COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(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	17-Q		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(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

STAMPS

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, 2013**

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	**17,373,677,760**

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, 2013 and December 31, 2012
and Three Months Ended March 31, 2013 and 2012

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 20, 22 and 23)	**₱19,067,990,992**	₱9,706,857,361
Short-term investments (Notes 7, 20, 22 and 23)	**816,000,000**	821,000,000
Investments held for trading (Notes 8, 20, 22 and 23)	**457,335,307**	759,300,343
Receivables (Notes 9, 20, 22 and 23)	**5,763,218,412**	5,880,081,880
Available-for-sale investments (Notes 10, 20, 22 and 23)	**1,000,000,000**	1,000,000,000
Prepaid expenses and other current assets (Note 11)	**1,566,130,723**	1,440,189,139
Total Current Assets	**28,670,675,434**	19,607,428,723
Noncurrent Assets		
Investment properties - net (Notes 12 and 20)	**126,016,836,866**	124,087,439,798
Derivative assets (Notes 22 and 23)	**138,453,670**	109,978,821
Deferred tax assets (Note 18)	**187,135,958**	190,463,028
Other noncurrent assets (Note 13)	**4,656,023,197**	4,134,582,818
Total Noncurrent Assets	**130,998,449,691**	128,522,464,465
	₱159,669,125,125	₱148,129,893,188
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 22 and 23)	**₱800,000,000**	₱800,000,000
Accounts payable and other current liabilities (Notes 15, 20, 22 and 23)	**11,379,624,231**	11,398,520,838
Current portion of long-term debt (Notes 16, 20, 22 and 23)	**2,611,101,353**	1,791,703,848
Income tax payable	**1,123,474,226**	632,900,873
Total Current Liabilities	**15,914,199,810**	14,623,125,559
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 20, 22 and 23)	**57,014,784,008**	49,647,118,755
Tenants' deposits (Notes 21, 22 and 23)	**8,555,929,087**	8,386,248,204
Liability for purchased land - net of current portion	**1,041,570,404**	1,214,756,670
Deferred tax liabilities (Note 18)	**1,265,932,906**	1,278,194,418
Derivative liabilities (Notes 22 and 23)	**236,996,850**	244,330,399
Other noncurrent liabilities (Notes 12, 20, 22 and 23)	**1,878,660,112**	1,836,373,166
Total Noncurrent Liabilities	**69,993,873,367**	62,607,021,612
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 17 and 24)	**17,392,534,760**	17,392,534,760
Additional paid-in capital - net (Note 17)	**8,219,067,298**	8,219,067,298
Cumulative translation adjustment (Note 17)	**515,624,547**	544,146,167
Retained earnings (Note 17):		
Appropriated	**27,000,000,000**	27,000,000,000
Unappropriated	**19,680,474,032**	16,890,136,797
Treasury stock (Notes 17 and 24)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 22)	**72,706,225,932**	69,944,410,317
Non-controlling Interests (Note 17)	**1,054,826,016**	955,335,700
Total Stockholders' Equity	**73,761,051,948**	70,899,746,017
	₱159,669,125,125	₱148,129,893,188

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31	
	2013	2012
REVENUE		
Rent (Notes 12, 20 and 21)	**₱6,733,166,810**	₱6,031,051,208
Cinema ticket sales	**760,985,046**	702,995,400
Amusement income and others	**335,996,144**	300,910,656
	7,830,148,000	7,034,957,264
COSTS AND EXPENSES		
Depreciation and amortization (Note 12)	**1,113,037,415**	965,467,766
Administrative (Notes 19, 20 and 21)	**846,257,085**	841,311,184
Business taxes and licenses	**487,815,444**	457,044,503
Film rentals	**408,114,998**	376,973,735
Management fees (Note 20)	**227,906,285**	218,023,064
Rent (Note 21)	**221,722,330**	162,549,657
Insurance	**72,317,453**	55,964,608
Others	**227,250,938**	164,356,938
	3,604,421,948	3,241,691,455
INCOME FROM OPERATIONS	**4,225,726,052**	3,793,265,809
OTHER INCOME (CHARGES) - Net		
Interest expense (Notes 14, 16, 20 and 23)	**(525,160,262)**	(548,142,801)
Interest and dividend income (Notes 6, 7, 8, 10 and 20)	**99,269,070**	131,095,258
Others - net (Notes 8, 13, 16 and 23)	**(18,724,554)**	(37,314,449)
	(444,615,746)	(454,361,992)
INCOME BEFORE INCOME TAX	**3,781,110,306**	3,338,903,817
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)		
Current	**901,697,307**	787,906,058
Deferred	**(10,414,552)**	18,280,390
	891,282,755	806,186,448
NET INCOME	**₱2,889,827,551**	₱2,532,717,369
Attributable to		
Equity holders of the parent (Note 24)	**₱2,790,337,235**	₱2,433,869,469
Non-controlling interests (Notes 2 and 17)	**99,490,316**	98,847,900
	₱2,889,827,551	₱2,532,717,369
Basic/Diluted Earnings Per Share (Note 24)	**₱0.161**	₱0.140

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
	2013	2012
NET INCOME	**₱2,889,827,551**	₱2,532,717,369
OTHER COMPREHENSIVE LOSS - Net		
Cumulative translation adjustment (Note 17)		
Foreign currency differences of subsidiaries	**(6,771,761)**	(104,268,826)
Net fair value changes on cash flow hedges (see Note 23)	**(21,749,859)**	–
Total Other Comprehensive Loss	**(28,521,620)**	(104,268,826)
TOTAL COMPREHENSIVE INCOME	**₱2,861,305,931**	₱2,428,448,543
Attributable to		
Equity holders of the parent	**₱2,761,815,615**	₱2,329,600,643
Non-controlling interests (Notes 2 and 17)	**99,490,316**	98,847,900
	₱2,861,305,931	₱2,428,448,543

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to Equity Holders of the Parent								
				Retained Earnings					
	Capital Stock (Notes 17 and 24)	**Additional Paid-in Capital - Net** (Note 17)	**Cumulative Translation Adjustment** (Note 17)	**Appropriated** (Note 17)	**Unappropriated** (Note 17)	**Treasury Stock** (Notes 17 and 24)	**Total**	**Non-controlling Interests** (Note 17)	**Total**
At January 1, 2013	**₱17,392,534,760**	**₱8,219,067,298**	**₱544,146,167**	**₱27,000,000,000**	**₱16,890,136,797**	**(₱101,474,705)**	**₱69,944,410,317**	**₱955,335,700**	**₱70,899,746,017**
Total comprehensive income	**–**	**–**	**(28,521,620)**	**–**	**2,790,337,235**	**–**	**2,761,815,615**	**99,490,316**	**2,861,305,931**
At March 31, 2013	**₱17,392,534,760**	**₱8,219,067,298**	**₱515,624,547**	**₱27,000,000,000**	**₱19,680,474,032**	**(₱101,474,705)**	**₱72,706,225,932**	**₱1,054,826,016**	**₱73,761,051,948**
At January 1, 2012	₱13,917,800,067	₱8,219,067,298	₱872,658,862	₱7,000,000,000	₱33,865,609,976	(₱101,474,705)	₱63,773,661,498	₱573,144,423	₱64,346,805,921
Total comprehensive income	–	–	(104,268,826)	–	2,433,869,469	–	2,329,600,643	98,847,900	2,428,448,543
At March 31, 2012	₱13,917,800,067	₱8,219,067,298	₱768,390,036	₱7,000,000,000	₱36,299,479,445	(₱101,474,705)	₱66,103,262,141	₱671,992,323	₱66,775,254,464

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax and non-controlling interests	**₱3,781,110,306**	₱3,338,903,817
Adjustments for:		
Depreciation and amortization (Note 12)	**1,113,037,415**	965,467,766
Interest expense (Notes 14, 16, 20 and 23)	**525,160,262**	548,142,801
Interest and dividend income (Notes 6, 7, 8, 10 and 20)	**(99,269,070)**	(131,095,258)
Unrealized mark-to-market loss (gain) on derivatives (Note 21)	**(31,558,257)**	44,724,681
Unrealized foreign exchange gain - net	**2,069,546**	8,424,118
Mark-to-market gain on investments held for trading (Note 8)	**657,000**	1,396,500
Mark-to-market gain on derivatives (Note 23)	**–**	1,114,580
Operating income before working capital changes	**5,291,207,202**	4,777,079,005
Decrease (increase) in:		
Receivables	**128,478,054**	309,367,621
Prepaid expenses and other current assets	**(126,043,568)**	(521,308,492)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(77,351,041)**	(674,313,010)
Tenants' deposits	**171,892,499**	201,251,284
Cash generated from operations	**5,388,183,146**	4,092,076,408
Income taxes paid	**(409,617,243)**	(385,670,837)
Net cash provided by operating activities	**4,978,565,903**	3,706,405,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Investment properties (Note 12)	**(3,261,540,668)**	(4,622,337,748)
Other noncurrent assets (Note 13)	**(527,277,225)**	19,359,540
Investments held for trading	**299,914,286**	56,137,107
Interest and dividend received	**84,746,173**	100,405,970
Net cash used in investing activities	**(3,404,157,434)**	(4,446,435,131)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans (Notes 14, 16 and 20)	**9,151,125,000**	10,356,250,000
Payments of:		
Loans (Notes 16 and 20)	**(894,583,967)**	(1,039,692,935)
Interest	**(466,855,444)**	(373,337,781)
Payments to unwinding of interest rate swaps	**–**	(4,287,500)
Net cash provided by financing activities	**7,789,685,589**	8,938,931,784
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,960,427)**	5,730,737
NET INCREASE IN CASH AND CASH EQUIVALENTS	**9,361,133,631**	8,204,632,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**9,706,857,361**	8,290,216,039
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱19,067,990,992**	₱16,494,849,000

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. The Parent Company and its subsidiaries (collectively referred to as "the Company") develop, conduct, operate and maintain 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. Its main sources of revenue include rent income from leases in mall and food court, cinema ticket sales and amusement income from bowling, ice skating and others.

The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The Parent Company is 21.65% and 40.96% directly-owned by SM Investments Corporation (SMIC) and SM Land, Inc. (SM Land), respectively. SM Land is a 66.89% owned subsidiary of SMIC. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

The registered office and principal place of business of the Parent Company 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.

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 (FRSC).

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 during the year:

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements,* became effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)*, became effective for annual periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits (Revised)*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, became effective for annual periods beginning on or after January 1, 2013

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, became effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, became effective for annual periods beginning on or after January 1, 2013.

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

<u>Future Changes in Accounting Policies</u>

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

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 reflects the first phase of the work on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing 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 FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in 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 into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Company made an evaluation of the impact of the adoption of the standard and decided not to early adopt PFRS 9 for the 2012 reporting ahead of its effectivity date on January 1, 2015. Therefore, the consolidated financial statements as at March 31, 2013 do not reflect the impact of this new standard. 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.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be applied retrospectively. The Company is currently assessing the impact of these amendments on its 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 FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by 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. This interpretation will have no impact on the consolidated financial statements.

