

SEC Number 016342

SM INVESTMENTS CORPORATION

(Company's Full Name)

**Building A, SM Corporate Offices, Bay Boulevard,
SM Central Business Park, Bay City, Pasay City 1300**

(Company's Address)

831-1000

(Telephone Number)

December 31

(Fiscal Year Ending
month & day)

**SEC Form 17-Q
1st Half Report**

Form Type

Amendment Designation (If applicable)

June 30, 2006

Period Ended Date

(Secondary License Type and File Number)

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 June 30, 2006
2. Commission Identification Number 016342 3. BIR Tax Identification No. 169-020-000
4. Exact name of registrant as specified in its charter SM INVESTMENTS CORPORATION
5. PHILIPPINES
Province, Country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. SM Corporate Offices, Bldg. A, 1000 Bay Blvd. SM Central Business Park, Bay City,
Pasay City 1300
Address of principal office Postal Code
8. 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 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON STOCK, P 10 PAR VALUE	5,300,000,000
11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes 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 No
(b) has been subject to such filing requirements for the past 90 days.
Yes No

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Interim Balance Sheets as of June 30, 2006
and December 31, 2005

Consolidated Interim Statements of Income
for the Six Months Ended June 30, 2006, and September 30 2005

Consolidated Interim Statements of Income
for the Three Months (2nd Quarter) Ended June 30, 2006,
and September 30 2005

Consolidated Interim Statements of Changes in Equity
for the Three Months Ended June 30, 2006, and September 30 2005

Consolidated Interim Statements of Cash Flows
for the Three Months Ended June 30, 2006, and September 30 2005

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

Item 3. Aging of Rental and Trade Receivables

SIGNATURE

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2006 and December 31, 2005

and for the Six Months Ended June 30, 2006 and September 30, 2005

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND DECEMBER 31, 2005

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2, 4, 14, 16 and 18)	₱14,516,512,643	₱11,174,935,676
Investments held for trading (Notes 5, 14, 16 and 18)	13,040,402,881	8,806,359,001
Receivables - net (Notes 6 and 18)	7,006,337,664	5,553,669,974
Merchandise inventories - at cost (Notes 14 and 19)	1,778,332,277	1,357,734,162
Condominium and residential units for sale (Note 11)	198,375,374	60,618,464
Prepaid expenses and other current assets	1,829,732,775	1,440,343,256
Total Current Assets	38,369,693,614	28,393,660,533
Noncurrent Assets		
Investments available for sale - net (Notes 7 and 18)	38,090,306,846	37,615,868,061
Investments in shares of stock (Notes 8 and 18)	29,261,260,452	27,837,759,653
Property and equipment - net (Notes 9 and 14)	3,009,645,078	2,857,912,587
Investment properties - net (Note 10)	60,471,284,876	56,496,606,448
Land and development (Note 11)	1,473,195,815	1,542,482,817
Time deposits (Notes 12, 16 and 18)	10,037,790,000	12,744,490,601
Other noncurrent assets (Note 13)	1,741,917,805	1,587,598,236
Total Noncurrent Assets	144,085,400,872	140,682,718,403
	₱182,455,094,486	₱169,076,378,936

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Bank loans (Notes 14 and 18)	₱13,599,253,089	₱10,179,014,000
Accounts payable and accrued expenses (Notes 15, 17 and 18)	11,025,029,271	12,606,438,275
Income tax payable	509,608,524	684,450,397
Current portion of long-term debt (Notes 16 and 18)	1,301,000,000	1,301,000,000
Dividends payable	897,842,818	1,086,764,312
Total Current Liabilities	27,332,733,702	25,857,666,984
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16 and 18)	39,615,709,891	37,986,469,236
Defined benefit liability	270,513,314	310,051,085
Deferred tax liabilities (Note 20)	505,924,662	465,474,969
Tenants' deposits and depository receipts (Note 24)	9,589,555,058	3,397,874,944
Total Noncurrent Liabilities	49,981,702,925	42,159,870,234

(Forward)

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Stockholders' Equity		
Equity Attributable to Equity Holders of the Parent (Note 17)		
Capital stock	₱5,300,000,000	₱5,300,000,000
Additional paid-in capital	23,382,709,537	23,382,709,537
Cost of common shares held by a subsidiary	(500,000,000)	(500,000,000)
Unrealized mark-to-market gain on investments available for sale (Notes 7 and 8)	7,962,670,682	7,038,286,318
Retained earnings:		
Appropriated	5,000,000,000	5,000,000,000
Unappropriated	39,785,210,753	37,221,863,387
Total Equity Attributable to Equity Holders of the Parent	80,930,590,972	77,442,859,242
Minority interests	24,210,066,887	23,615,982,476
Total Stockholders' Equity	105,140,657,859	101,058,841,718
	₱182,455,094,486	₱169,076,378,936

