530	162,761	42,429	6,168	159,206	–	382,094
Disposals/retirements	–	(13,061)	(1)	(950)	(2,639)	–	(16,651)
Reclassifications	(29)	(1,999)	(97)	(13)	(706)	–	(2,844)
Balance at December 31, 2013 (As restated - see Note 6)	105,932	542,690	80,077	53,832	462,625	–	1,245,156
Depreciation and amortization (see Note 23)	398	41,728	16,273	4,250	40,224	–	102,873
Disposals/retirements	–	(15,068)	(14)	(109)	(5,487)	–	(20,678)
Reclassifications	(59,444)	62,883	7,600	10,974	(22,012)	–	1
Balance at March 31, 2014	₱46,886	₱632,233	₱103,936	₱68,947	₱475,350	₱–	₱1,327,352
Net Book Value							
As at December 31, 2013 (As restated - see Note 6)	₱164,939	₱703,039	₱63,163	₱45,167	₱602,585	₱–	₱1,578,893
As at March 31, 2014	**63,622**	**722,335**	**91,317**	**69,245**	**501,135**	**–**	**1,447,654**

As at March 31, 2014 and December 31, 2013, the Company has no idle property and equipment and the carrying amount of fully depreciated property and equipment still in use amounted to ₱79 million and ₱82 million, respectively.

16. **Investment Properties**

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2012					
(as restated - see Note 6)	₱34,679,375	₱110,369,581	₱21,600,843	₱16,674,860	₱183,324,659
Additions	5,390,076	7,107,692	1,497,287	12,828,715	26,823,770
Reclassifications	69,532	6,732,386	519,121	(6,731,378)	589,661
Translation adjustment	406,331	1,706,129	206,854	587,069	2,906,383
Balance as at December 31, 2013					
(as restated - see Note 6)	40,545,314	125,915,788	23,824,105	23,359,266	213,644,473
Additions	3,096,131	1,471,696	320,441	2,670,817	7,559,085
Reclassifications	–	1,007	–	(1,007)	–
Translation adjustment	(105,569)	(295,453)	(37,059)	(153,491)	(591,572)
Balance as at March 31, 2014	₱43,535,876	₱127,093,038	₱24,107,487	₱25,875,585	₱220,611,986
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2012					
(as restated - see Note 6)	₱990,821	₱23,794,873	₱10,684,676	₱–	₱35,470,370
Depreciation and amortization (see Note 23)	157,742	3,744,099	1,697,005	–	5,598,846
Reclassifications	29	521	380	–	930
Translation adjustment	47,656	783,816	76,446	–	907,918
Balance as at December 31, 2013					
(as restated - see Note 6)	1,196,248	28,323,309	12,458,507	–	41,978,064
Depreciation and amortization (see Note 23)	163,464	968,528	448,074	–	1,580,066
Reclassifications	–	–	–	–	–
Translation adjustment	(11,640)	(42,803)	(14,817)	–	(69,260)
Balance as at March 31, 2014	₱1,348,072	₱29,249,034	₱12,891,764	₱–	₱43,488,870
Net Book Value					
Balance as at December 31, 2013					
(as restated - see Note 6)	₱39,349,066	₱97,592,479	₱11,365,598	₱23,359,266	₱171,666,409
As at March 31, 2014	**42,187,804**	**97,844,004**	**11,215,723**	**25,875,585**	**177,123,116**

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱478 million and ₱494 million as at March 31, 2014 and December 31, 2013, respectively, and a fair value of ₱13,531 million as at August 2007, planned for residential development in accordance with the cooperative contracts entered into by SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

Portions of investment properties located in China with carrying value of ₱4,572 million and ₱5,001 million as at March 31, 2014 and December 31, 2013, respectively, and with estimated fair value of ₱17,685 million and ₱20,109 million as at March 31, 2014 and December 31, 2013, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Consolidated rent income from investment properties amounted to ₱8,556 million and ₱7,629 million for the three months ended March 31, 2014 and 2013, respectively. Consolidated direct costs and expenses from investment properties which generate income amounted to ₱4,491 million and ₱3,591 million for the three months ended March 31, 2014 and 2013, respectively.

Construction in progress includes shopping mall complex under construction amounting to ₱20,093 million and ₱18,279 million, and landbanking and commercial building constructions amounting to ₱5,782 million and ₱5,080 million as at March 31, 2014 and December 31, 2013, respectively.

In 2014, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM City Cabanatuan, SM City Angono, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Lipa and SM City Sta. Rosa. In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM Megamall, SM City Bacolod and SM City Lipa.

Shopping mall complex under construction includes cost of land amounting to ₱2,153 million and ₱2,149 million as at March 31, 2014 and December 31, 2013, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱59,341 million and ₱82,058 million as at March 31, 2014 and December 31, 2013, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱10,076 million and ₱28,857 million as at March 31, 2014 and December 31, 2013, respectively.

Interest capitalized to the construction of investment properties amounting to ₱214 million and ₱77 million as at March 31, 2014 and December 31, 2013, respectively. Capitalization rates used range from 4.12% to 5.99% and 5.83% to 7.20% as at March 31, 2014 and December 31, 2013, respectively.

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

Below are the significant assumptions used in the valuation:

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

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at December 31, 2013, the Company's management believes that there were no conditions present in 2013 that would significantly reduce the fair value of the investment properties from that determined on February 28, 2013.

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

17. Other Noncurrent Assets

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Receivables from sale of real estate (see Note 10)	**₱8,192,999**	₱10,277,336
Investments in associates and joint ventures	**5,806,962**	5,756,294
Bonds and deposits	**6,557,161**	4,964,606
Advances for project development	**3,649,049**	3,607,169
Others (Notes 22 and 25)	**5,463,697**	4,669,305
	₱29,669,868	₱29,274,710

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

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

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 19 malls across Metro Manila and Luzon. The investments in Waltermart were accounted as joint ventures using equity method of accounting because the contractual arrangement between the parties establishes joint control.

On April 10, 2012, SMPH, through TRC, entered into Memorandum of Agreement with Trendlink Holdings Limited (THL), a third party, wherein Fei Hua Real Estate Company (FHREC), a 100% subsidiary of TRC, issued new shares to THL equivalent to 50% equity interest. In addition, THL undertakes to pay TRC amounting to ₱22 million (¥3 million) for the difference between cash invested and 50% equity of FHREC and ₱224 million (¥34 million) representing the difference between the current market value and cost of the investment properties of FHREC (see Note 10). FHREC was incorporated in China. TRC is a wholly owned subsidiary of SM Land China.

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

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

Associate
The carrying value of investment in associate amounted to ₱566 million and ₱576 million as at March 31, 2014 and December 31, 2013, respectively with cumulative equity in net earnings amounting to ₱295 million as at March 31, 2014 and December 31, 2013, respectively.

Joint Ventures
The aggregate carrying values of investments in joint ventures amounted to ₱5,241 million and ₱5,180 as at March 31, 2014 and December 31, 2013, respectively. These consist of the acquisition costs totaling ₱5,115 million and cumulative equity in net earnings totaling ₱126 million and ₱65 million as at March 31, 2014 and December 31, 2013, respectively. The aggregate share in profit and total comprehensive income amounted to ₱61 million for the three months ended March 31, 2014.

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

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

18. **Loans Payable**

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱2,700 million and ₱3,250 million as at March 31, 2014 and December 31, 2013, respectively. These loans bear interest rates ranging from 3.00% to 4.13% in March 31, 2014 and 2.25% to 4.00% in December 31, 2013.

Interest expense incurred from loans payable amounted to ₱28 million and ₱24 million for the three months ended March 31, 2014 and 2013, respectively (see Note 24).