Improvements to PFRSs
The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The Company does not expect this amendment to have material impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Company does not expect this amendment to have material impact on its consolidated financial statements.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no 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 2012	2011	SM Malls Owned
First Asia Realty Development Corporation	Philippines	**74.19**	74.19	SM Megamall
Premier Central, Inc.	- do -	**100.00**	100.00	SM City Clark
Consolidated Prime Dev. Corp.	- do -	**100.00**	100.00	SM City Dasmariñas
Premier Southern Corp.	- do -	**100.00**	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do -	**100.00**	100.00	–
Southernpoint Properties Corp. (SPC)	- do -	**100.00**	100.00	SM Lanang Premier
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.00**	50.00	SM by the Bay
Affluent Capital Enterprises Limited (Affluent) and Subsidiaries	British Virgin Islands (BVI)	**100.00**	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make) and Subsidiaries	- do -	**100.00**	100.00	SM City Jinjiang
Springfield Global Enterprises Limited	- do-	**100.00**	100.00	–
SM Land (China) Limited (SM Land China) and Subsidiaries	Hong Kong	**100.00**	100.00	SM City Suzhou and SM City Chongqing

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intracompany balances, transactions, income and expenses resulting from intracompany transactions 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.

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;
- 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 stockholders' equity 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 Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosures of contingent liabilities, at balance sheet date. However, uncertainty about the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

Operating Lease Commitments - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company 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 ₱6,733 million and ₱6,031 for the three months ended March 31, 2013 and 2012, respectively (see Note 21).

Operating Lease Commitments - Company 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 the 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 ₱222 million and ₱163 million for the three months ended March 31, 2013 and 2012, respectively (see Note 21).

<u>Estimates and Assumptions</u>
The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses 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 collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, 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 provide the appropriate allowance for impairment losses. 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 losses would increase the recorded costs and expenses and decrease current assets.

The carrying value of receivables amounted to ₱5,763 million and ₱5,880 million as at March 31, 2013 and December 31, 2012, respectively (see Note 9).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as period longer than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The carrying value of AFS investments amounted to ₱1,000 million as at March 31, 2013 and December 31, 2012 (see Note 10).

Estimation of Useful Lives of Investment Properties. The useful life of each of the Company's investment property 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 results of operations 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 investment property would increase the recorded costs and expenses and decrease investment properties.

There were no changes in the estimated useful lives of investment properties in 2013 and 2012.

Impairment of Nonfinancial Assets. The Company assesses at each balance sheet date whether there is an indication that investment properties may be impaired. The recoverable amount of the investment properties is the higher of the asset's fair value less costs to sell and its value in use. When the carrying amounts of the investment properties exceed their recoverable amounts, the investment properties are considered impaired and are written down to their recoverable amounts.

The net book value of investment properties amounted to ₱126,017 million and ₱124,087 million as at March 31, 2013 and December 31, 2012, respectively (see Note 12).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the succeeding periods. This projection is based on the Company's past and future results of operations.

Deferred tax assets amounted to ₱187 million and ₱190 million as at March 31, 2013 and December 31, 2012, respectively (see Note 18).

Pension Cost. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value in the consolidated balance sheets. Determining the fair value of financial assets and liabilities requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, 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 affect profit and loss and other comprehensive income.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 23.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations 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 claims.

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 dates of acquisitions and are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial instrument 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, is 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 categorized as at 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 balance sheet date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value based on 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. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial 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 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 included in the consolidated statements of income under the "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 hold 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 at 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 ₱596 million and ₱869 million as at March 31, 2013 and December 31, 2012, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱237 million and ₱244 million as at March 31, 2013 and December 31, 2012, respectively (see Note 23).

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. Loans and receivables are included in current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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.

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The aggregate carrying values of financial assets under this category amounted to ₱25,647 million and ₱16,408 million as at March 31, 2013 and December 31, 2012, respectively (see Note 23).

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 12 months from balance sheet date and as noncurrent assets if maturity date is more than 12 months from balance sheet date.

The Company has no financial assets under this category as at March 31, 2013 and December 31, 2012.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. They 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 unrealized gain or loss on AFS investments recognized as other comprehensive income 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. Assets under this category are classified as current assets if management intends to sell these financial assets within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's investments in corporate notes. The carrying values of financial assets classified under this category amounted to ₱1,000 million as at March 31, 2013 and December 31, 2012 (see Note 23).

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 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 the Company's 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). The aggregate carrying values of financial liabilities under this category amounted to ₱82,630 million and ₱74,311 million as at March 31, 2013 and December 31, 2012, respectively (see Note 23).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt 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 Issuance Costs
Debt issuance costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments and Hedge Accounting
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 23). 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.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly in the consolidated statements of income under "Others - net" account.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); or (2) cash flow hedges when hedging to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company 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 effectiveness of changes in the hedging instrument's fair value 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 the fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the consolidated statements of income. The change in the fair value of a hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statements of income under "Others - net" account (see note 23).

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in the consolidated statements of income. The changes in the fair value of the hedging instrument are also recognized the consolidated statements of income.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in the consolidated statements of comprehensive income under "Cumulative translation adjustment" account, while any ineffective portion is recognized immediately in the consolidated statements of income under "Other - net" account (see note 23).

Amounts taken to comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects the consolidated statements of income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in the other comprehensive income are transferred to the consolidated statements of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration 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 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 modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Company assesses at each balance sheet date 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. If there is objective evidence that an impairment loss on financial assets 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 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.

The Company first assesses whether objective evidence of impairment exists individually 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 a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of income under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Assets 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 a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Others - net" account.

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross in the consolidated balance sheets.

Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the combining 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.

In applying the pooling of interest method, the assets, liabilities and stockholders' 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 combinations had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the 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 stockholders' equity section of the consolidated balance sheets.

Acquisition of Non-controlling Interests

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

Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets are expenses paid in advance and recorded as assets before they are utilized.

Investment Properties
Investment properties represent land and land use rights, buildings, structures, equipment and improvements of the shopping malls and shopping mall complex under construction.

Investment properties, except land and shopping mall complex under construction, are measured initially at cost, including transaction costs, 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.

Shopping mall complex under construction is stated at cost and includes the cost of land, construction costs, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period, provided that the carrying amount does not exceed the amount realizable from the use or sale of the asset.

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

Land use rights	40-60 years
Buildings and improvements	35 years
Building equipment, furniture and others	3-15 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial year-end.

Shopping mall complex under construction is not depreciated until such time that the relevant assets are completed and put into operational use.

When each major inspection is performed, the cost is recognized in the carrying amount of the investment properties as a replacement, if the recognition criteria are met.

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 year of retirement or disposal.

Investment in Associate
Investment in associate is accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. 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. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Company's interest in an investment in associate 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 to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate 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 associate are prepared for the same reporting period as the Parent Company. The accounting policies of the associate conform to those used by the Company for like transactions and events in similar circumstances.

<u>Impairment of Nonfinancial Assets</u>
The carrying value of investment properties and other nonfinancial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value 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 investment properties and other nonfinancial assets 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 less costs to sell. 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 balance sheet date as to whether there is any indication that previously recognized impairment losses 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 profit or loss. After such a reversal, the depreciation and amortization charges are 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.

Capital Stock
Capital stock is measured at par value for all shares issued. When shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated earnings, net of dividends declared.

Treasury Stock
Own equity instruments which are acquired (treasury shares) are deducted from stockholders' 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 the Company's own equity instruments.

Revenue Recognition
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, excluding discounts and sales taxes. The following specific recognition criteria must also be met before revenue is recognized:

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

Cinema Ticket Sales, Amusement Income and Other Revenue. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Revenue is recognized when the right to receive the payment is established.

Management Fees
Management fees are recognized as expense in accordance with the terms of the management contracts.

Costs and Expenses
Operating and interest expenses are recognized as incurred.

Pension Cost
The Parent 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. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous balance sheet date, divided by the expected average remaining working lives of active plan members.

The amount recognized as net pension asset or liability is the net of the present value of the defined benefit obligation at balance sheet date, plus any actuarial gains (less any actuarial losses) not recognized minus past service cost not yet recognized minus the fair value of plan assets at balance sheet date out of which the obligations are to be settled directly.

Foreign Currency-denominated Transactions

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 balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign Currency Translations

The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at the balance sheet date 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 changes in stockholders' equity under "Cumulative translation adjustment" account. On disposal of a foreign entity, the deferred cumulative amount of exchange differences recognized in stockholders' equity relating to that particular foreign operation is recognized in profit or loss.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. 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 rent income. Contingent rents are recognized as revenue in the period in which they are earned.

Company as Lessee. 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.

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 generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying 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. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds used to finance the shopping mall complex.

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 at balance sheet date.

Deferred Tax. Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date 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 for those that are stated under the standard.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in stockholders' equity.

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.

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales 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 sales tax included.

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

Basic/Diluted Earnings Per Share (EPS)
Basic/diluted EPS is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year, with retroactive adjustments for any stock dividends declared.

Geographical Segment
The Company's business of shopping mall development and operations is organized and managed separately according to geographical areas where the Company operates, namely the Philippines and China. This is the basis upon which the Company reports its primary segment information presented in Note 5 to the consolidated financial statements.

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

5. Segment Information

For management purposes, operating segment is monitored through geographical location as the Company's risks and rates of return are affected predominantly by differences in economic and political environments where they operate. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

As at March 31, 2013, the Company owns forty-six (46) shopping malls in the Philippines and five shopping malls in China.

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 operating profit or loss in the consolidated financial statements.

Inter-segment Transactions
Transfer prices between geographical segments are set on an arm's length basis similar to transactions with related parties. Such transfers are eliminated in consolidation.