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND SEPTEMBER 30, 2005

	First Half	
	2006	2005
	(Note 22)	
REVENUES		
Sales:		
Merchandise	P19,434,054,861	P18,134,882,968
Real estate (Note 11)	450,764,317	48,463,660
Rent (Notes 18 and 21)	4,863,051,371	4,161,901,046
Equity in net earnings of associates (Note 8)	912,074,254	990,000,357
Cinema ticket sales, amusement and others	1,049,624,973	906,633,386
Dividends	638,353,371	486,296,564
Management fees and Others (Note 18)	446,503,913	297,750,592
	27,794,427,060	25,025,928,573
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 19)	15,172,520,208	14,133,771,702
Real estate	365,356,095	29,331,349
Operating expenses (Notes 10, 18, and 21)	5,877,602,797	5,466,134,215
	21,415,479,100	19,629,237,266
Interest income (Note 18)	1,200,454,420	1,213,587,123
Interest expense (Notes 14, 16 and 18)	(1,552,767,077)	(1,639,125,855)
Foreign exchange gain	47,333,693	54,623,711
Gain on sale of investments in shares of stock, investments held for trading and real properties (Note 5)	2,418,033,747	309,125,677
INCOME BEFORE INCOME TAX	8,492,002,743	5,334,901,963
PROVISION FOR INCOME TAX (Note 20)		
Current	1,229,301,436	963,743,961
Deferred	112,767,107	33,408,396
	1,342,068,543	997,152,357
NET INCOME	P7,149,934,200	P4,337,749,606
ATTRIBUTABLE TO:		
Equity holders of the Parent	P5,054,347,366	P2,730,334,569
Minority interests	2,095,586,834	1,607,415,037
	P7,149,934,200	P4,337,749,606
Earnings Per Common Share (Note 23)	P9.54	P5.15

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE QUARTERS ENDED JUNE 30, 2006 AND SEPTEMBER 30, 2005

	Second Quarter	
	2006	
	(Note 22)	2005
REVENUES		
Sales:		
Merchandise	₱11,194,240,800	10,485,088,983
Real estate (Note 11)	367,186,547	21,133,049
Rent (Notes 18 and 21)	2,481,079,937	2,161,482,433
Equity in net earnings of associates (Note 8)	281,090,181	557,295,289
Cinema ticket sales, amusement and others	550,263,550	469,119,949
Dividends	474,613,720	284,156,527
Management fees and Others (Note 18)	161,642,241	66,333,787
	15,510,116,976	14,044,610,017
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 19)	8,728,053,735	8,034,069,457
Real estate	317,592,935	11,878,978
Operating expenses (Notes 10, 18, and 21)	3,072,764,712	2,936,644,784
	12,118,411,382	10,982,593,219
Interest income (Note 18)	524,899,910	428,187,995
Interest expense (Notes 14, 16 and 18)	(800,891,426)	(825,746,777)
Foreign exchange gain	177,437,177	89,534,300
Gain on sale of investments in shares of stock, investments held for trading and real properties (Note 5)	905,502,926	155,908,691
INCOME BEFORE INCOME TAX	4,198,654,181	2,909,901,007
PROVISION FOR INCOME TAX (Note 20)		
Current	717,733,632	553,642,562
Deferred	103,537,887	80,370,852
	821,271,519	634,013,414
NET INCOME	₱3,377,382,662	₱2,275,887,593
ATTRIBUTABLE TO:		
Equity holders of the Parent	₱2,125,433,493	₱1,435,509,881
Minority interests	1,251,949,169	840,377,712
	₱3,377,382,662	₱2,275,887,593
Earnings Per Common Share (Note 23)	₱4.01	₱2.71