19. Accounts Payable and Other Current Liabilities

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Trade:		
Third parties	**₱14,509,991**	₱16,533,994
Related parties (see Note 22)	**71,770**	55,550
Due to related parties (see Note 22)	**8,262,842**	9,552,978
Accrued operating expenses:		
Third parties	**5,347,473**	4,583,840
Related parties (see Note 22)	**757,816**	1,222,079
Others	**334,925**	403,374
Liability for purchased land (see Note 22)	**4,394,382**	5,262,432
Customers' deposits	**3,806,262**	3,575,836
Nontrade	**925,314**	429,171
Deferred output VAT	**833,292**	834,520
Accrued interest (see Note 22)	**783,740**	535,949
Payable to government agencies	**379,297**	528,374
Others (see Note 22)	**4,773,898**	2,897,928
	45,181,002	46,416,025
Less noncurrent portion of liability for purchased land	**1,027,210**	1,117,809
	₱44,153,792	₱45,298,216

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- The terms and conditions relating to due to related parties are further discussed in Note 22.
- Accrued operating expenses mainly pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial year.
- Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue.
- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.
- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial year.

20. **Long-term Debt**

This account consists of:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱33,928,947**	₱33,569,269
Five-year, three-year and two-year bilateral loans	**4,429,275**	4,383,631
Other U.S. dollar loans	**1,115,097**	1,103,881
Philippine peso-denominated loans:		
Five-year and ten-year floating and fixed rate notes	**7,330,134**	7,327,808
Five-year, seven-year and ten-year corporate notes	**6,573,483**	6,570,932
Five-year floating rate notes	**4,831,859**	4,879,610
Five-year, seven-year and ten-year fixed and floating rate notes	**4,247,825**	4,290,523
Five-year and ten-year corporate notes	**1,093,343**	1,093,094
Other bank loans	**8,583,800**	8,581,727
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**1,952,728**	2,235,771
Three-year loan	–	961,827
Philippine peso-denominated loans:		
Fixed rate term loans	**19,305,977**	19,300,308
Fixed rate corporate notes	**8,149,990**	8,148,556
Five-year bilateral loans	**615,776**	616,053
	102,158,234	103,062,990
Less current portion	**7,286,573**	7,387,260
	₱94,871,661	₱95,675,730

Parent Company

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$300 million unsecured loan obtained on various dates in 2013. The loan bears an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 23, 2018. Portion of the loan amounting to US$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270 million unsecured loan obtained on various dates in 2012 and 2011 from a US$270 million facility. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 21, 2016 (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year Term Syndicated Loans
This represents a US$200 million unsecured loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
This consists of the following:

- The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively (see Notes 28 and 29). The remaining balance of US$25 million matured on November 20, 2013.

- US$10 million and US$40 million, out of US$50 million five-year bilateral unsecured loan, obtained in 2012 and 2013, respectively. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017 (see Note 28).

- US$30 million and US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 28 and 29).

Other U.S. Dollar Loans
This account consists of the following:

- US$25 million five-year bilateral unsecured loan drawn on November 20, 2013. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 20, 2018 (see Note 28).

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013. The loan was prepaid on January 13, 2012. The related unamortized debt issuance costs charged to expense amounted to ₱25 million in 2012 (see Notes 28 and 29).

Philippine Peso-denominated Five-Year and Ten-Year Floating and Fixed Rate Notes
This represents five-year and ten-year floating and fixed rate notes obtained on June 19, 2012 amounting to ₱3,450 million and ₱1,000 million for the floating and ₱680 million and ₱2,370 million for the fixed, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the floating and 6.22% and 6.81% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2017 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱50 million on March 19, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱0.4 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱196 million on March 20, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtained on January 12, 2012 amounting to ₱200 million, ₱1,012 million, ₱133 million, and ₱3,655 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2019 and 2022, respectively. The Company prepaid a portion of fixed rate notes amounting to ₱634 million on April 12, 2013. The related unamortized debt issuance costs charged to expense amounted to ₱5 million in 2013 (see Note 28).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.11% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively. The Company prepaid the ₱200 million and ₱3,700 million loans on April 15, 2012, with original maturity date of April 15, 2014. The related unamortized debt issuance costs charged to expense amounted to ₱17 million in 2012 (see Note 28).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. The loans amounting to ₱1,000 million, ₱1,200 and ₱800 were prepaid on June 17, 2011, 2012 and 2013, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2011, ₱5 million in 2012 and ₱4 million in 2013 (see Notes 28 and 29).

Other Bank Loans
This consists of the following:

- Five-year term loans amounting to ₱1,625 million obtained in 2009 and 2010. The loans bear fixed interest rates ranging from 5.00% to 6.75%. Portion of the loans is collateralized by AFS investments (see Note 13). Portion of the principal amount was paid amounting to ₱9 million in 2012 and 2013, respectively (see Note 28).

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015. The Company prepaid ₱175 million of the loan as at September 30, 2013. The related balance of unamortized debt issuance costs charged to expense amounted to ₱2 million in 2013 (see Notes 28 and 29).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 28).

- Five-year bullet loan obtained on October 16, 2009 amounting to ₱2,000 million. The loan bears an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 (see Note 28).

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 28).

All the above Philippine peso-denominated loans of the Parent Company are unsecured except as otherwise indicated.

Subsidiaries

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

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

- A five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown totaling ¥61 million was made as at December 31, 2013. The loan is payable in 2015. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.76% in 2014 and 2013 (see Note 28).

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

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

Philippine Peso-denominated Fixed Rate Term Loans
This consists of the following:

- Long-term loans amounting to ₱12,075 million obtained on various dates in 2013. The loans bear fixed interest rates ranging from 4.00% to 5.88% with maturities ranging from three to ten years (see Note 28).

- Long-term loan amounting to ₱5,000 million obtained on September 27, 2013. The loan bears fixed interest rate of 4.77% and will mature on September 27, 2018 (see Note 28).

- Long-term loan amounting to ₱2,000 million obtained on December 27, 2012. The loan bears fixed rate of 4.72% and will mature on December 23, 2015 (see Note 28).

- Three-year loan obtained on October 4, 2013 amounting to ₱315 million. The loan carries an interest rate of 4.50% and will mature on October 4, 2016 (see Note 28).

Philippine Peso-denominated Fixed Rate Corporate Notes
This consists of the following:

- Series "A" and Series "B" peso-denominated fixed rate corporate notes amounting to ₱3,740 million and ₱2,460 million, respectively, issued on June 3, 2013. The Series "A" and Series "B" notes have fixed interest rates of 5.57% and 5.88%, which are payable semi-annually, and with maturity dates of June 3, 2020 and June 3, 2023, respectively (see Note 28).

- Peso-denominated fixed rate corporate notes amounting to ₱2,000 million issued on June 28, 2013. The loan bears fixed interest rate at 5.71% payable semi-annually with maturity date of June 28, 2020 (see Note 28).

- Series “A” and Series “B” peso-denominated fixed rate corporate notes amounting to ₱2,000 million and ₱8,000 million, respectively, on June 1, 2010. The Series “A” and Series “B” notes have fixed interest rates of 6.76% and 7.73%, which are payable semi-annually, with maturity dates of June 1, 2013 and June 2, 2015, respectively. The notes were pre-terminated in June 2013 (see Note 28).

- Peso-denominated fixed rate corporate notes amounting to ₱6,313 million, issued on April 27, 2012. The notes have fixed interest rate of 6.01% payable semi-annually with maturity date of July 27, 2017. The notes were pre-terminated in June 2013 (see Note 28).

Philippine Peso-denominated Five-Year Bilateral Loans
This consists of the following:

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 28).

- Five-year term loans amounting to ₱40 million and ₱80 million obtained in 2010 with fixed interest rate of 5%. Both loans will mature in 2015. Portion of the principal amount was paid amounting to ₱0.40 million in 2014 and ₱1 million in 2013 and 2012 (see Note 28).

The above 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 and debt service coverage ratio of not less than 1.10:1.00) and material change in ownership or control. As at March 31, 2014 and December 31, 2013, the Company is in compliance with the terms of its loan covenants.

The re-pricing frequencies of floating rate loans range from three to nine months.