Geographical Segment Data

	2013			
	Philippines	**China**	**Eliminations**	**Consolidated**
		(In Thousands)		
Revenue	**₱7,143,279**	**₱686,869**	**₱–**	**₱7,830,148**
Segment results:				
Income before income tax	**₱3,515,441**	**₱265,669**	**₱–**	**₱3,781,110**
Provision for income tax	**797,060**	**94,222**	**–**	**891,282**
Net income	**₱2,718,381**	**₱171,447**	**₱–**	**₱2,889,828**
(Forward)				
Net income attributable to:				
Equity holders of the parent	**₱2,618,891**	**₱171,447**	**₱–**	**₱2,790,338**
Non-controlling interests	**99,490**	**–**	**–**	**99,490**
Segment profit	**₱3,958,480**	**₱267,246**	**₱–**	**₱4,225,726**
Segment assets	**₱145,647,541**	**₱28,614,538**	**(₱14,592,954)**	**₱159,669,125**
Segment liabilities	**₱79,051,230**	**₱21,407,551**	**(₱14,550,707)**	**₱85,908,074**
Other information:				
Depreciation and amortization	**₱970,663**	**₱142,374**	**₱–**	**₱1,113,037**
Capital expenditures	**2,523,358**	**738,183**	**–**	**3,261,541**

	2012			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱6,416,103	₱618,854	₱–	₱7,034,957
Segment results:				
Income before income tax	₱3,114,861	₱224,043	₱–	₱3,338,904
Provision for income tax	726,681	79,506	–	806,187
Net income	₱2,388,180	₱144,537	₱–	₱2,532,717
Net income attributable to:				
Equity holders of the parent	₱2,289,331	₱144,538	₱–	₱2,433,869
Non-controlling interests	98,848	–	–	98,848
Segment profit	₱3,560,052	₱233,214	₱–	₱3,793,266
Other information:				
Depreciation and amortization	₱845,347	₱120,121	₱–	₱965,468
Capital expenditures	3,990,731	348,154	–	4,338,885

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

6. Cash and Cash Equivalents

This account consists of:

	March 31, 2013	December 31, 2012
Cash on hand and in banks (see Note 20)	**₱1,200,593,357**	₱608,689,838
Temporary investments (see Note 20)	**17,867,397,635**	9,098,167,523
	₱19,067,990,992	₱9,706,857,361

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 ₱65 million and ₱96 million for the three months ended March 31, 2013 and 2012, respectively.

7. Short-term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱816 million and ₱821 million as at March 31, 2013 and December 31, 2012, 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.

Interest income earned from short-term investments amounted to ₱7 million for the three months ended March 31, 2013 and 2012.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱457 million and ₱759 million as at March 31, 2013 and December 31, 2012, respectively, with yields ranging from 4.90% to 8.64% in 2013 and 2012. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2014 to 2017.

Investments held for trading have mark-to-market loss amounting to ₱1 million for the three months ended March 31, 2013 and 2012, the amounts of which are included under "Others - net" account in the consolidated statements of income. Cumulative unrealized mark-to-market gain amounted to ₱23 million and ₱25 million as at March 31, 2013 and December 31, 2012, respectively.

Interest income earned from investments held for trading amounted to ₱10 million and ₱11 million for the three months ended March 31, 2013 and 2012, respectively.

9. Receivables

This account consists of:

	March 31, 2013	December 31, 2012
Rent:		
Third parties	**₱2,071,737,635**	₱2,259,198,897
Related parties (see Note 20)	**1,636,728,613**	1,885,424,402
Advances to suppliers	**672,205,375**	636,116,922
Advances to related parties (see Note 20)	**531,152,457**	471,660,550
Receivable from a co-investor	**245,380,282**	246,078,722
Accrued interest (see Note 20)	**61,645,969**	47,123,072
Others	**544,368,081**	334,479,315
	₱5,763,218,412	₱5,880,081,880

Rent receivables generally have terms of 30-90 days.

Receivable 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 13).

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

The aging analysis of receivables follows:

	March 31, 2013	December 31, 2012
Neither past due nor impaired	**₱5,641,743,405**	₱5,803,169,481
Past due but not impaired:		
91-120 days	**61,142,349**	25,227,376
Over 120 days	**60,332,658**	51,685,023
	₱5,763,218,412	₱5,880,081,880

Receivables are assessed by the Company’s management as not impaired, good and collectible.

10. Available-for-Sale Investments

This account consists of investments in corporate notes issued by BDO amounting to ₱1,000 million as at March 31, 2013 and December 31, 2012 with fixed interest rate of 6.80% (see Note 20). Investments in corporate notes are intended to meet short-term cash requirements.

Interest income earned from AFS investments amounted to ₱17 million for the three months ended March 31, 2013 and 2012.

There were no movements in the net unrealized gain on AFS investments for the periods ended March 31, 2013 and December 31, 2012.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	March 31, 2013	December 31, 2012
Prepaid expenses	**₱842,689,899**	₱505,182,400
Input taxes	**279,017,621**	455,205,277
Advances to contractors (see Note 12)	**272,021,734**	294,261,122
Others	**172,401,469**	185,540,340
	₱1,566,130,723	₱1,440,189,139

Prepaid expenses mainly consist of prepayments for insurance and real property taxes.

12. Investment Properties

This account consists of:

	March 31, 2013				
	Land and Land Use Rights	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Shopping Mall Complex Under Construction**	**Total**
Cost					
Balance at beginning of period	**₱26,323,231,387**	**₱92,842,697,696**	**₱20,813,411,298**	**₱15,245,333,081**	**₱155,224,673,462**
Additions	**192,368,995**	**181,156,490**	**156,033,121**	**2,580,163,164**	**3,109,721,770**
Transfers/Reclassifications	**–**	**863,982,917**	**(696,883,293)**	**(167,099,624)**	**–**
Translation adjustments	**(8,741,244)**	**(42,865,251)**	**(5,131,949)**	**(14,749,676)**	**(71,488,120)**
Balance at end of period	**26,506,859,138**	**93,844,971,852**	**20,267,429,177**	**17,643,646,945**	**158,262,907,112**
Accumulated Depreciation and Amortization					
Balance at beginning of period	**483,922,654**	**20,207,557,966**	**10,445,753,044**	**–**	**31,137,233,664**
Depreciation and amortization	**16,085,948**	**692,407,935**	**404,543,532**	**–**	**1,113,037,415**
Translation adjustments	**(622,403)**	**(1,682,360)**	**(1,896,070)**	**–**	**(4,200,833)**
Balance at end of period	**499,386,199**	**20,898,283,541**	**10,848,400,506**	**–**	**32,246,070,246**
Net Book Value	**₱26,007,472,939**	**₱72,946,688,311**	**₱9,419,028,671**	**₱17,643,646,945**	**₱126,016,836,866**

	December 31, 2012				
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
Cost					
Balance at beginning of period	₱22,402,878,158	₱80,235,045,499	₱16,950,695,663	₱15,546,814,568	₱135,135,433,888
Additions	3,821,792,513	5,526,303,910	2,672,922,112	9,131,389,005	21,152,407,540
Transfers	258,453,905	7,692,439,017	1,261,365,355	(9,212,258,277)	–
Translation adjustments	(159,893,189)	(611,090,730)	(71,571,832)	(220,612,215)	(1,063,167,966)
Balance at end of period	26,323,231,387	92,842,697,696	20,813,411,298	15,245,333,081	155,224,673,462
Accumulated Depreciation and Amortization					
Balance at beginning of period	437,595,529	17,718,731,839	9,142,890,393	–	27,299,217,761
Depreciation and amortization	56,559,550	2,565,080,499	1,334,001,550	–	3,955,641,599
Translation adjustments	(10,232,425)	(76,254,372)	(31,138,899)	–	(117,625,696)
Balance at end of period	483,922,654	20,207,557,966	10,445,753,044	–	31,137,233,664
Net Book Value	₱25,839,308,733	₱72,635,139,730	₱10,367,658,254	₱15,245,333,081	₱124,087,439,798

Included under "Land" account are the 212,119 square meters of real estate properties with a carrying value of ₱445 million and ₱447 million as at March 31, 2013 and December 31, 2012, 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 Mega Make and Affluent 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 Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties - net" 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 ₱4,217 million and ₱4,852 million as at March 31, 2013 and December 31, 2012, respectively, and estimated fair value of ₱10,843 million and ₱10,874 million as at March 31, 2013 and December 31, 2012, respectively, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

Rent income from investment properties amounted to ₱6,733 million and ₱6,031 million for the three months ended March 31, 2013 and 2012, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱3,604 million and ₱3,242 million for the three months ended March 31, 2013 and 2012, respectively.

The fair value of investment properties amounted to ₱218,071 million as at July 31, 2010 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	11.75%
Capitalization rate	8.00%
Average growth rate	6.00%

While fair value of the investment properties was not determined as at March 31, 2013, the Company's management believes that there were no conditions present in 2013 and 2012 that would significantly reduce the fair value of the investment properties from that determined in 2010.

The Company's management believes that the carrying values of the newly opened malls after the date of the valuation approximate their fair values.

In 2013, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF Parañaque, SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Sta. Rosa, SM City Clark, SM City Dasmariñas, SM City Lipa, SM Megamall and SM Mall of Asia.

In 2012, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Aura Premier, SM City BF Parañaque, SM Seaside City Cebu, SM Tianjin and SM Zibo, and the ongoing expansions and renovations of SM City Bacolod, SM City Clark, SM City Dasmariñas, SM City Sta. Rosa and SM Megamall.

Shopping mall complex under construction includes cost of land amounting to ₱1,630 million and ₱1,615 million as at March 31, 2013 and December 31, 2012, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱48,177 million and ₱53,965 million as at March 31, 2013 and December 31, 2012, 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 ₱12,104 million and ₱14,393 million as at March 31, 2013 and December 31, 2012, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱9 million and ₱114 million as at March 31, 2013 and December 31, 2012, respectively. Capitalization rates used were 5.99% and 6.13% as at March 31, 2013 and December 31, 2012, respectively.

13. Other Noncurrent Assets

This account consists of:

	March 31, 2013	December 31, 2012
Bonds and deposits	**₱2,987,632,250**	₱2,519,247,536
Investment in associate	**251,343,795**	252,059,209
Others	**1,417,047,152**	1,363,276,073
	₱4,656,023,197	₱4,134,582,818

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.

On April 10, 2012, 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. FHREC was incorporated in China. TRC is a wholly owned subsidiary of SM Land China.

As at March 31, 2013, TRC owns 50% equity interest in FHREC. Management assessed that the Company lost control over FHREC by virtue of agreement with the shareholders of THL. Consequently, FHREC became an associate of the Company. 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.

As at March 31, 2013, the aggregated assets and liabilities of FHREC amounted to ₱1,256 million and ₱562 million, respectively.

14. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from a bank amounting to ₱800 million as at March 31, 2013 and December 31, 2012. These loans will mature in October 2013 with interest rate of 3.25% in 2013 and 3.75% in 2012.

Interest expense incurred from loans payable amounted to ₱7 million for the three months ended March 31, 2013.

15. Accounts Payable and Other Current Liabilities

This account consists of:

	March 31, 2013	December 31, 2012
Trade	**₱4,246,903,294**	₱5,863,568,314
Accrued utilities expense	**1,654,958,075**	830,320,247
Accrued operating expenses:		
Third parties	**2,875,747,386**	2,121,692,671
Related parties (see Note 20)	**109,422,102**	121,321,472
Liability for purchased land	**1,341,720,408**	1,313,471,783
Taxes payable	**211,887,019**	316,453,310
Accrued interest (see Notes 16 and 20)	**378,870,029**	312,103,146
Others	**560,115,918**	519,589,895
	₱11,379,624,231	₱11,398,520,838

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

Accrued operating expenses mainly pertain to accrued administrative expenses such as security and janitorial, accrued management fees and rent payables which are normally settled throughout the financial year.

Liability for purchased land, taxes, accrued interest and other payables are expected to be settled throughout the financial year.