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND SEPTEMBER 30, 2005

	First Half	
	2006	2005
Common Stock - P10 par value		
Authorized – 600,000,000 shares		
Issued – 530,000,000	5,300,000,000	5,300,000,000
ADDITIONAL PAID-IN CAPITAL (Note 17)	23,382,709,537	23,382,709,537
COST OF COMMON SHARES HELD BY A SUBSIDIARY (Note 17)	(500,000,000)	(500,000,000)
UNREALIZED MARK TO MARKET GAIN ON INVESTMENTS AVAILABLE FOR SALE	7,962,670,682	23,541,919,469
RETAINED EARNINGS (Note 17)		
Appropriated:		
Balance at beginning of period	5,000,000,000	10,000,000,000
Reversal of appropriation for long-term expansion and improvement projects	–	(5,000,000,000)
Balance at end of period	5,000,000,000	5,000,000,000
Unappropriated:		
Balance at beginning of period, as previously reported	37,221,863,387	26,797,289,270
Change in accounting policies	–	(2,138,278,016)
Balance at beginning of period, as restated	37,221,863,387	24,659,011,254
Net income	5,054,347,366	2,730,334,569
Dividends	(2,491,000,000)	(1,855,000,000)
Reversal of appropriation for long-term expansion and improvement projects	–	5,000,000,000
Balance at end of period	39,785,210,753	30,534,345,823
MINORITY INTEREST	24,210,066,887	27,397,096,380
	P105,140,657,859	P114,656,071,209

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND SEPTEMBER 30, 2005

	First Half	
	2006	2005
	(Note 22)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱8,492,002,743	₱5,334,901,963
Adjustments for:		
Interest income	(1,200,454,420)	(1,213,587,123)
Interest expense	1,552,767,077	1,639,125,855
Depreciation and amortization	1,355,227,645	1,123,878,182
Equity in net earnings of associates	(912,074,254)	(990,000,357)
Dividend income	(638,353,371)	(486,296,564)
Net unrealized mark-to-market gain on investments held for trading	131,032,902	(213,488,736)
Gain on sale of investments in shares of stock and investments held for trading	(2,536,012,133)	(92,617,763)
Unrealized foreign exchange gain	(55,852,356)	33,627,842
Gain on sale of investments in real properties and property and equipment	(13,054,516)	(3,019,178)
Operating income before working capital changes	6,175,229,317	5,132,524,121
Decrease (increase) in:		
Receivables	(1,096,930,764)	(1,521,212,383)
Merchandise inventories	(420,598,115)	(187,741,309)
Condominium and residential units for sale	(137,756,910)	17,097,091
Input and other prepaid taxes	(389,389,519)	(308,813,380)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,584,529,118)	(333,456,519)
Tenants' deposits	6,191,680,114	101,641,296
Net cash generated from operations	8,737,705,005	2,900,038,917
Income tax paid	(1,404,143,309)	(1,199,674,110)
Net cash provided by operating activities	7,333,561,696	1,700,364,807
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Investments available for sale	(407,505,540)	(8,945,190,184)
Investments in shares of stock	(2,029,546,545)	(12,035,030,534)
Time deposits	2,825,990,601	1,659,540,830
Other noncurrent assets	(226,636,983)	(8,334,397)
Land and development	69,287,002	(4,834,608,310)
Property and equipment	(1,085,081,030)	(570,861,422)
Investment properties	(4,417,039,506)	467,958,886
Investments held for trading	(4,365,076,782)	(9,229,465,885)
Proceeds from sale of investments and property and equipment	4,945,119,740	121,842,840
Interest received	1,120,504,887	1,285,747,366
Dividends received	362,565,978	591,445,737
Net cash used in investing activities	(3,207,418,178)	(31,496,955,073)

(Forward)

	First Half	
	2006	2005
	(Note 22)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Bank loans	(P5,474,680,000)	(P4,198,297,475)
Long-term debt	(1,412,500,000)	(8,235,355,354)
Availments of:		
Bank loans	8,873,222,100	13,275,392,909
Long-term debt	3,000,000,000	5,000,000,000
Interest paid	(1,525,238,483)	(1,811,446,795)
Dividends paid	(2,679,921,494)	(1,672,934,592)
Increase (decrease) in minority interests	(1,501,502,423)	4,787,316,657
Net cash provided by (used in) financing activities	(720,620,300)	7,144,675,350
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(63,946,251)	71,538,636
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,341,576,967	(22,580,376,280)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	11,174,935,676	36,101,669,998
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P14,516,512,643	P13,521,293,718

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines with registered office address at Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

The Parent Company and its subsidiaries (collectively referred to as the Group) and its associates are involved primarily in shopping mall development, retail merchandising, financial services, and real estate development and tourism.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared in compliance with accounting principles generally accepted in the Philippines (GAAP) as set forth in Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations issued by the Philippine Accounting Standards Council (ASC).

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss, investments available for sale and derivative financial instruments which have been measured at fair value.

The consolidated financial statements are presented in Philippine peso, the Group's functional and reporting currency, and all values are rounded to the nearest peso except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements of the Group include the accounts of the Parent Company and the following subsidiaries which were incorporated in the Philippines.