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

	2013	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Balance at beginning of period	**₱957,093**	₱506,636
Additions	**2,596**	775,938
Amortization	**(60,810)**	(325,481)
Balance at end of period	**₱898,879**	₱957,093

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

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

Year	Amount
	(In Thousands)
2014	₱6,057,173
2015	13,745,965
2016	24,126,350
2017	7,646,050
2018	33,113,975
2019 to 2023	18,367,600
	₱103,057,113

21. Equity

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

As at March 31, 2014 and December 31, 2013, the Company has an authorized capital stock of 40,000 million, with a par value of ₱1 a share.

The movements of the capital stock of the Company are as follows:

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Number of shares at beginning of period, as previously reported	**33,166,300**	17,392,535
Effect of common control business combinations (see Note 6)	**–**	15,773,765
Number of shares at end of period, as restated	**33,166,300**	33,166,300

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

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,539 and 2,544 as at March 31, 2014 and December 31, 2013, respectively.

Additional Paid-in Capital - Net

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

	March 31, 2014	December 31, 2013 (As restated- see Note 6)
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱22,303,436**	₱16,155,292
Net equity adjustments from common control business combinations	–	9,068,132
Reissuance of treasury shares	**(23,013)**	–
Arising from acquisition of non-controlling interests	–	(2,919,988)
As presented in the consolidated balance sheets	**₱22,280,423**	₱22,303,436

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 also charged against "Additional paid-in capital" account.

Retained Earnings

In 2013, the BOD approved the declaration of cash dividend of ₱0.27 per share or ₱4,691 million to stockholders of record as of May 16, 2013. This was paid on June 11, 2013. In 2012, the BOD approved the declaration of cash dividends of ₱0.29 per share or ₱4,031 million. In 2011, the BOD approved the declaration of cash dividends of ₱0.27 per share or ₱3,753 million.

On April 24, 2012 and March 22, 2002, the BOD of SMPH approved the appropriation of retained earnings amounting to ₱20,000 million and ₱7,000 million, respectively, for future corporate expansion programs. As at March 31, 2014 and December 31, 2013, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million.

Appropriated retained earnings also include appropriations for landbanking and commercial buildings construction scheduled from 2014 to 2017 amounting to ₱15,200 million transferred from SM Land upon merger (see Note 6).

In 2014, the Company expects to incur around ₱71,000 million for its capital expenditures in Philippines and in China.

As at March 31, 2014, included in shopping mall complex under construction are SM Seaside City Cebu, SM City Cauayan, SM City Cabanatuan, SM City Angono, SM Tianjin and SM Zibo, and the ongoing expansions and renovations of SM City Bacolod, SM City Lipa and SM City Sta. Rosa.

The retained earnings account is restricted for the payment of dividends to the extent of ₱34,222 million and ₱32,308 million as at March 31, 2014 and December 31, 2013, respectively, representing the cost of shares held in treasury (₱3,979 million and ₱3,980 million as at March 31, 2014 and December 31, 2013, respectively) and accumulated equity in net earnings of SMPH subsidiaries totaling ₱30,243 million and ₱28,328 million as at March 31, 2014 and December 31, 2013, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the company receives the dividends from its subsidiaries.

Treasury Stock

As at March 31, 2014, this includes reacquired capital stock and shares held by a subsidiary totaling 5,393 million shares, stated at acquisition cost of ₱3,979 million.

As at December 31, 2013, this includes reacquired capital stock and shares held by a subsidiary totaling 5,394 million shares, stated at acquisition cost of ₱3,980 million.

22. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, noninterest-bearing and settlement occurs in cash. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the periods ended March 31, 2014 and December 31, 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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)]			
	March 31, 2014	March 31, 2013 (As restated - see Note 4)	**March 31, 2014**	December 31, 2013	Terms	Conditions
		(In Thousands)				
Ultimate Parent						
Rent income	**₱15,666**	₱33,917			30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable			**19,615**	₱4,424		
Service income	**13,260**	11,787			Noninterest-bearing	Unsecured; not impaired
Service fee receivable			**27,152**	14,868		
Due from related parties	**1,457**	–	**81**	295	On demand; noninterest-bearing	Unsecured; not impaired
Rent expense	**16,043**	40,370			Noninterest-bearing	Unsecured
Accrued rent payable			**(40,082)**	(7,417)		
Administrative expenses	**1,108**	**1,395**			Noninterest-bearing	Unsecured
Accounts payable - others			**(1,948,530)**	(3,561)		
Due to related parties	**–**	**–**	**(7,659,646)**	(9,538,271)	Noninterest-bearing	Unsecured
Trade payable	**–**	**–**	**(11,717)**	(55,550)	Noninterest-bearing	Unsecured
AFS investments	**–**	**–**	**68,474**	69,205	Noninterest-bearing	Unsecured; not impaired
Banking and Retail Group						
Cash and cash equivalents	**₱60,487,142**	**₱1,322,386**	**₱16,479,853**	₱21,912,510	Interest bearing based on prevailing rates	Unsecured; not impaired
Short-term investments	–	–	–	887,900	Interest bearing at fixed rate of 3.24%	Unsecured; not impaired
Rent income	**2,444,452**	2,372,112			30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable			**1,855,359**	2,670,556		
Deferred rent income			**(98,567)**	(103,567)	Noninterest bearing	Unsecured
Service income	–	529			30 days; noninterest-bearing	Unsecured; not impaired
Service fee receivable			**4,174**	–		
Management income	**11,549**	2,943			Noninterest-bearing	Unsecured; not impaired
Management receivable			**28,021**	28,463		
Interest income	**28,033**	141,167			Interest at 5.6% per annum	Unsecured; not impaired

	Amount of Transactions		Outstanding Amount [Asset (Liability)]			
	March 31, 2014	March 31, 2013 (As restated - see Note 4)	**March 31, 2014**	December 31, 2013	Terms	Conditions
		(In Thousands)				
Accrued interest receivable			**125,160**	114,832	Noninterest-bearing	Unsecured; not impaired
Trade receivables - others			**111,291**	28,463	12% -15% of selling price of lots sold	Unsecured; not impaired
Due from	**11,899**	**–**	**22,277**	–		
Receivable financed			–	48,307	Without recourse	Unsecured
Interest expense on receivable financing	–	36,774				
Loans payable and long-term debt	–	–	**(7,108,239)**	(2,130,000)	Interest-bearing	Combination of secured and unsecured
Rent expense	**19,003**	18,162			Noninterest-bearing	Unsecured
Accrued rent			**(576,803)**	–		
Interest expense	**95,554**	38,733			Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable			**(1,571)**	(1,868)	Noninterest-bearing	Unsecured
Trade payable	**3,496**	–	**(3,496)**	–	Noninterest-bearing	Unsecured
Due to	**931**	–	**(931)**	–	Noninterest-bearing	Unsecured
AFS investments	**–**	–	**10,094,603**	8,904,881	Fixed interest at 6.80%	Unsecured; not impaired
Investment in held for trading	**–**	112,234	**682,372**	691,711	Noninterest-bearing	Unsecured; not impaired
Escrow fund	**162,985**	50,565	**1,025,850**	862,865	Interest bearing based on prevailing rates	Unsecured; not impaired
Tenants' deposits	**26,563**	**–**	**(301,776)**	**–**	Noninterest-bearing	Unsecured
Acquisition of land	**–**	**–**	**–**	(6,184)	Noninterest-bearing	Unsecured
Dividend income	**22,576**	**–**			Noninterest-bearing	Unsecured
Other Related Parties						
Rent income	**2,991**	15,635			30 days; noninterest-bearing	Unsecured; not impaired
Rent receivable			**3,360**	**–**		
Service income	**–**	529			30 days; noninterest-bearing	Unsecured; not impaired
Service fee receivable			**25,200**	25,200		
Due from related parties	**–**	**–**	**434**	2,143,211	Noninterest-bearing	Unsecured; not impaired
Management income	**9,917**	2,943				
Management fee receivable			**6,862**	4,723	Noninterest-bearing	Unsecured; not impaired
Trade receivable – others	**–**	**–**	**223**	11,716	Noninterest-bearing	Unsecured
Due to related parties	**–**	**–**	**(9,683)**	(14,707)	Noninterest-bearing	Unsecured
Management fee expense	**267,770**	234,394			Noninterest-bearing	Unsecured
Accrued management fee			**(132,173)**	(105,209)	Noninterest-bearing	Unsecured
Accrued interest payable			**(1,571)**	**–**	Noninterest-bearing	Unsecured
Administrative expenses	**13,067**	88,109			Noninterest-bearing	Unsecured
Accrued operating expense			**(42,713)**	(1,109,453)	Noninterest-bearing	Unsecured
Accounts payable - others			**(17,472)**	(638)	Noninterest-bearing	Unsecured
Advances for project development	**33,803**	129,531	**48,448**	3,607,122	Noninterest-bearing	Unsecured; not impaired
Trade payable	**–**	–	**(12,107)**	–	Noninterest-bearing	Unsecured