16. Long-term Debt

This account consists of:

	March 31, 2013	December 31, 2012
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱10,844,329,048**	₱10,896,961,563
Five-year term syndicated loans	**7,959,673,978**	–
Five-year, three-year and two-year bilateral loans	**1,016,465,569**	1,021,242,099
Other U.S. dollar loans	**3,420,617,730**	2,438,112,216
(Forward)		

	March 31, 2013	December 31, 2012
Philippine peso-denominated loans:		
Five-year and ten-year fixed and floating rate notes	**7,395,512,561**	7,442,919,136
Five-year, seven-year and ten-year corporate notes	**6,631,441,639**	6,823,838,758
Five-year, seven-year and ten-year fixed and floating rate notes	**4,917,485,262**	4,966,460,223
Five-year floating rate notes	**4,873,048,801**	4,920,827,931
Five-year and ten-year corporate notes	**1,092,376,167**	1,092,151,201
Five-year, seven-year and ten-year fixed rate notes	**795,504,488**	795,341,665
Other bank loans	**7,061,947,547**	7,159,490,419
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**1,734,427,200**	1,871,134,000
Three-year loan	**984,852,153**	1,111,112,318
Five-year loan	**400,100,820**	401,239,650
Philippine peso-denominated loans -		
Five-year bilateral loan	**498,102,398**	497,991,424
	59,625,885,361	51,438,822,603
Less current portion	**2,611,101,353**	1,791,703,848
	₱57,014,784,008	₱49,647,118,755

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$270 million and US$145 unsecured loan obtained as at December 31, 2012 and 2011, respectively, 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 22 and 23).

U.S. Dollar-denominated Five-Year Syndicated Loan
This represents a US$200 million unsecured loan obtained on January 29, 2013. The loan bears an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on January 29, 2018 (see Notes 22 and 23).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
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. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2010 (see Notes 22 and 23). The remaining balance of US$25 million will mature on November 20, 2013.

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

- US$10 million and US$25 million, out of US$50 million five-year bilateral unsecured loan, obtained on December 7, 2012 and January 15, 2013, respectively. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on August 30, 2017 (see Note 22).

- US$30 million and a 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 22 and 23).

- 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 22 and 23).

Philippine Peso-denominated Five-Year and Ten-Year Floating and Fixed Rate Notes
This represents a 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 (see Note 22).

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 (see Note 22).

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 (see Note 22).

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 22).

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 10.1% 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 22).

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 and ₱1,200 were prepaid on June 17, 2011 and 2012, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱5 million and ₱4 million in 2012 and 2011, respectively (see Notes 22 and 23).

Other Bank Loans
This account consists of the following:

- 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 22).

- 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 ₱100 million on March 25, 2013, the related balance of unamortized debt issuance cost charged to expense amounted to ₱0.8 million June 23, 2015 (see Notes 22 and 23).

- 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 22).

- 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 22).

- Five-year bullet loans 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 22).

- 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 22).

All the above Philippine peso-denominated loans of the Parent Company are unsecured.

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This represents 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 2013 and 2012 (see Note 22).

China Yuan Renminbi-denominated Three-Year Loan
This represents a three-year loan obtained on March 28, 2011 amounting to ¥187 million to finance the construction of shopping malls. Partial drawdown totaling ¥169 million was made as at December 31, 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears interest rate of 6.20% in 2013 and 2012, respectively (see Note 22).

China Yuan Renminbi-denominated Five-Year Loan
This represents 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, 2012. 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 2013 and 2012 (see Note 22).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual re-pricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.35% in 2012 and 2011 (see Note 22).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 12).

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

- Five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱16 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

- 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 22).

All the above Philippine peso-denominated loans of the subsidiaries are unsecured.

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

The loan agreements 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, 2013 and December 31, 2012, the Company is in compliance with the terms of its loan covenants.

Debt Issuance Costs
The movements in unamortized debt issuance costs are as follows:

	March 31, 2013	December 31, 2012
Balance at beginning of period	**₱407,413,365**	₱457,844,346
Additions	**230,315,373**	112,637,407
Amortization	**(36,193,926)**	(163,068,388)
Balance at end of period	**₱601,534,812**	₱407,413,365

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

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

Year	Amount
2013	₱1,425,982,514
2014	5,716,256,839
2015	11,244,680,820
2016	17,648,500,000
2017	6,606,900,000
2018 to 2022	17,585,100,000
	₱60,227,420,173

17. Stockholders' Equity

Capital Stock
The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The movements of the capital stock of the Company are as follows:

	March 31, 2013	December 31, 2012
Number of shares at beginning of period	**17,392,534,760**	13,917,800,067
Issuance during the year through stock dividends	**–**	3,474,734,693
Number of shares at end of period	**17,392,534,760**	17,392,534,760

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

The following summarizes the information on the Company'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

The Company declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,479 and 2,493 as at March 31, 2013 and December 31, 2012, respectively.

Additional Paid-in Capital

On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired additional 24,376,743 FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such non-controlling interests amounting to ₱3,384 million is accounted for as an equity transaction. Accordingly, the carrying amounts of SMPH's investment and the share of non-controlling interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

International Placement of Shares

On October 14, 2010, the Parent Company has undergone an international placement of its shares to raise capital to finance strategic expansion programs in the Philippines and in China as well as for general working capital.

In connection with the international placement of its shares, the Parent Company engaged into a Placement Agreement with SM Land (the Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners") on October 14, 2010. As stated in the Placement Agreement, SM Land shall sell its 570 million SMPH Common Shares (the "Sale Shares") with a par value of ₱1 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

Contemporaneous with the signing of the Placement Agreement, the Parent Company likewise entered into a Subscription Agreement with SM Land. As stated in the Subscription Agreement, SM Land will not directly receive any proceeds from the International Placement, but instead SM Land has conditionally agreed to subscribe for, and the Parent Company has conditionally agreed to issue, out of its authorized but unissued capital stock, new SMPH common shares in an amount equal to the aggregate number of the Sale Shares sold by SM Land in the International Placement at a subscription price of ₱11.50 per share, which is equal to the Offer Price of the Sale Shares.

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 570 million SMPH common shares. Likewise, SM Land subscribed for and the Parent Company issued to SM Land the same number of new SMPH common shares. The proceeds of ₱6,414 million, net of transaction costs capitalized, add up to the capital of the Parent Company.

Cumulative Translation Adjustment
The tax effects relating to each component of other comprehensive income are as follows:

	March 31, 2013	March 31, 2012
Net fair value gains (losses) on cash flow hedges	**(₱21,749,859)**	(₱104,268,826)
Foreign currency differences of subsidiaries	**(6,771,761)**	–
Number of shares at end of period	**(₱28,521,620)**	(₱104,268,826)

Retained Earnings
On April 24, 2012 and March 22, 2002, the BOD 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, 2013 and December 31, 2012, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱27,000 million.

As at March 31, 2013, included in shopping mall complex under construction are SM Aura Premier, SM City BF Parañaque, SM Seaside City Cebu, SM City Cauayan, SM Tianjin and SM Zibo and the ongoing expansions and renovations of SM City Bacolod, SM City Sta. Rosa, SM City Clark, SM City Dasmariñas, SM City Lipa, SM Megamall and SM Mall of Asia.

Over the next three years, the Company expects to incur ₱88,000 million for its capital expenditures in the Philippines and China.

The retained earnings account is restricted for the payment of dividends to the extent of ₱8,642 million and ₱7,895 million as at March 31, 2013 and December 31, 2012, respectively, representing the cost of shares held in treasury (₱101 million as at March 31, 2013 and December 31, 2012) and accumulated equity in net earnings of the subsidiaries totaling ₱8,541 million and ₱7,794 million as at March 31, 2013 and December 31, 2012, respectively. The accumulated equity in net earnings of the subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

Treasury Stock
Treasury stock, totaling 18,857,000 shares, is stated at acquisition cost.

18. Income Tax

The components of deferred tax assets and liabilities are as follows:

	March 31, 2013	December 31, 2012
Deferred tax assets -		
Unrealized foreign exchange losses and others	**₱187,135,958**	₱190,463,028
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,265,932,906**	₱1,278,194,418

On November 26, 2008, the Bureau of Internal Revenue issued Revenue Regulations No. 16-2008 which implemented the provisions of Republic Act No. 9504 on optional standard deduction (OSD). This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the three months ended March 31, 2013 and 2012, the Company, opted to use OSD in computing their taxable income.

The reconciliation of statutory tax rate to effective tax rates are as follows:

	2013	2012
Statutory tax rate	**30.0%**	30.0%
Income tax effects of:		
Interest income subjected to final tax and dividend income exempt from income tax	**(0.8)**	(1.2)
Change in enacted tax rates and others	**(5.6)**	(4.7)
Effective tax rates	**23.6%**	24.1%

19. **Pension Cost**

The Company is a participant in SM Corporate Management Companies Employer Retirement Plan (the Retirement Plan) covering all regular full-time employees. The Retirement Plan is in the form of a trust administered by a trustee bank.

The following tables summarize the components of the Company's pension plan as at March 31, 2013 and December 31, 2012:

Net Pension Cost

	2013	2012
Current service cost	**₱2,009,905**	₱7,242,901
Net interest on net defined benefit liability	**105,116**	387,728
Net pension cost	**₱2,115,021**	₱7,630,629
Actual return on plan assets	**₱3,518,558**	₱11,817,977

Net Pension Asset

	2013	2012
Defined benefit obligation	**₱147,322,136**	₱133,914,030
Fair value of plan assets	**(104,228,496)**	(97,021,049)
Net pension asset	**₱43,093,640**	₱36,892,981

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

	2013	2012
Balance at beginning of year	**₱133,914,030**	₱83,590,852
Current service cost	**2,009,905**	7,242,901
Interest cost on benefit obligation	**2,045,537**	5,893,155
Benefits paid	**–**	(223,533)
Actuarial loss - changes in actuarial assumptions	**9,972,437**	39,889,748
Actuarial gain - experience	**(619,773)**	(2,479,093)
Balance at end of year	**₱147,322,136**	₱133,914,030

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

	2013	2012
Balance at beginning of year	**₱97,021,049**	₱70,979,267
Interest income	**1,940,421**	5,505,427
Benefits paid	**–**	(223,533)
Contributions	**3,688,888**	14,447,338
Remeasurement gain	**1,578,138**	6,312,550
Balance at end of year	**₱104,228,496**	₱97,021,049

The Company expects to contribute ₱15 million to its defined benefit pension plan in 2013.

The carrying amounts and fair values of the plan assets as at December 31, 2012 are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	₱5,903,287	₱5,903,287
Investments in:		
Debt and other securities	10,670,837	10,670,837
Common trust funds	38,332,750	38,332,750
Equity securities	3,193,021	3,193,021
Government securities	38,181,958	38,181,958
Other financial assets	739,196	739,196
	₱97,021,049	₱97,021,049

The plan assets consist of the following:

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in debt and other securities consists of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 5.45% 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 2013 to 2037; and
- Other financial assets include accrued interest income on cash deposits and debt securities held by the Retirement Plan.

As at and for the year ended December 31, 2012, the following table summarizes the outstanding balances and transactions of the Retirement Plan with BDO, an affiliate:

	Amount
Cash and cash equivalents	₱5,903,287
Interest income on cash and cash equivalents	83,291
Investments in common trust funds	38,332,750
Gains from investments in common trust funds	8,555,366

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

	2013	2012
Discount rate	**6.1%**	6.1%
Expected rate of return on plan assets	**6.0%**	6.0%
Future salary increases	**11.0%**	11.0%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period within which the obligation is to be settled.

The amounts for the period ended March 31, 2013 and previous three years ended December 31, 2012, 2011 and 2010 are as follows:

	2013	2012	2011	2010
Defined benefit obligation	**₱147,322,136**	₱133,914,030	₱83,590,852	₱54,108,736
Plan assets	**104,228,496**	97,021,049	70,979,267	54,135,272
Deficit (excess plan assets)	**43,093,640**	36,892,981	12,611,585	(26,536)
Experience adjustments on plan liabilities	**(619,773)**	(2,479,093)	18,221,688	(5,496,062)
Experience adjustment on plan assets	**1,578,138**	6,312,550	142,650	4,272,897

20. Related Party Transactions

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

The significant related party transactions entered into by the Company with its ultimate parent company and affiliates and the amounts included in the consolidated financial statements with respect to such transactions follow:

Related Party	**Relationship**	**Year**	**Rent Income** (see Note 21)	**Rent Receivables** (see Note 9)	**Rent Expense** (see Note 21)	**Rent Payables** (see Note 15)	**Management Fees**	**Accrued Management Fees** (see Note 15)	**Advances Made During the Period**	**Advances to Related Parties** (see Note 9)	**Interest Income**	**Accrued Interest Receivable** (see Note 9)	**Interest Expense**	**Accrued Interest Payables** (see Note 15)	**Cash and Cash Equivalents** (see Note 6)	**Short-term Investments** (see Note 7)	**Investments Held for Trading** (see Note 8)	**AFS Investments** (see Note 10)	**Long-term Debt** (see Note 16)
									(In Thousands)										
SMIC	Parent	**2013**	**₱–**	**₱–**	**₱12,364**	**₱4,557**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,339**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2012	–	–	11,512	4,579	–	–	–	–	4,623	7,294	14,663	12,382	–	–	299,957	–	697,900
SM Retail Group and SM Banking Group	Affiliates	**2013**	**2,142,429**	**1,626,531**	**–**	**–**	**–**	**–**	**–**	**–**	**75,571**	**52,784**	**–**	**–**	**14,488,502**	**816,000**	**–**	**1,000,000**	**–**
		2012	1,892,987	1,885,424	–	–	–	–	–	–	108,492	26,386	–	–	5,258,955	821,000	–	1,000,000	–
SM Land	Affiliate	**2013**	**–**	**–**	**52,012**	**12,208**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2012	–	–	46,613	16,847	–	–	–	–	–	–	–	–	–	–	–	–	–
SM Management Group	Affiliates	**2013**	**–**	**–**	**–**	**–**	**227,906**	**92,657**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2012	–	–	–	–	218,023	99,895	–	–	–	–	–	–	–	–	–	–	–
SM Laiya/FHREC	Affiliates	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**60,831**	**531,152**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2012	–	–	–	–	–	–	471,661	471,661	–	–	–	–	–	–	–	–	–
		2013	**₱2,142,429**	**₱1,626,531**	**₱64,376**	**₱16,765**	**₱227,906**	**₱92,657**	**₱60,831**	**₱531,152**	**₱78,910**	**₱52,784**	**₱–**	**₱–**	**₱14,488,502**	**₱816,000**	**₱–**	**₱1,000,000**	**₱–**
		2012	1,892,987	1,885,424	58,125	21,426	218,023	99,895	471,661	471,661	113,115	33,680	14,663	12,382	5,258,955	821,000	299,957	1,000,000	697,900

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.

The above transactions with related parties are made at terms equivalent to those that prevail in arm’s length transactions. As at March 31, 2013 and December 31, 2012, outstanding balances at year-end are unsecured, noninterest-bearing, generally settled within 30 to 90 days and settlement occurs in cash except cash and cash equivalents, short-term investments, investments held for trading, AFS investments and long-term debt. For the terms and conditions of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and long-term debt, please refer to Notes 6, 7, 8, 10 and 16, respectively.

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the three months ended March 31, 2013 and 2012, 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.

Below are the nature of the transactions with related parties:

SMIC
The Company leases land and maintains certain investments held for trading and long-term debt. The lease of land is for a period of 50 years, renewable upon mutual agreement of the parties. The Company pays a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher.

SM Retail Group and SM Banking Group
The Company leases out its mall spaces and maintains certain bank accounts, short-term investments, investments held for trading and AFS investments.

SM Land
The Company leases land where one of its malls is located for a period of 50 years, renewable upon mutual agreement of the parties. The Company pays a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher.

SM Management Group
The Company pays management fees to its affiliates, Shopping Center Management Corporation, West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls.

SM China Companies
In 2012, SM City Xiamen entered into an offshore loan agreement with SM Laiya (SM Department Store in China). The loan is unsecured and bears an interest rate of 5.6%. As of March 31, 2013, interest amounting to ₱2.7 million was collected. Also, SM China Companies provide noninterest-bearing cash advances to FHREC, an associate.

The SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 158,727 square meters, 19,952 square meters and 33,440 square meters, respectively, as at March 31, 2013 and December 31, 2012. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.

Key Management Compensation
The total compensation paid to key management personnel of the Company amounted to ₱10 million and ₱8 million for the three months ended March 31, 2013 and 2012, respectively. No special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

21. Lease Agreements

The Company’s lease agreements with its 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 with reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Rent income amounted to ₱6,733 million and ₱6,031 million for the three months ended March 31, 2013 and 2012, respectively.

The Company also leases certain parcels of land where some of its 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. Rent payments are generally computed based on a certain percentage of the Company's gross rent income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases as at March 31, 2013 and December 31. 2012 are as follows:

	March 31, 2013	December 31, 2012
Within one year	**₱532,091,819**	₱530,659,607
After one year but not more than five years	**2,267,131,512**	2,252,319,501
After five years	**26,548,199,613**	26,707,806,776
	₱29,347,422,944	₱29,490,785,884

Rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱222 million and ₱163 million for the three months ended March 31, 2013 and 2012, respectively.

22. **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 various other financial assets and liabilities such as rent receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 23).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's BOD and management review and agree on the policies for managing each of these risks as summarized below.

<u>Interest Rate Risk</u>
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 interest rate risk are disclosed in Notes 6, 8, 10 and 16.

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, the Company 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, 2013 and December 31, 2012, after taking into account the effect of interest rate swaps, approximately 52% and 45%, respectively, of the Company's long-term borrowings excluding China yuan renminbi-denominated loans, are at a fixed rate of interest (see Note 23).

Interest Rate Risk Table

The Company’s long-term debt, presented by maturity profile, are as follows:

March 31, 2013

	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	**₱18,000,000**	**₱18,000,000**	**₱968,000,000**	**₱8,000,000**	**₱8,000,000**	**₱1,844,000,000**	**₱2,864,000,000**	**(₱16,926,222)**	**₱2,847,073,778**
Interest rate	**5.79%–6.65%**	**5.79%–6.65%**	**5.79%–6.65%**	**6.65%**	**6.65%**	**6.65%–10.11%**			
Philippine peso-denominated fixed rate notes	**₱78,000,000**	**₱30,000,000**	**₱78,000,000**	**₱78,000,000**	**₱1,656,900,000**	**₱6,631,100,000**	**8,552,000,000**	**(57,867,886)**	**8,494,132,114**
Interest rate	**5.86%-6.81%**	**6.22%-6.81%**	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-6.81%**	**5.86%-9.85%**			
Other bank loans	**₱–**	**₱–**	**₱–**	**₱1,200,000,000**	**₱–**	**₱–**	**1,200,000,000**	**(4,884,629)**	**1,195,115,371**
Interest rate				**9.75%**					
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$–**	**$270,000,000**	**$–**	**$–**	**11,016,000,000**	**(171,670,952)**	**10,844,329,048**
Interest rate				**LIBOR+spread**					
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$–**	**$–**	**$–**	**$200,000,000**	**8,160,000,000**	**(200,326,022)**	**7,959,673,978**
Interest rate						**LIBOR+spread**			
U.S. dollar-denominated bilateral loans	**$25,000,000**	**$–**	**$–**	**$–**	**$–**	**$–**	**1,020,000,000**	**(3,534,431)**	**1,016,465,569**
Interest rate	**LIBOR+spread**								
Other U.S. dollar loans	**$–**	**$–**	**$50,000,000**	**$–**	**$35,000,000**	**$–**	**3,468,000,000**	**(47,382,270)**	**3,420,617,730**
Interest rate			**LIBOR+spread**		**LIBOR+spread**				
Philippine peso-denominated corporate notes	**₱50,000,000**	**₱50,000,000**	**₱4,800,000,000**	**₱–**	**₱–**	**₱–**	**4,900,000,000**	**(23,255,972)**	**4,876,744,028**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
Philippine peso-denominated floating rate notes	**₱96,500,000**	**₱44,500,000**	**₱96,500,000**	**₱4,846,500,000**	**₱3,514,000,000**	**₱950,000,000**	**9,548,000,000**	**(60,581,003)**	**9,487,418,997**
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	**₱–**	**₱–**	**₱–**	**₱500,000,000**	**₱–**	**₱–**	**500,000,000**	**(1,897,602)**	**498,102,398**
Interest rate				**PDST-F+margin%**					
Other bank loans	**₱8,980,000**	**₱3,008,980,000**	**₱2,862,080,000**	**₱–**	**₱–**	**₱–**	**5,880,040,000**	**(13,207,823)**	**5,866,832,177**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
China yuan renminbi-denominated loans	**¥203,905,956**	**¥210,000,000**	**¥60,900,000**	**¥–**	**¥–**	**¥–**	**3,119,380,173**	**–**	**3,119,380,173**
Interest rate	**5.76%–6.20%**	**5.76%–6.20%**	**5.76%**						
							₱60,227,420,173	**(₱601,534,812)**	**₱59,625,885,361**