	Amount of Transactions		Outstanding Amount [Asset (Liability)]			
	March 31, 2014	March 31, 2013 (As restated - see Note 4)	**March 31, 2014**	December 31, 2013	Terms	Conditions
	(In Thousands)					
AFS investments	**–**	–	**4,111,744**	3,615,246	Noninterest-bearing	Unsecured; not impaired
Tenants' deposits	**425**	–	**(16,779)**	–	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 have existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

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

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

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

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8, 9 and 13).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 18 and 20).

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

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the three months ended March 31, 2014 and 2013 consist of short-term employee benefits amounting to ₱79 million and ₱62 million, respectively, and post-employment benefits (pension benefits) amounting to ₱7 million.

23. Costs and Expenses

This account consists of:

	March 31, 2014	March 31, 2013 (As restated - see Note 6)
		(In Thousands)
Cost of real estate sold	**₱2,932,053**	₱3,652,282
Depreciation and amortization (see Notes 15 and 16)	**1,682,939**	1,382,407
Administrative (see Notes 22 and 25)	**1,197,100**	1,080,891
Business taxes and licenses	**799,192**	667,969
Marketing and selling expenses	**641,692**	738,396
Film rentals	**561,775**	408,115
Rent (see Note 27)	**301,435**	305,863
Management fees (see Note 22)	**275,771**	242,305
Insurance	**80,831**	84,237
Others	**345,716**	265,175
	₱8,818,504	₱8,827,640

24. Interest Income and Interest Expense

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

	March 31, 2014	March 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Interest income on:		
Cash and cash equivalents (see Note 7)	**₱86,606**	₱127,560
Short-term investments (see Note 8)	**4,126**	7,171
Investments held for trading (see Note 9)	**3,713**	9,428
Available-for-sale investments (see Note 13)	**-**	17,303
Others (see Notes 10 and 14)	**19,117**	31,664
	₱113,562	₱193,126
Interest expense on:		
Long-term debt (see Note 20)	**₱810,751**	₱779,653
Loans payable (see Note 18)	**28,217**	23,653
Others	**13,773**	12,639
	₱852,741	₱815,945

25. **Pension Benefits**

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of periods of service. The latest appraisal valuation report is as at December 31, 2013.

The following tables summarize the components of the pension plan:

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

	March 31, 2014	March 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Current service cost	**₱14,087**	₱12,256
Net interest cost (income)	**(2,234)**	(503)
Net transitional liability and others	**–**	–
	₱11,853	₱11,753

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Defined benefit obligation	**₱356,083**	₱347,082
Fair value of plan assets	**(465,593)**	(421,502)
Effect of asset ceiling limit	**6,367**	7,773
Net pension asset	**(₱103,143)**	(₱66,647)

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Defined benefit obligation	**₱12,755**	₱14,665
Fair value of plan assets	**(3,320)**	(3,320)
Net pension liability	**₱9,435**	₱11,345

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Balance at beginning of period	**₱361,747**	₱346,052
Actuarial loss (gain) - changes in actuarial assumptions	**(14,103)**	(51,815)
Current service cost	**14,087**	51,692
Interest cost	**5,613**	21,479
Benefits paid from assets	–	(11,103)
Actuarial loss (gain) – experience	**1,494**	5,976
Transfer to (from) the plan	–	(80)
Curtailment gain and others	–	(454)
Balance at end of period	**₱368,838**	₱361,747

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Related to pension asset	**₱356,083**	₱347,082
Related to pension liability	**12,755**	14,665
	₱368,838	₱361,747

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Balance at beginning of period	**₱424,822**	₱316,399
Contributions	**39,190**	82,015
Interest income	**7,898**	23,530
Benefits paid	–	(11,103)
Remeasurement gains	**(2,997)**	21,508
Transfer to the plan and others	–	(7,527)
Balance at end of period	**₱468,913**	₱424,822

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Related to pension asset	**₱465,593**	₱421,502
Related to pension liability	**3,320**	3,320
	₱468,913	₱424,822

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
	(In Thousands)	
Asset ceiling limit at beginning of period	**₱7,773**	₱1,577
Remeasurement loss	**6,367**	6,155
Interest cost	**51**	41
	₱14,191	₱7,773

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

	March 31, 2014		December 31, 2013 (As restated - see Note 6)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		In Thousands)		
Cash and cash equivalents	**₱38,729**	**₱38,729**	₱13,927	₱13,927
Investments in:				
Debt and other securities	**90,312**	**90,312**	77,035	77,035
Common trust funds	**171,067**	**171,067**	157,415	157,415
Equity securities	**7,537**	**7,537**	6,824	6,824
Government securities	**158,598**	**158,598**	162,799	162,799
Other financial assets	**2,670**	**2,670**	6,822	6,822
	₱468,913	**₱468,913**	₱424,822	₱424,822

The plan assets consist of the following:

- Cash and cash equivalents includes regular savings and time deposits;

- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 4.38% to 8.46% and have maturities ranging from 2014 to 2022;

- 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 5.00% to 11.14% and have maturities ranging from 2014 to 2037; and

- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

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

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

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate:

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Cash and cash equivalents	**₱10,276**	₱13,927
Interest income from cash and cash equivalents	**96**	534
Investments in common trust funds	**-**	157,415
Income from investments in common trust funds	**3,697**	1,040

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

	March 31, 2014	December 31, 2013 (As restated - see Notes 2 and 6)
Discount rate	**4.7%–6.4%**	4.7%–6.4%
Future salary increases	**3.0%–10.0%**	3.0%–10.0%

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

	2014	2013 (As restated - see Notes 2 and 6)
		(In Thousands)
Actuarial loss (gain)	**(₱9,612)**	(₱67,347)
Remeasurement loss (excluding amounts recognized in net interest cost)	**(1,457)**	6,155
	(₱11,069)	(₱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, 2013 assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱21,709)
	(50)	23,820
Future salary increases	100	44,342
	(100)	(37,944)

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, 2013:

Year	Amount
	(In Thousands)
2014	₱12,977
2015	10,822
2016-2017	34,313
2018-2022	502,359

The Company expects to contribute about ₱80 million to its defined benefit pension plan in 2014.

26. Income Tax

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

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Deferred tax assets:		
Unrealized foreign exchange loss and others	**₱528,939**	₱499,975
MCIT	**141,667**	106,243
NOLCO	**450,527**	122,119
Accrued marketing and rent expenses	**58,999**	248,574
Provision for doubtful accounts	**105,123**	134,177
Deferred rent income	**30,388**	44,071
Unamortized past service cost	**7,894**	4,823
	1,323,537	1,159,982

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
Deferred tax liabilities:		
Undepreciated capitalized interest ,unrealized foreign exchange gains and others	**(1,454,361)**	(1,965,537)
Unrealized gross profit on sale of real estate	**(814,096)**	(310,878)
Pension asset	**(12,786)**	(16,483)
Others	**(178,015)**	(199,098)
	(2,459,258)	(2,491,996)
Net deferred tax liabilities	**(₱1,135,721)**	(₱1,332,014)

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

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Deferred tax assets	**₱838,990**	₱690,525
Deferred tax liabilities	**(1,974,711)**	(2,022,539)
	(₱1,135,721)	(₱1,332,014)

As at March 31, 2014 and December 31, 2013, unrecognized deferred tax assets amounted to ₱99 million and ₱93 million, respectively, bulk of which pertains to NOLCO of the hotels and convention centers segment.