December 31, 2012

	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	₱20,000,000	₱20,000,000	₱1,097,300,000	₱8,660,000	₱57,485,000	₱1,856,555,000	₱3,060,000,000	(₱18,180,582)	₱3,041,819,418
Interest rate	5.79%–6.65%	5.79%–6.65%	5.79%–6.65%	5.79%–6.65%	5.89%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱78,500,000	₱78,500,000	₱78,500,000	₱78,500,000	₱1,685,900,000	₱6,650,100,000	8,650,000,000	(60,069,406)	8,589,930,594
Interest rate	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-6.81%	5.86%-9.85%			
Other bank loans	₱–	₱–	₱–	₱1,200,000,000	₱–	₱–	1,200,000,000	(5,187,300)	1,194,812,700
Interest rate				9.75%					
Floating Rate									
U.S. dollar-denominated five-year term loans	$–	$–	$–	$270,000,000	$–	$–	11,083,500,000	(186,538,437)	10,896,961,563
Interest rate				LIBOR+spread					
U.S. dollar-denominated bilateral loans	$25,000,000	$–	$–	$–	$–	$–	1,026,250,000	(5,007,901)	1,021,242,099
Interest rate	LIBOR+spread								
Other U.S. dollar loans	$–	$–	$50,000,000	$–	$10,000,000	$–	2,463,000,000	(24,887,784)	2,438,112,216
Interest rate			LIBOR+spread		LIBOR+spread				
Philippine peso-denominated corporate notes	₱50,000,000	₱50,000,000	₱4,800,000,000	₱–	₱–	₱–	4,900,000,000	(25,829,459)	4,874,170,541
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
Philippine peso-denominated floating rate notes	₱96,500,000	₱96,500,000	₱96,500,000	₱4,846,500,000	₱3,514,000,000	₱950,000,000	9,600,000,000	(64,381,639)	9,535,618,361
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	₱–	₱–	₱–	₱500,000,000	₱–	₱–	500,000,000	(2,008,576)	497,991,424
Interest rate				PDST-F+margin%					
Other bank loans	₱10,000,000	₱3,010,000,000	₱2,960,000,000	₱–	₱–	₱–	5,980,000,000	(15,322,281)	5,964,677,719
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
China yuan renminbi-denominated loans	¥77,476,000	¥375,168,446	¥60,900,000	¥–	¥–	¥–	3,383,485,968	–	3,383,485,968
Interest rate	5.76%–6.20%	5.76%–6.20%	5.76%						
							₱51,846,235,968	(₱407,413,365)	₱51,438,822,603

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 stockholders' equity, due to changes in fair value of AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2013	**100**	(₱67,826,972)
	50	(33,913,486)
	(100)	67,826,972
	(50)	33,913,486
2012	100	(₱41,005,451)
	50	(20,502,725)
	(100)	41,005,451
	(50)	20,502,725

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 the 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. To manage its foreign currency 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 flows (see Note 23).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱15,315 million (US$375 million) and ₱15,741 million (US$386 million), respectively, as at March 31, 2013, and ₱14,581 million (US$355 million) and ₱14,909 million (US$363 million), respectively, as at December 31, 2012.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱40.80 to US$1.00 and ₱41.05 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at March 31, 2013 and December 31, 2012, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in ₱/US$ 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 stockholders' equity.

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2013	**₱1.50**	**₱3,914,137**
	1.00	**2,609,425**
	(1.50)	**(3,914,137)**
	(1.00)	**(2,609,425)**

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2012	₱1.50	₱43,424,277
	1.00	28,949,518
	(1.50)	(43,424,277)
	(1.00)	(28,949,518)

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, 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 the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 23.

Since the Company trades only with recognized third parties, there is no requirement for collateral.

Credit Quality of Financial Assets

The credit quality of financial assets is determined by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to financial assets with counterparties who are 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.

The credit quality of the Company's financial assets is as follows:

	March 31, 2013			
	Neither Past Due nor Impaired		**Past Due but not Impaired**	
	High Quality	**Standard Quality**		**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱18,948,475,987**	**₱–**	**₱–**	**₱18,948,475,987**
Short-term investments	**816,000,000**	**–**	**–**	**816,000,000**
Receivables from:				
Rent	**–**	**3,586,991,241**	**121,475,007**	**3,708,466,248**
Accrued interest	**61,645,969**	**–**	**–**	**61,645,969**
Advances to suppliers and others	**–**	**1,993,106,195**	**–**	**1,993,106,195**
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	**457,335,307**	**–**	**–**	**457,335,307**
Derivative assets	**138,453,670**	**–**	**–**	**138,453,670**
AFS Investments				
Corporate notes	**1,000,000,000**	**–**	**–**	**1,000,000,000**
	₱21,421,910,933	**₱5,580,097,436**	**₱121,475,007**	**₱27,123,483,376**

** Excluding cash on hand amounting to ₱120 million.*

	December 31, 2012			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱9,663,575,278	₱–	₱–	₱9,663,575,278
Short-term investments	821,000,000	–	–	821,000,000
Receivables from:				
Rent	–	4,067,710,900	76,912,399	4,144,623,299
Accrued interest	47,123,072	–	–	47,123,072
Advances to suppliers and others	–	1,688,335,509	–	1,688,335,509
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	759,300,343	–	–	759,300,343
Derivative assets	109,978,821	–	–	109,978,821
AFS Investments				
Corporate notes	1,000,000,000	–	–	1,000,000,000
	₱12,400,977,514	₱5,756,046,409	₱76,912,399	₱18,233,936,322

** Excluding cash on hand amounting to ₱43 million.*

Liquidity Risk

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through evaluation of projected and actual cash flow information. 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's financial assets, which have maturity of less than 12 months and used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to ₱19,068 million, ₱816 million and ₱457 million, respectively, as at March 31, 2013, and ₱9,707 million, ₱821 million and ₱759 million, respectively, as at December 31, 2012. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,000 million as at March 31, 2013 and December 31, 2012.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	March 31, 2013			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Loans payable	**₱800,000,000**	**₱–**	**₱–**	**₱800,000,000**
Accounts payable and other current liabilities*	**11,167,737,213**	**–**	**–**	**11,167,737,213**
Long-term debt (including current portion)	**3,249,634,073**	**47,430,834,292**	**19,404,139,646**	**70,084,608,011**
Derivative liabilities - interest rate swaps	**–**	**236,996,850**	**–**	**236,996,850**
Tenants' deposits	**–**	**8,555,929,087**	**–**	**8,555,929,087**
Liability for purchased land	**–**	**1,041,570,404**	**–**	**1,041,570,404**
Other noncurrent liabilities*	**–**	**1,439,390,067**	**–**	**1,439,390,067**
	₱15,217,371,286	**₱58,704,720,700**	**₱0**	**₱93,326,231,632**

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱212 million and ₱439 million, respectively.*

	December 31, 2012			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱800,000,000	₱–	₱–	₱800,000,000
Accounts payable and other current liabilities*	11,082,067,528	–	–	11,082,067,528
Long-term debt (including current portion)	3,565,265,400	46,540,835,301	11,485,043,650	61,591,144,351
Derivative liabilities - interest rate swaps	17,428,372	51,987,472	14,046,843	83,462,687
Tenants' deposits	–	8,386,248,204	–	8,386,248,204
Liability for purchased land	–	1,214,756,670	–	1,214,756,670
Other noncurrent liabilities*	–	1,389,211,697	–	1,389,211,697
	₱15,464,761,300	₱57,583,039,344	₱11,499,090,493	₱84,546,891,137

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱316 million and ₱447 million, respectively.*

Capital Management

Capital includes equity attributable to equity holders 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, payoff 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 AFS investments.

As at March 31, 2013 and December 31, 2012, the Company's gearing ratios are as follows:

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

	March 31, 2013	December 31, 2012
Loans payable	**₱800,000,000**	₱800,000,000
Current portion of long-term debt	**2,611,101,353**	1,791,703,848
Long-term debt - net of current portion	**57,014,784,008**	49,647,118,755
Total interest-bearing debt (a)	**60,425,885,361**	52,238,822,603
Total equity attributable to equity holders of the parent	**72,706,225,932**	69,944,410,317
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱133,132,111,293**	₱122,183,232,920
Gearing ratio (a/b)	**45%**	43%

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

	March 31, 2013	December 31, 2012
Loans payable	**₱800,000,000**	₱800,000,000
Current portion of long-term debt	**2,611,101,353**	1,791,703,848
Long-term debt - net of current portion	**57,014,784,008**	49,647,118,755
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(21,341,326,300)**	(12,287,157,704)
Total net interest-bearing debt (a)	**39,084,559,061**	39,951,664,899
Total equity attributable to equity holders of the parent	**72,706,225,932**	69,944,410,316
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱111,790,784,993**	₱109,896,075,215
Gearing ratio (a/b)	**35%**	36%

23. **Financial Instruments**

Carrying Values

The table below presents a comparison of the carrying amounts of the Company's financial instruments by category:

	March 31, 2013		December 31, 2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱19,067,990,992**	**₱19,067,990,992**	₱9,706,857,361	₱9,706,857,361
Short-term investments	**816,000,000**	**816,000,000**	821,000,000	821,000,000
Receivables from:				
Rent	**3,708,466,248**	**3,708,466,248**	4,144,623,299	4,144,623,299
Accrued interest	**61,645,969**	**61,645,969**	47,123,072	47,123,072
Advances to suppliers and others	**1,993,106,195**	**1,993,106,195**	1,688,335,509	1,688,335,509
	25,647,209,404	**25,647,209,404**	16,407,939,241	16,407,939,241
Financial assets at FVPL:				
Investments held for trading -				
Corporate and government bonds	**457,335,307**	**457,335,307**	759,300,343	759,300,343
Derivative assets	**138,453,670**	**138,453,670**	109,978,821	109,978,821
	595,788,977	**595,788,977**	869,279,164	869,279,164
AFS investments -				
Corporate notes	**1,000,000,000**	**1,000,000,000**	1,000,000,000	1,000,000,000
	₱27,242,998,381	**₱27,242,998,381**	₱18,277,218,405	₱18,277,218,405

	March 31, 2013		December 31, 2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱236,996,850**	**₱236,996,850**	₱244,330,399	₱244,330,399
Other financial liabilities:				
Loans payable	**800,000,000**	**800,000,000**	800,000,000	800,000,000
Accounts payable and other current liabilities*	**11,167,737,213**	**11,167,737,213**	11,082,067,528	11,082,067,528
Long-term debt (including current portion)	**59,625,885,361**	**62,293,365,055**	51,438,822,603	53,227,448,393
Tenants' deposits	**8,555,929,087**	**8,200,406,031**	8,386,248,204	7,976,094,815
Liability for purchased land	**1,041,570,404**	**998,290,208**	1,214,756,670	1,155,345,530
Other noncurrent liabilities*	**1,439,390,067**	**1,379,579,338**	1,389,211,697	1,321,268,336
	82,630,512,132	**84,839,377,845**	74,311,106,702	75,562,224,602
	₱82,867,508,982	**₱85,076,374,695**	₱74,555,437,101	₱75,806,555,001

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱212 million and ₱439 million, respectively, as at March 31, 2013, and ₱316 million and ₱447 million, respectively, as at December 31, 2012.*

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:

Cash and Cash Equivalents and Short-term Investments. The carrying amounts approximate fair values due to the short-term nature of the instruments.

Receivables. The net carrying value approximates the fair value due to the short-term maturities of the receivables.

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

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 at balance sheet date. For investments where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. Discount rate used was 4.74% as at December 31, 2012.