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

	March 31, 2014	March 31, 2013 (As restated - see Note 6)
Statutory tax rate	**30.0%**	30.0
Income tax effects of:		
Equity in net earnings of associate	**(1.0)**	–
Availment of income tax holiday	**(3.0)**	(3.5)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.8)**	(1.4)
Change in enacted tax rates and others	**(4.9)**	(5.8)
Effective tax rates	**20.3%**	19.3%

27. **Lease Agreements**

Company as Lessor

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

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

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

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Millions)	
Within one year	**₱1,359**	₱1,277
After one year but not more than five years	**5,304**	4,427
After more than five years	**1,335**	1,367
	₱7,998	₱7,071

Consolidated rent income amounted to ₱8,556 million and ₱7,629 million for the three months ended March 31, 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 follows:

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Millions)	
Within one year	**₱739**	₱735
After one year but not more than five years	**3,275**	3,261
After five years	**27,140**	27,330
Balance at end of period	**₱31,154**	₱31,326

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱301 million and ₱306 million for the three months ended March 31, 2014 and 2013, respectively.

28. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to cash flow interest rate risk are disclosed in Notes 7, 9, 13 and 20.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at March 31, 2014 and December 31, 2013, after taking into account the effect of interest rate swaps, approximately 64% of its long-term borrowings excluding China yuan renminbi-denominated loans are at a fixed rate of interest (see Note 29).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at March 31, 2014 and December 31, 2013:

March 31, 2014

	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
					(In Thousands)				
Fixed Rate									
Philippine peso-denominated corporate notes	₱26,200	₱976,200	₱16,200	₱16,200	₱16,200	₱9,995,000	₱11,046,000	(₱63,100)	₱10,982,900
Interest rate	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-6.65%	5.57%-10.11%			
Philippine peso-denominated fixed rate notes	₱73,600	₱2,032,000	₱5,463,600	₱1,875,100	₱9,559,900	₱7,432,600	26,436,800	(126,448)	26,310,352
Interest rate	5.86%-6.81%	4.72%-6.81%	4.32%-6.81%	4.00%-6.81%	4.77%-6.81%	5.88%-6.81%			
Other bank loans	₱1,518,350	₱198,850	₱1,200,000	₱–	₱–	₱–	2,917,200	(3,598)	2,913,602
Interest rate	5.00%-5.69%	5.00%	9.75%						
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$270,000	$–	$500,000	$–	34,507,550	(578,603)	33,928,947
Interest rate			LIBOR + spread		LIBOR + spread				
U.S. dollar-denominated bilateral loans	$–	$–	$–	$–	$25,000	$–	1,120,375	(5,278)	1,115,097
Interest rate					LIBOR + spread				
Other U.S. dollar loans	$–	$50,000	$–	$50,000	$–	$–	4,481,500	(52,224)	4,429,276
Interest rate		LIBOR + spread		LIBOR + spread					
Philippine peso-denominated corporate notes	₱50,000	₱4,800,000	₱–	₱–	₱–	₱–	4,850,000	(16,084)	4,833,916
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated floating rate notes	₱96,500	₱44,500	₱4,846,500	₱3,514,000	₱10,000	₱940,000	9,451,500	(46,058)	9,405,442
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Philippine peso-denominated five-year bilateral loans	₱–	₱–	₱500,000	₱–	₱–	₱–	500,000	(1,424)	498,576
Interest rate			PDST-F+margin%						
Other bank loans	₱4,008,180	₱1,785,280	₱–	₱–	₱–	₱–	5,793,460	(6,062)	5,787,398
Interest rate	PDST-F+margin%	PDST-F+margin%							
China yuan renminbi-denominated loans	¥210,000	¥60,900	¥–	¥–	¥–	¥–	1,952,728	–	1,952,728
Interest rate	5.76%	5.76%							
							₱103,057,113	(898,879)	₱102,158,234

December 31, 2013 (As restated - see Note 6)

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

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax. The impact on the Company's equity, due to changes in fair value of AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
March 31, 2014	**100**	**(₱102,526)**
	50	**(51,263)**
	(100)	**102,526**
	(50)	**51,263**
December 31, 2013		
(As restated - see Note 6)	100	(₱108,914)
	50	(54,457)
	(100)	108,914
	(50)	54,457

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

Foreign Currency Risk

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

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

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱24,792 million (US$553 million) and ₱24,831 million (US$554 million), respectively, as at March 31, 2014, and ₱24,463 million (US$551 million) and ₱24,586 million (US$554 million), respectively, as at December 31, 2013.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱44.82 to US$1.00 and ₱44.40 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at March 31, 2014 and December 31, 2013, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Thousands)
March 31, 2014	**1.50**	**₱325**
	1.00	**217**
	(1.50)	**(325)**
	(1.00)	**(217)**
December 31, 2013 (As restated - see Note 6)	1.50	₱1,043
	1.00	696
	(1.50)	(1,043)
	(1.00)	(696)

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, short-term investments and investments held for trading amounting to ₱22,863 million, nil and ₱1,141 million, respectively, as at March 31, 2014, and ₱27,142 million, ₱888 million and ₱1,151 million, respectively, as at December 31, 2013 (see Notes 7, 8, 9 and 13). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

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

	March 31, 2014				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Loans payable	**₱–**	**₱2,700,000**	**₱–**	**₱–**	**₱2,700,000**
Accounts payable and other current liabilities*	**968,808**	**41,972,395**	**–**	**–**	**42,941,203**
Long-term debt (including current portion)	**–**	**8,171,995**	**94,031,524**	**9,451,115**	**111,654,634**
Derivative liabilities	**–**	**–**	**159,356**	**–**	**159,356**
Liability for purchased land - net of current portion	**–**	**–**	**1,027,210**	**–**	**1,027,210**
Tenants' deposits	**–**	**–**	**10,282,861**	**132,100**	**10,414,961**
Other noncurrent liabilities**	**–**	**–**	**2,913,576**	**–**	**2,913,576**
	₱968,808	**₱52,844,390**	**₱108,414,527**	**₱9,583,215**	**₱171,810,940**

	December 31, 2013 (As restated -see Note 6)				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Loans payable	₱–	₱3,250,000	₱–	₱–	₱3,250,000
Accounts payable and other current liabilities*	6,818,290	37,117,032	–	–	43,935,322
Long-term debt (including current portion)	–	9,321,766	94,038,282	9,552,723	112,912,771
Derivative liabilities	–	–	159,974	–	159,974
Liability for purchased land - net of current portion	–	–	1,117,809	–	1,117,809
Tenants' deposits	–	–	10,082,397	166,395	10,248,792
Other noncurrent liabilities**	–	–	2,786,666	–	2,786,666
	₱6,818,290	₱49,688,798	₱108,185,128	₱9,719,118	₱174,411,334

* *Excluding nonfinancial liabilities amounting to ₱1,213 million and ₱1,363 million as at March 31, 2014 and December 31, 2013, respectively.*
** *Excluding nonfinancial liabilities amounting to ₱487 million and ₱469 million as at March 31, 2014 and December 31, 2013, respectively.*

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

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 29.

Since the Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The Company has no other significant terms and conditions associated with the use of collateral.

As at March 31, 2014 and December 31, 2013, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 10). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

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

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

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

As at March 31, 2014 and December 31, 2013 the credit quality of the Company's financial assets is as follows:

	March 31, 2014			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	**₱22,807,267**	**₱–**	**₱–**	**₱22,807,267**
Short-term investments	**–**	**–**	**–**	**–**
Receivables**	**66,738**	**22,522,991**	**8,194,482**	**30,784,211**
Cash in escrow (included under "Prepaid expenses and other current assets")	**1,025,850**	**–**	**–**	**1,025,850**
Real estate receivable - noncurrent (included under "Other noncurrent assets")	**–**	**8,192,999**	**–**	**8,192,999**
Bonds and deposits (included under "Other noncurrent assets")	**–**	**20,410**	**–**	**20,410**
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	**1,141,304**	**–**	**–**	**1,141,304**
Derivative assets	**2,010,464**	**–**	**–**	**2,010,464**
AFS Investments				
Shares of stocks and corporate notes	**26,221,270**	**8,048**	**–**	**26,229,318**
	₱53,272,893	**₱30,744,448**	**₱8,194,482**	**₱92,211,823**

* *Excluding cash on hand amounting to ₱55 million*
** *Excluding nonfinancial assets amounting to ₱8 million*

	December 31, 2013 (As restated - see Note 6)			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Loans and Receivables				
Cash and cash equivalents*	₱27,076,823	₱–	₱–	₱27,076,823
Short-term investments	887,900	–	–	887,900
Receivables**	13,612,072	8,798,104	4,772,733	27,182,909
Cash in escrow (included under "Prepaid expenses and other current assets")	439,119	–	–	439,119
Real estate receivable - noncurrent (included under "Other noncurrent assets")	–	10,277,336	–	10,277,336
Bonds and deposits (included under "Other noncurrent assets")	–	20,410	–	20,410
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	1,151,464	–	–	1,151,464
Derivative assets	1,778,810	–	–	1,778,810
AFS Investments				
Shares of stocks and corporate notes	23,303,431	65,643	–	23,369,074
	₱68,249,619	₱19,161,493	₱4,772,733	₱92,183,845

* *Excluding cash on hand amounting to ₱65 million*
** *Excluding nonfinancial assets amounting to ₱2 million*

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

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

The effect on equity after income tax (as a result of change in fair value of AFS investments as at March 31, 2014 and December 31, 2013) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	March 31, 2014	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+9%**	**₱2,406**
	-9%	**(2,406)**

	December 31, 2013 (As restated - see Note 6)	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+9%	₱1,765
	-9%	(1,765)

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

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

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

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

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

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

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Loans payable	**₱2,700,000**	₱3,250,000
Current portion of long-term debt	**7,286,573**	7,387,260
Long-term debt - net of current portion	**94,871,661**	95,675,730
Total interest-bearing debt (a)	**104,858,234**	106,312,990
Total equity attributable to equity holders of the parent	**170,672,951**	163,266,540
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱275,531,185**	₱269,579,530
Gearing ratio (a/b)	**38%**	39%

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

	March 31, 2014	December 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Loans payable	**₱2,700,000**	₱3,250,000
Current portion of long-term debt	**7,286,573**	7,387,260
Long-term debt - net of current portion	**94,871,661**	95,675,730
Less cash and cash equivalents, short-term investments, investments held for trading and current portion of AFS investments	**(24,004,014)**	(29,180,870)
Total net interest-bearing debt (a)	**80,854,220**	77,132,120
Total equity attributable to equity holders of the parent	**170,672,951**	163,266,540
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱251,527,171**	₱240,398,660
Gearing ratio (a/b)	**32%**	32%

29. Financial Instruments

Fair Values

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

	March 31, 2014		December 31, 2013 (As restated - see Note 6)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱1,141,304**	**₱1,141,304**	₱1,151,464	₱1,151,464
Derivative assets	**2,010,464**	**2,010,464**	1,778,810	1,778,810
	3,151,768	**3,151,768**	2,930,274	2,930,274
Loans and receivables -				
Noncurrent portion of receivable from sale of real estate	**8,192,999**	**7,974,552**	10,277,336	9,393,239
AFS investments -				
Listed shares of stocks and corporate notes	**26,221,270**	**26,221,270**	23,360,756	23,360,756
	₱37,566,037	**₱37,347,590**	₱36,568,366	₱35,684,269
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱159,356**	**₱159,356**	₱159,974	₱159,974
Other financial liabilities:				
Liability for purchased land - net of current portion	**1,027,210**	**999,822**	1,117,809	1,090,824
Long-term debt - net of current portion	**94,871,661**	**96,751,693**	95,675,730	96,254,926
Tenants' deposits	**10,414,961**	**10,137,271**	10,248,792	9,874,345
Other noncurrent liabilities*	**2,913,576**	**2,835,979**	2,786,666	2,679,120
	109,227,408	**110,724,765**	109,828,997	109,899,215
	₱109,386,764	**₱110,884,121**	₱109,988,971	₱110,059,189

**Excluding nonfinancial liabilities amounting to ₱487 million and ₱469 million as at March 31, 2014 and December 31, 2013, respectively.*

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

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

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

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 5.0% to 5.5% and 5.0% as at March 31, 2014 and December 31, 2013, respectively.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.39% to 5.12% and 1.39% to 4.76% as at March 31, 2014 and December 31, 2013, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.71% to 5.76% and 1.7% to 1.96% as at March 31, 2014 and December 31, 2013, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 3.44% to 4.09% and 1.93% to 3.52% as at March 31, 2014 and December 31, 2013, respectively.

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

As at March 31, 2014 and December 31, 2013, the Company has no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3).

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:

	March 31, 2014		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	**₱458,932**	**₱–**	**₱–**
Shares	**682,372**	**–**	**–**
Derivative assets	**–**	**2,010,464**	**–**
	1,141,304	**2,010,464**	**–**
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	**–**	**–**	**7,974,552**
AFS investments -			
Shares of stocks	**26,221,270**	**–**	**–**
	₱27,362,574	**₱2,010,464**	**₱7,974,552**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱159,356**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**–**	**–**	**999,822**
Long-term debt - net of current portion	**–**	**–**	**96,751,693**
Tenants' deposits	**–**	**–**	**10,137,271**
Other noncurrent liabilities*	**–**	**–**	**2,835,979**
	–	**–**	**110,724,765**
	₱–	**₱159,356**	**₱110,724,765**

**Excluding nonfinancial liabilities amounting to ₱487 million as at March 31, 2014.*

	December 31, 2013 (As restated - see Note 6)		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held-for-trading:			
Bonds	₱459,754	₱–	₱–
Shares	691,710	–	–
Derivative assets	–	1,778,810	–
	1,151,464	1,778,810	–
Loans and receivables -			
Noncurrent portion of receivable from sale of real estate	–	–	10,277,336
AFS investments -			
Shares of stocks	23,360,756	–	–
	₱24,512,220	₱1,778,810	₱10,277,336

Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	₱–	₱159,974	₱–
Other financial liabilities:			
Liability for purchased land - net of current portion	–	–	5,235,448
Long-term debt - net of current portion	–	–	103,642,186
Tenants' deposits	–	–	9,874,345
Other noncurrent liabilities*	–	–	2,679,120
	–	–	121,431,099
	₱–	₱159,974	₱121,431,099

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

During the periods ended March 31, 2014 and December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

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 20). Details of the hedged loans are as follows:

	Outstanding Principal Balance		Interest Rate	Maturity Date
	(In Thousands)			
Unsecured loan	US$200,000	₱8,963,000	6-month US LIBOR + 1.70%	January 29, 2018
Unsecured loan	150,000	6,722,250	6-month US LIBOR + 1.70%	March 23, 2018

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

	Notional Amounts		Receive	Pay	US$:₱ Rate	Maturity
	(In Thousands)					
Floating-to-Fixed	US$150,000	₱6,100,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,033,500	6M U.S. LIBOR + 170 bps	3.70%	40.67	January 29, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018
Floating-to-Fixed	50,000	2,055,000	6M U.S. LIBOR + 170 bps	3.90%	41.10	March 23, 2018

Under the floating-to-fixed cross-currency swaps, SMPH effectively converted its US dollar-denominated loan into a Philippine peso-denominated loan when, at inception, it agreed to swap US dollar principal equal to the face amount of the loan for its agreed Philippine peso equivalent (₱8,134 million and ₱6,165 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped. The agreement also requires SMPH to 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 term loan facility.

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 ₱1,936 million gain and ₱1,668 million as at March 31, 2014 and December 31, 2013, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the three months ended March 31, 2014. Foreign currency translation loss arising from the hedged loan amounting to ₱147 million in 2014 and ₱1,239 million in 2013 was recognized in the consolidated statement of income. A foreign exchange gain equivalent to the same amount was recycled from equity to the consolidated statement of income during the same year.