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

Loans Payable, Accounts Payable and Other Current Liabilities. The carrying values approximate the fair values due to the short-term maturities of these liabilities.

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 1.40% to 4.55% as at March 31, 2013, and 1.52% to 5.35% as at December 31, 2012.

Debt Type	Fair Value Assumptions
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular re-pricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rates used range from 1.76% to 6.46% as at March 31, 2013, and 1.73% to 5.91% as at December 31, 2012.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.86% to 3.60% as at March 31, 2013, and 1.99% to 4.06% as at December 31, 2012.

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;

Level 2: Those involving 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 table shows the Company's financial instruments carried at fair value as at March 31, 2013 and December 31, 2012 based on Levels 1 and 2:

	2013		2012	
	Level 1	**Level 2**	Level 1	Level 2
Financial Assets				
Financial assets at FVPL:				
Investments held for trading -				
Corporate and government bonds	**₱457,335,307**	**₱–**	₱759,300,343	₱–
Derivative assets	**–**	**138,453,670**	–	109,978,821
	457,335,307	**138,453,670**	759,300,343	109,978,821
AFS investments -				
Corporate notes	**–**	**1,000,000,000**	–	1,000,000,000
	₱457,335,307	**₱1,138,453,670**	₱759,300,343	₱1,109,978,821
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱–**	**₱236,996,850**	₱–	₱244,330,399

During the periods ended March 31, 2013 and December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial instruments classified under Level 3.

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, foreign currency call options, non-deliverable forwards and foreign currency range options.

Cross Currency Swaps (CCS). In 2013, the Parent Company entered into cross currency swap transactions to hedge both the foreign currency and interest rate exposure on the Group's foreign currency denominated term loan facilities arranged by Standard Chartered Bank (Hong Kong), Ltd. for a total principal amount of US$200 million. Such loans bear an annual interest of 6-month LIBOR plus spread and will mature on January 29, 2018.

The Table below provides the details of the Parent Company's outstanding cross currency swaps as of March 31, 2013:

Counterparty	Metropolitan Bank & Trust Co.	ING Bank, NV-Manila
Notional Amount	$150,000,000.00	$50,000,000.00
Receive Leg (interest rate)	3.70%	3.70%
Pay Leg (interest rate)	6 Mos Libor + 1.70%	6 Mos Libor + 1.70%
USD:PHP rate used	40.67	40.67
Maturity Date	January 29, 2018	January 29, 2018
Market valuation gain or loss as of March 31, 2013	₱4,144,277.61	₱ (105,863.00)

Under these agreements, the Parent Company effectively receives at inception ₱8,134 million and pays US$200 million notional amount. Every interest payment date, the Parent Company will receive variable interest based on the US$200 million notional and will pay fixed interest based on the ₱8,134 million notional amount up to January 29, 2018. At maturity date, the Parent Company will receive US$200 million notional amount and pay ₱8,134 million notional amount. The US$ receipts from the CCS correspond to 100% of the expected interest and principal payment due on the hedged loan. With this, the variability in the cash flows of the CCS is expectedly to partially offset the variability in cash flows of the hedged loan due to changes in ₱/US$ exchange rate and 6-month LIBOR plus spread. Effectively, the CCS transformed 100% of the floating interest US dollar-denominated loan into fixed interest Philippine peso-denominated loan (see Note 16). The effective portion of the change in fair values of these cross currency swaps amounting to ₱22 million for the period ended March 31, 2013 was taken to equity under other comprehensive income. The ineffective portion of the hedge is nil as the hedging relationship is 100% effective.

The table below shows information on the Company's interest rate swaps presented by maturity profile.

	March 31, 2013		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$145,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	**2.91%–3.28%**
Outstanding notional amount	**$30,000,000**	**$30,000,000**	**$30,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.53%**	**3.53%**	**3.53%**
Outstanding notional amount	**$20,000,000**	**$20,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.18%**	**3.18%**	
Outstanding notional amount	**$25,000,000**	**$–**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**		
Pay-fixed rate	**4.10%**		
(Forward)			

	March 31, 2013		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Fixed-Floating			
Outstanding notional amount	**₱970,000,000**	**₱960,000,000**	**₱950,000,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱970,000,000**	**₱960,000,000**	**₱950,000,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	December 31, 2012		
	<1 Year	>1-<2 Years	>2-<5 Years
Floating-Fixed			
Outstanding notional amount	$145,000,000	$145,000,000	$145,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	2.91%–3.28%	2.91%–3.28%	2.91%–3.28%
Outstanding notional amount	$30,000,000	$30,000,000	$30,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.53%	3.53%	3.53%
Outstanding notional amount	$20,000,000	$20,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	3.18%	3.18%	
Outstanding notional amount	$25,000,000	$–	$–
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	4.10%		
Fixed-Floating			
Outstanding notional amount	₱970,000,000	₱960,000,000	₱950,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱970,000,000	₱960,000,000	₱950,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Interest Rate Swaps (IRS). In 2011, the Parent Company entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, the Parent Company 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 16). As at March 31, 2013 and December 31, 2012, the floating to fixed interest rate swaps have aggregate negative fair value of ₱152 million and ₱158 million, respectively.

The Parent Company also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, the Parent Company 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 16). As at March 31, 2013 and December 31, 2012, the floating to fixed interest rate swaps has negative fair value of ₱16 million and ₱17 million, respectively.

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

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, the Parent Company 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 16). As at March 31, 2013 and December 31, 2012, the floating to fixed interest rate swap has a negative fair value of ₱47 million and ₱48 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The combined 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 16). As at March 31, 2013 and December 31, 2012, these swaps have positive fair values of ₱134 million and ₱110 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 16). As at December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱3 million. In January 2012, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱1 million loss in 2012.

In 2009, the Parent Company entered into US$ interest rate swap agreements with notional amount of US$25 million. Under these agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral loan into fixed rate loan with semi-annual payment intervals up to November 2013 (see Note 16). As at March 31, 2013 and December 31, 2012, the floating to fixed interest rate swap has a negative fair value of ₱22 million.

Non-deliverable Forwards. In 2013 and 2012, the Parent Company entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ forward contracts with the same aggregate notional amount. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱10 million gain and ₱7 million gain in March 31, 2013 and 2012, respectively.

Fair Value Changes on Derivatives

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

	March 31, 2013	December 31, 2012
Balance at beginning of year	**(₱134,351,578)**	(₱122,361,246)
Net changes in fair value during the year	**66,442,086**	24,406,448
Less fair value of settled derivatives	**(30,633,688)**	(36,396,780)
Balance at end of year	**(₱98,543,180)**	(₱134,351,578)

In 2013, the net changes in fair value amounting to ₱66 million comprise of interest paid amounting to ₱21 million, which is included under “Interest expense” account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱45 million, which is included under “Others - net” account in the consolidated statements of income.

In 2012, the net changes in fair value amounting to ₱24 million comprise of interest paid amounting to ₱27 million, which is included under “Interest expense” account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱51 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, 2013	December 31, 2012
Derivative assets	**₱138,453,670**	₱109,978,821
Derivative liabilities	**(236,996,850)**	(244,330,399)
	(₱98,543,180)	(₱134,351,578)

24. **Basic/Diluted Earnings Per Share Computation**

Basic/diluted EPS is computed as follows:

	2013	2012
Net income attributable to equity holders of the parent (a)	**₱2,790,337,235**	₱2,433,869,469
Common shares issued at beginning of year *	**17,373,677,760**	13,917,800,067
Stocks dividends (see Note 17)*	**–**	3,455,877,693
Common shares issued at end of year	**17,373,677,760**	17,373,677,760
Less treasury stock (see Note 17)	**18,857,000**	18,857,000
Weighted average number of common shares outstanding (b)	**17,354,820,760**	17,354,820,760
Earnings per share (a/b)	**₱0.161**	₱0.140

Retroactively adjusted for stock dividends declared

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
AS OF MARCH 31, 2013 AND 2012

	Mar 31 2013	Mar 31 2012
i. Current ratio		
Total current assets / Total current liabilities	1.80	1.96
ii. Debt-to-equity ratio		
Total interest-bearing liabilities / Total equity attributable to equity holders of the parent + Total interest-bearing liabilities	0.45 : 0.55	0.43 : 0.57
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	0.35 : 0.65	0.32 : 0.68
iii. Asset to equity ratio		
Total assets / Total equity attributable to equity holders of the parent	2.20	2.14

	Mar 31 2013	Mar 31 2012
(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)	3.61	4.86
iv. Earnings before interest, income taxes, depreciation and amortization (EBITDA) to interest expense		
EBITDA / Interest expense	10.17	8.68
Debt to EBITDA		
Total interest-bearing liabilities / EBITDA	2.83	2.62
v. Return on equity		
Net income attributable to equity holders of the parent / Total average equity attributable to equity holders of the parent	0.16	0.15
Return on investment properties		
Net income attributable to equity holders of the parent / Total average investment properties (excluding shopping mall complex under construction)	0.10	0.10

Management’s Discussion and Analysis or Plan of Operation

2013

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

	First Quarter				
	2013	**% to Revenues**	**2012**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	7,830	100%	7,035	100%	11%
Operating Expenses	3,604	46%	3,242	46%	11%
Operating Income	4,226	54%	3,793	54%	11%
Net Income	2,790	36%	2,434	35%	15%
EBITDA	5,339	68%	4,759	68%	12%

	Mar 31 2013	**% to Total Assets**	**Dec 31 2012**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	159,669	100%	148,130	100%	8%
Investment Properties	126,017	79%	124,087	84%	2%
Total Debt	60,426	38%	52,239	35%	16%
Net Debt	39,085	24%	39,952	27%	-2%
Total Stockholders' Equity	72,706	46%	69,944	47%	4%

Financial Ratios	**Mar 31 2013**	**Dec 31 2012**
Current Ratio	1.80	1.34
Debt to Equity	0.45 : 0.55	0.43 : 0.57
Net Debt to Equity	0.35 : 0.65	0.36 : 0.64

	Mar 31	
(annualized)	**2013**	**2012**
Return on Equity	0.16	0.15
Return on Investment Properties	0.10	0.10
Debt to EBITDA	2.83	2.62
EBITDA to Interest Expense	10.17	8.68
Operating Income to Revenues	0.54	0.54
EBITDA Margin	0.68	0.68
Net Income to Revenues	0.36	0.35
Debt Service Coverage Ratio	3.61	4.86

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns forty six malls in the Philippines and five malls in China, posts 11% increase in gross revenues for the first quarter 2013 to ₱7.83 billion from ₱7.03 billion in the same period 2012. Rental revenues, accounting for 86% of total revenues, grew by 12% amounting to ₱6.73 billion from same period last year's ₱6.03 billion. This is largely due to rentals from new SM Supermalls opened in 2011 and 2012, namely SM City Masinag, SM City Olongapo, SM City Consolacion, SM City San Fernando, SM City General Santos and SM Lanang Premier, with a total gross floor area of 527,000 square meters. Excluding the new malls and expansions, same-store rental growth is at 7%.