Derivative Financial Instruments not Accounted for as Hedges
The table below shows information on the Company's interest rate swaps presented by maturity profile.

	March 31, 2014		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed		**Floating-Fixed**	
Outstanding notional amount	**$145,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**2.91%–3.28%**		
Outstanding notional amount	**$30,000,000**	**$30,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.18%**	**3.18%**	
Outstanding notional amount	**$20,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**3.53%**		
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F**	**3MPDST-F**	
Pay-fixed rate	**3.65%**	**3.65%**	
Outstanding notional amount	**₱174,720,000**	**₱174,720,000**	**$–**
Receive-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	
Pay-fixed rate	**4.95%**	**4.95%**	
Fixed-Floating			
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**5.44%**	**5.44%**	
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	
Outstanding notional amount	**₱960,000,000**	**₱950,000,000**	**$–**
Receive-fixed rate	**7.36%**	**7.36%**	
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	

	December 31, 2013 (As restated - see Note 6)		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed		Floating-Fixed	
Outstanding notional amount	$145,000,000	$145,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	2.91%–3.28%	2.91%–3.28%	
Outstanding notional amount	$30,000,000	$30,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.18%	3.18%	
Outstanding notional amount	$20,000,000	$–	$–
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	3.53%		
Outstanding notional amount	₱174,720,000	₱174,720,000	$–
Receive-floating rate	3MPDST-F	3MPDST-F	
Pay-fixed rate	3.65%	3.65%	
Outstanding notional amount	₱174,720,000	₱174,720,000	$–
Receive-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	
Pay-fixed rate	4.95%	4.95%	
Fixed-Floating			
Outstanding notional amount	₱960,000,000	₱950,000,000	$–
Receive-fixed rate	5.44%	5.44%	
Pay-floating rate	3MPDST-F	3MPDST-F	
Outstanding notional amount	₱960,000,000	₱950,000,000	$–
Receive-fixed rate	7.36%	7.36%	
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	

Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 20). As at March 31, 2014 and December 31, 2013, these interest rate swaps have negative fair value of ₱5 million and ₱9 million, respectively.

In 2011, the SMPH entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swaps have aggregate negative fair value of ₱112 million and ₱114 million, respectively.

SMPH also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 20). As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swap has negative fair value of ₱11 million and ₱10 million, respectively.

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

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at March 31, 2014 and December 31, 2013, the floating to fixed interest rate swap has a negative fair value of ₱36 million.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at March 31, 2014 and December 31, 2013, these interest rate swaps have positive fair value of ₱80 million and ₱110 million, respectively.

In 2009, SMPH entered into US$ interest rate swap agreements with an aggregate notional amount of US$25 million. Under these agreements, SMPH effectively converts the floating rate US dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 20). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱10 million gain in 2013

Non-deliverable Currency Forwards and Swaps. In 2014 and 2013, the SMPH entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱5 million gain and ₱10 million in 2014 and 2013, respectively.

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

	March 31, 2014	December 31, 2013 (As restated – see Note 6)
	(In Thousands)	
Balance at beginning of period	**₱1,618,836**	(₱134,351)
Net changes in fair value during the year	**98,535**	1,670,214
Fair value of settled derivatives	**133,737**	82,973
Balance at end of period	**₱1,851,108**	₱1,618,836

In 2014, the net changes in fair value amounting to ₱99 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱139 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 ₱267 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market loss on derivative instruments not designated as hedges amounting to ₱99 million, which is included under "Others - net" account in the consolidated statements of income.

In 2013, the net changes in fair value amounting to ₱1,670 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱115 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱1,668 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱117 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:

	March 31, 2014	December 31, 2013 (As restated – see Note 6)
	(In Thousands)	
Derivative assets	**₱2,010,464**	₱1,778,810
Derivative liabilities	**(159,356)**	(159,974)
	₱1,851,108	₱1,618,836

30. **EPS Computation**

Basic/diluted EPS is computed as follows:

	March 31, 2014	March 31, 2013 (As restated - see Note 6)
	(In Thousands)	
Net income attributable to equity holders of the parent (a)	**₱4,578,451**	₱4,107,497
Common shares issued at beginning of period*	**33,166,300**	33,166,300
Less treasury stock (see Note 21)	**5,392,787**	5,403,008
Weighted average number of common shares outstanding (b)	**27,773,513**	27,763,292
Earnings per share (a/b)	**₱0.165**	0.148

**Retroactively adjusted for the effect of common control business combination (see Note 6).*

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
AS OF MARCH 31, 2014 AND 2013

	Mar 31 2014	Mar 31 2013
i. Current ratio		
Total current assets / Total current liabilities	1.50	1.53
ii. Debt-to-equity ratio		
Total interest-bearing liabilities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities	0.38 : 0.62	0.36 : 0.64
Net debt-to-equity ratio		
Total interest-bearing liabilities less cash and cash equivalents and investment securities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities less cash and cash equivalents and investment securities	0.32 : 0.68	0.27: 0.73
iii. Asset to equity ratio		
Total assets / Total equity attributable to equity holders of the parent	2.00	1.56

	Mar 31 2014	Mar 31 2013
(Annualized)		
Debt service coverage ratio		
Operating cash flows / Total loans payable, current portion of long-term debt and interest expense (excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments)	1.55	0.43
iv. Earnings before interest, income taxes, depreciation and amortization (EBITDA) to interest expense		
EBITDA / Interest expense	9.63	9.20
Debt to EBITDA		
Total interest-bearing liabilities / EBITDA	3.19	2.91
v. Return on equity		
Net income attributable to equity holders of the parent / Total average equity attributable to equity holders of the parent	0.11	0.10
Return on investment properties		
Net income attributable to equity holders of the parent / Total average investment properties (excluding shopping mall complex under construction)	0.12	0.13

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

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

	Three months ended March 31				
	2014	**% to Revenues**	**2013**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	15,346	100%	14,949	100%	3%
Costs and expenses	8,819	57%	8,828	59%	0%
Operating Income	6,528	43%	6,121	41%	7%
Net Income	4,578	30%	4,107	27%	11%
EBITDA	8,211	54%	7,481	50%	10%

	Mar 31 2014	**% to Total Assets**	**Dec 31 2013**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	340,928	100%	335,584	100%	2%
Investment Properties	177,123	52%	171,666	51%	3%
Total Debt	104,858	31%	106,313	32%	-1%
Net Debt	80,854	24%	77,132	23%	5%
Total Stockholders' Equity	170,673	50%	163,267	49%	5%

Financial Ratios	**Mar 31 2014**	**Dec 31 2013**
Debt to Equity	0.38 : 0.62	0.39 : 0.61
Net Debt to Equity	0.32 : 0.68	0.32 : 0.68
Return on Equity	0.11	0.10
Debt to EBITDA	3.19	3.53
EBITDA to Interest Expense	9.63	8.17
Operating Income to Revenues	0.43	0.40
EBITDA Margin	0.54	0.50
Net Income to Revenues	0.30	0.27
Debt Service Coverage Ratio	1.55	2.15

Revenue

SM Prime recorded consolidated revenues of ₱15.35 billion for the first quarter 2014, an increase of 3% from ₱14.95 billion in the same period 2013, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱8.56 billion in 2014, an increase of 12% from ₱7.63 billion in 2013. The increase in rental revenue was primarily due to the new malls opened in 2012 and 2013, namely, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos, SM Lanang Premier, SM Aura Premier and SM City BF Parañaque, with a total gross floor area of 818,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased, primarily due to increase in occupancy and rental escalations.

Real Estate Sales

SM Prime recorded a 17% decrease in real estate sales in 2014 to ₱5.02 billion from ₱6.01 billion in 2013. The decrease in real estate sales is primarily due to sales take up and the number of project launches made in 2010 up to 2011 namely, Jazz, Light, Shell, Wind and Green Residences compared to launches made in 2012 of only Breeze and Grace Residences. On the average, it takes about two years before revenues are recognized in the books because of percentage of completion accounting. Actual construction of projects usually start within one year from launch date. In 2011, four new projects were launched equivalent to around 8,700 units while in 2012, this was reduced to only two projects equivalent to around 4,600 units.