In terms of gross revenues, the five malls in China contributed ₱0.69 billion in 2013 and ₱0.62 billion in 2012, or 9% of total consolidated revenues. Likewise, in terms of rental revenues, the China operations contributed 10% to SM Prime's consolidated rental revenues. Gross revenues of the five malls in China increased 11% in 2013 compared to 2012 largely due to improved mall productivity and lease renewals for the first three malls opened namely SM Xiamen, SM Jinjiang and SM Chengdu. Average occupancy rate for the first three malls is now at 96%.

For the first quarter 2013, cinema ticket sales increased 8% to ₱761 million from ₱703 million in the same period 2012 due to more blockbuster movies and fully operational digital cinemas which enable a simultaneous release nationwide. The major blockbusters shown in 2013 were "Sisterakas," "One More Try," "Jack, The Giant Slayer," "Chinese Zodiac," and "Hansel and Gretel: Witch Hunters." In 2012, major blockbusters shown were "Unofficially Yours," "Enteng ng Ina Mo," "The Hunger Games," "Underworld 4: Awakening" and "John Carter."

Amusement income and others likewise increased by 12% to ₱ 336 million in the first quarter of 2013 from ₱301 million in the same period 2012 mainly due to higher income from amusement rides. This account is mainly composed of amusement income from rides, bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Operating expenses increased by 11% from ₱3.24 billion in 2012 to ₱ 3.60 billion in 2013 mainly due to new malls opened in 2012. Same-store growth in operating expenses is 4%. Likewise, income from operations posted 11% growth from ₱3.79 billion in 2012 to ₱4.23 billion in 2013. In terms of operating expenses, the five malls in China contributed ₱0.42 billion in 2013 and ₱0.39 billion in 2012, or 12% of SM Prime's consolidated operating expenses. Income from operations in China went up by 15% from ₱0.23 billion in 2012 to ₱0.27 billion in 2013.

Interest and dividend income decreased by 24% to ₱99 million in 2013 compared to ₱131 million in 2012 mainly due to lower average interest rates of temporary investments in the first quarter of 2013 compared to same period last year.

Interest expense for the year likewise decreased by 4% to ₱525 million in 2013 from ₱548 million in 2012 despite new loans, due to the low interest rate environment.

Net income for the first quarter 2013 increased by 15% at ₱2.79 billion from ₱2.43 billion in the same period last year. On a stand-alone basis, the net income of China operations increased to ₱171 million in 2013 compared to ₱145 million in 2012 for a 19% increase, while net income of the Philippine operations grew 14% at ₱2.62 billion in 2013 from ₱2.29 billion in 2012.

On the balance sheet side, cash and cash equivalents significantly increased by 96% from ₱9.71 billion as of December 31, 2012 to ₱19.07 billion as of March 31, 2013. This account includes proceeds from the $200 million loan availed last January 2013 which will be used to fund capital expenditures both in the Philippines and China.

Investments held for trading likewise decreased by 40% from ₱759 million as of December 31, 2012 to ₱457 million as of March 31, 2013, respectively, due to pretermination of investment in corporate bonds with original maturity of 2016.

Prepaid expenses and other current assets increased by 9% from ₱1.44 billion as of December 31, 2012 to ₱1.57 billion as of March 31, 2013, mainly due to prepaid taxes on investment properties and prepaid insurance.

Derivative assets increased by 26% from ₱110 million as of December 31, 2012 to ₱138 million as of March 31, 2013, mainly resulting from unrealized mark-to-market gains on interest rate and cross currency swaps.

Other noncurrent assets increased by 13% from ₱4.13 billion as of December 31, 2012 to ₱4.66 billion as of March 31, 2013. This account mainly consists of deposits to contractors and suppliers and advances and deposits paid for leased properties.

Long-term debt increased by 16% from ₱51.44 billion as of December 31, 2012 to ₱59.63 billion as of March 31, 2013, due to new loan availment amounting to $200 million, net of prepayments.

Liability for purchased land decreased 14% from ₱1.21 billion as of December 31, 2012 to ₱1.04 billion as of March 31, 2013, due to subsequent payments.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) 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; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) return on investment properties (ROI) which measures the ratio of net income to investment properties excluding shopping mall complex under construction; (7) earnings before interest, income taxes, depreciation and amortization (EBITDA); (8) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (9) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (10) operating income to revenues which basically measures the gross profit ratio; (11) EBITDA margin which measures the ratio of EBITDA to gross revenues and (12) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The Company's current ratio increased to 1.80:1 from 1.34:1 as of March 31, 2013 and December 31, 2012, respectively, mainly due to proceeds from the $200 million loan still in cash and cash equivalents.

Similarly, Interest-bearing debt to stockholders' equity increased to 0.45:0.55 from 0.43:0.57 as of March 31, 2013 and December 31, 2012, respectively, while net interest-bearing debt to stockholders' equity slightly decreased to 0.35:0.65 from 0.36:0.64 as of March 31, 2013 and December 31, 2012, respectively, due to the additional borrowings. Debt service coverage ratio decreased to 3.61:1 from 4.86:1 for the three months ended March 31, 2013 and 2012, respectively, due to higher current portion of long-term debt in 2013 compared to 2012.

In terms of profitability, ROE slightly improved to 16% from 15% for the three months ended March 31, 2013 and 2012, respectively. EBITDA increased by 12% to ₱5.34 billion in 2013 from ₱4.76 billion in 2012.

Debt to EBITDA increased to 2.83:1 from 2.62:1 as of March 31, 2013 and 2012, respectively, due to increase in long-term debt. While EBITDA to interest expense increased to 10.17:1 from 8.68:1 for the quarter ended March 31, 2013 and 2012, respectively, due to higher EBITDA in 2013 compared to 2012.

Consolidated operating income to revenues is healthy at 54% for the period ended March 31, 2013 and 2012. On a stand-alone basis, operating income margin of the Philippines and China operations is at 55% and 39% in 2013, compared to 55% and 38% in 2012, respectively.

EBITDA margin remains strong at 68% for the periods ended March 31, 2013 and 2012. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 69% and 60% in 2013 and 69% and 57% in 2012, respectively.

Net income to revenues slightly improved at 36% from 35% for the periods ended March 31, 2013 and 2012, respectively. On a stand-alone basis, net income margin of the Philippines and China operations is at 37% and 25% in 2013 and 36% and 23% in 2012, respectively.

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 2013, the Company expects to incur capital expenditures of approximately ₱35 billion both for Philippines and China. This will be funded with internally generated funds and external borrowings.

As of March 31, 2013, SM Prime has forty six Supermalls strategically located in the Philippines with a total gross floor area of 5.6 million square meters. Likewise, the Company also has five Supermalls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, and Chongqing in China with a total gross floor area of 0.8 million square meters.

For the rest of 2013, SM Prime is scheduled to launch SM Aura Premier in Taguig and SM City BF in Paranaque. SM Megamall, on the other hand, will be expanded with an additional 101,000 square meters. By year-end, SM Prime will have 48 malls in the Philippines and five in China with an estimated combined gross floor area of 6.9 million square meters.

SM PRIME HOLDINGS, INC.
AGING OF RENT RECEIVABLE
AS OF MARCH 31, 2013

MALL	BALANCE	CURRENT	Over 30 days
SM NORTH EDSA	329,017,356	279,768,544	49,248,812
SM STA. MESA	55,213,317	54,932,511	280,807
SM MEGAMALL	324,691,609	284,812,823	39,878,786
SM CEBU	160,379,992	152,776,626	7,603,367
SM SOUTHMALL	122,607,614	118,039,440	4,568,174
SM BACOOR	82,599,438	75,857,853	6,741,585
SM FAIRVIEW	179,098,159	163,641,966	15,456,193
SM ILOILO	84,284,518	80,408,832	3,875,687
SM MANILA	90,950,594	86,645,563	4,305,032
SM PAMPANGA	116,100,173	107,302,278	8,797,895
SM SUCAT	54,722,006	53,592,962	1,129,044
SM DAVAO	69,424,615	68,245,086	1,179,529
SM CAGAYAN DE ORO	32,492,518	31,857,865	634,654
SM BICUTAN	57,222,041	56,397,315	824,727
SM LUCENA	38,956,309	38,733,722	222,587
SM BAGUIO	65,458,402	63,068,469	2,389,933
SM MARILAO	64,930,711	63,842,844	1,087,867
SM DASMARINAS	89,385,205	80,987,936	8,397,268
SM BATANGAS	51,149,594	48,918,537	2,231,057
SM SAN LAZARO	89,067,463	84,787,376	4,280,087
SM VALENZUELA	34,514,630	33,006,853	1,507,777
SM MOLINO	33,306,200	32,600,542	705,658
SM STA. ROSA	62,138,617	59,051,152	3,087,465
SM CLARK	69,046,068	63,100,956	5,945,111
SM MALL OF ASIA	302,064,433	273,194,462	28,869,972
SM PASIG	23,591,584	21,061,323	2,530,261
SM LIPA	51,848,273	51,385,083	463,190
SM BACOLOD	51,798,209	49,892,370	1,905,839
SM TAYTAY	46,947,433	45,725,992	1,221,442
SM MUNTINLUPA	29,576,252	29,460,411	115,842
SM MARIKINA	57,999,213	56,739,766	1,259,446
SM ROSALES	37,223,492	35,994,536	1,228,956
SM BALIWAG	37,876,446	37,013,638	862,808
SM NAGA	36,733,808	35,330,644	1,403,164
SM LAS PIÑAS	23,691,732	22,997,630	694,102
SM ROSARIO	32,977,932	30,950,015	2,027,917
SM TARLAC	38,825,476	38,468,625	356,852
SM SAN PABLO	29,464,470	28,783,289	681,181
SM CALAMBA	47,632,455	46,592,863	1,039,592
SM NOVALICHES	27,122,811	26,376,595	746,215
SM MASINAG	38,069,912	36,527,649	1,542,264
SM OLONGAPO	21,635,712	20,884,124	751,588
SM CONSOLACION	25,276,074	23,499,067	1,777,008
SM SAN FERNANDO	14,593,119	13,033,308	1,559,812
SM GENERAL SANTOS	43,893,492	39,684,795	4,208,697

MALL	BALANCE	CURRENT	Over 30 days
NEW MALLS	141,223,855	130,178,103	11,045,752
SM MARKETMALL DASMARIÑAS	22,400,341	12,336,805	10,063,535
SM BY THE BAY	32,175,723	23,051,615	9,124,108
SM SAVEMORE NAGTAHAN	6,457,206	6,256,245	200,961
SM SAVEMORE APALIT	4,816,347	4,652,213	164,134
SM HYPERMARKET SUCAT	8,953,097	7,251,379	1,701,719
SM CHINA MALLS	116,840,199	25,817,240	91,022,960
	3,708,466,248	**3,355,517,832**	**352,948,416**

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 10, 2013

JEFFREY C. LIM
Executive Vice-President