Cinema Ticket Sales

SM Prime cinema ticket sales significantly increased by 40% to ₱1.06 billion in 2014 from ₱0.76 billion in 2013. The increase was due to opening of digital cinemas at the new malls and the showing of local blockbuster movies with 100% sales growth year-on-year. The major blockbusters screened in 2014 were "Starting Over Again," "Bride for Rent," "Girl Boy Bakla Tomboy," "My Little Bossings," and "Captain America: The Winter Soldier."

Other Revenues

Other revenues likewise increased by 30% to ₱710 million in 2014 from ₱546 million in 2013. The increase was mainly due to opening of new amusement rides in the Sky Ranch in Tagaytay last March 2013, reopening of ice skating rink in SM Megamall last January 2014, 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 SM Science Discovery Center 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 ₱8.82 billion for the first quarter 2014 from ₱8.83 billion in the same period ended 2013, consists of the following:

Costs of Real Estate

Consolidated costs of real estate was ₱2.93 billion in 2014, representing a decrease of 20% from ₱3.65 billion in 2013. The decrease was primarily the result of lower recognized real estate costs in line with the lower real estate sales in 2014 compared to last year. Gross profit margin for residential improved to 42% in 2014 compared to 39% in 2013.

Operating Expenses

SM Prime's consolidated operating expenses increased by 14% to ₱5.89 billion in 2014 compared to last year's ₱5.18 billion. Same-store mall growth in operating expenses is 7%. The increase is attributable to the opening of new malls and expansions.

Consolidated marketing and selling expenses decreased by 13% to ₱642 million in 2014 from ₱738 million in 2013 mainly due reduction in expenses related to SM Residences showrooms and exhibits, out-of-home and media-based advertising, as part of residential business unit's overall rationalization of its cost structure.

Other contributors to the increase are business taxes and licenses, depreciation and amortization, and film rentals, 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 5% to ₱853 million in 2014 compared to ₱816 million in 2013 due to new bank loans availed during 2013 for working capital and capital expenditure requirements.

Interest and Dividend Income

Interest and dividend income decreased by 39% to ₱149 million in 2014 from ₱243 million 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.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 19% to ₱1.20 billion in 2014 from ₱1.01 billion in 2013. The increase is due to the related increase in taxable income as well as expiration of certain income tax holiday incentives of the residential business unit.

Net income

As a result of the foregoing, consolidated net income for the three months ended March 31, 2014 increased by 11% to ₱4.58 billion from ₱4.11 billion in the same period last year.

Balance Sheet Accounts

Cash and cash equivalents significantly decreased by 16% from ₱27.14 billion as of December 31, 2013 to ₱22.86 billion as of March 31, 2014. This account includes the remaining proceeds from long-term debt drawn in 2013 which were subsequently used for working capital and capital expenditure requirements in 2014. Short-term investments amounting to $20 million was likewise preterminated with an original maturity of October 2014 to fund the capital expenditure requirements of China.

Receivables increased by 13% from ₱27.18 billion as of December 31, 2013 to ₱30.79 billion as of March 31, 2014, mainly due to increase in construction accomplishments of sold units offset by subsequent collections of rental receivables.

Condominium and residential units decreased by 11% from ₱6.10 billion as of December 31, 2013 to ₱5.44 billion as of March 31, 2014, mainly due to subsequent sales of Ready-For-Occupancy (RFO) units.

Prepaid expenses and other current assets decreased by 9% from ₱9.94 billion as of December 31, 2013 to ₱9.04 billion as of March 31, 2014, mainly due to subsequent amortization of prepaid taxes and other prepayments.

Property and equipment decreased by 8% from ₱1.58 billion as of December 31, 2013 to ₱1.45 billion as of March 31, 2014, mainly due to depreciation expense.

Available-for-sale investments increased by 12% from ₱23.37 billion as of December 31, 2013 to ₱26.23 billion as of March 31, 2014, due to higher market prices of listed shares held under this portfolio.

Derivative assets increased by 13% from ₱1.78 billion as of December 31, 2013 to ₱2.01 billion as of March 31, 2014, mainly resulting from unrealized mark-to-market gains on a $350 million cross currency swap transaction designated as a cash flow hedge.

Deferred tax assets increased by 22% from ₱691 million as of December 31, 2013 to ₱839 million as of March 31, 2014, mainly due to NOLCO and the difference between financial and taxable gross profit on sale of real estate.

Loans payable decreased by 17% from ₱3.25 billion as of December 31, 2013 to ₱2.70 billion as of March 31, 2014, due to subsequent payments of maturing loans.

Liability for purchased land decreased by 8% from ₱1.12 billion as of December 31, 2013 to ₱1.03 billion as of March 31, 2014, due to subsequent payments.

The Company's key financial indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (3) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (4) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA); (6) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (7) EBITDA to interest expense 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 following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to stockholders' equity slightly decreased to 0.38:0.62 from 0.39:0.61 as of March 31, 2014 and December 31, 2013, respectively, while net interest-bearing debt to stockholders' equity is steady at 0.32:0.68 as of March 31, 2014 and December 31, 2013. Debt service coverage ratio decreased to 1.49:1 as of March 31, 2014 from 2.15:1 as of December 31, 2013 due to decrease in operating cash flows.

In terms of profitability, ROE slightly increased to 11% as of March 31, 2014 from 10% as of December 31, 2013.

Debt to EBITDA slightly decreased to 3.19:1 as of March 31, 2014 from 3.53:1 as of December 31, 2013, while EBITDA to interest expense increased to 9.63:1 as of March 31, 2014 from 8.17:1 as of December 31, 2013. EBITDA margin improved at 54% as of March 31, 2014 from 50% as of December 31, 2013.

Consolidated operating income to revenues improved at 43% as of March 31, 2014 from 40% as of December 31, 2013. Net income to revenues likewise improved at 30% as of March 31, 2014 from 27% as of December 31, 2013.

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

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

For the year 2014, the Company expects to incur capital expenditures of approximately ₱71 billion. This will be funded with internally generated funds and external borrowings.

SM Prime currently has twenty one residential projects in the market, twenty of which are in Metro Manila and one in Tagaytay. For the rest of 2014, SM Prime is launching four new projects and four expansions of existing towers all in Metro Manila, except Wind in Tagaytay, equivalent to about 15,800 additional units.

SM Prime's mall business unit has forty eight shopping malls in the Philippines with 6.2 million square meters of gross floor area and five shopping malls in China with 0.8 million square meters of gross floor area. For the rest of 2014, the mall business unit will open three new malls, located in Cauayan and Angono in the Philippines and Zibo in China, as well as expansion of four existing malls. By end 2014, the mall business unit will have an estimated 7.5 million square meters of gross floor area.

SM Prime Holdings, Inc. and Subsidiaries
Aging of Accounts Receivables
As at March 31, 2014
(Amounts in Thousands)

Trade:	
Sale of real estate	**₱29,161,577**
Rent:	
Third parties	**2,911,965**
Related parties	**1,960,849**
Others	**107,944**
Due from related parties	**2,136,701**
Receivable from a co-investor	**269,228**
Advances to suppliers	**234,915**
Accrued interest	**154,918**
Others	**2,398,318**
	39,336,415
Less allowance for doubtful accounts	**350,453**
	38,985,962
Less noncurrent portion of receivables from sale of real estate	**8,192,999**
	₱30,792,963

The aging analyses of receivables follows:

Neither past due nor impaired	**₱30,791,480**
Past due but not impaired:	
Less than 30 days	**1,618,659**
31–90 days	**1,964,337**
91–120 days	**695,221**
Over 120 days	**3,916,265**
Impaired	**350,453**
	₱39,336,415

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SM PRIME HOLDINGS, INC.
Registrant

Date: May 15, 2014

Teresa Cecilia H. Reyes

TERESA CECILIA H. REYES
Vice President – Finance