Company	Effective Percentage of Ownership		Principal Activities
	June 30, 2006	December 31, 2005	
Marketwatch Investments Co., Inc. (Marketwatch) and Subsidiaries*	100	100	Retail merchandising
MH Holdings, Inc. (MH Holdings) and Subsidiaries*	100	100	Retail merchandising
Sanford Investments Corporation and Subsidiary*	100	100	Retail merchandising
Mountain Bliss Resort and Development Corporation (Mountain Bliss) and Subsidiary*	100	100	Real estate and tourism
Henfels Investments Corporation and Subsidiary*	99	99	Retail merchandising
HMS Development Corporation and Subsidiaries*	99	99	Retail merchandising
Romer Mercantile, Inc. and Subsidiaries*	99	99	Retail merchandising

Company	Effective Percentage of Ownership		Principal Activities
	June 30, 2006	December 31, 2005	
Primebridge Holdings, Inc. (Primebridge)* **	98	98	Financial services
Intercontinental Development Corporation (ICDC)*	97	97	Real estate
Multi-Realty Development Corporation (MRDC)*	91	91	Real estate
Shoe Mart, Incorporated (Shoe Mart) and Subsidiaries	65	65	Retail merchandising
SM Mart, Inc.	65	65	Retail merchandising
Bellevue Properties, Inc. (Bellevue)*	62	62	Real estate
SM Development Corporation (SMDC) and Subsidiary	53	53	Real estate and tourism
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	53	53	Shopping mall development

* The financial statements of these subsidiaries were audited by other independent auditors.
All other subsidiaries were audited by the principal auditors.

** Incorporated and started commercial operations in November 2004.

The accounts of Mountain Bliss, including its 93.27% interest in Manila Southcoast Development Corporation (MSDC), have been included in the June 30, 2006 and December 31, 2005 consolidated financial statements as a result of the Parent Company's 100% beneficial ownership over Mountain Bliss. As of June 30, 2006, Mountain Bliss and MSDC have not yet started commercial operations.

The consolidated financial statements include the accounts of the subsidiaries as of and for the six months ended June 30, 2006 and 2005, respectively, except for the accounts of Shoe Mart which are as of June 30, 2006 and September 30, 2005 and for the periods then ended. Certain adjustments were made for the effects of significant transactions or events that occurred between the date of the subsidiaries' financial statements and the date of the consolidated financial statements.

The financial statements of the subsidiaries are prepared using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date when the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the interests of the other entities in certain consolidated subsidiaries not held by the Group.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheets comprise of cash in banks and on hand and short-term deposits with an original maturity of three months or less.

Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. Cost is determined primarily based on the first-in, first-out method.

Condominium and Residential Units for Sale

Condominium and residential units for sale are carried at the lower of cost or net realizable value. Cost includes those costs incurred for the development and improvement of the properties. Net realizable value is the estimated selling price less cost to complete and sell.

Investments in Shares of Stock of Associates

The Group's investments in shares of stock of associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share of 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 Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in stockholders' equity.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Therefore:

- (a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share of the associate's profits or losses.
- (b) any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investments in associates are reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that

the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Property and Equipment

Property and equipment, except for land, is stated at cost, excluding the costs of day-to-day servicing, less accumulated impairment in value, and – where subject to depreciation – depreciated over its estimated useful life. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost less any impairment in value.

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

Buildings, condominium units, and improvements	10-35 years
Store equipment and improvements	5-10 years
Data processing equipment	5 years
Furniture, fixtures and office equipment	3-15 years
Machinery and equipment	5-10 years
Leasehold improvements	10-25 years or term of lease, whichever is shorter
Transportation equipment	5-10 years

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

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

When assets are sold or retired, their cost and the related accumulated depreciation, amortization and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements of income.

Investment Properties

Investment properties, except land, are measured at cost, including transaction costs; less accumulated impairment in value, and – where subject to depreciation – depreciated over its estimated useful life. 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.

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

Buildings and improvements	35 years
Building equipment, furniture and others	3-15 years

Investment properties are derecognized when either they have been disposed of or when the investment property 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 statement of income in the year of retirement or disposal.

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

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

Construction in Progress

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

Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment 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, had no impairment loss been recognized for

the asset in prior years. Such reversal is recognized in the consolidated statements of income as profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Land and Development

Land and development are stated at the lower of cost or net realizable value. Cost includes those incurred in the development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business, less costs of completion and marketing. The amount by which the cost exceeds net realizable value is accounted for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Financial instruments are classified as a financial liability or as equity, in accordance with the substance of the contractual arrangement underlying such financial instruments. Financial instruments that contain both liability and equity elements are classified separately as financial assets, financial liabilities or equity instruments. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities are further classified into the following categories: financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statements of income as net profit or loss when the liabilities are derecognized as well as through the amortization process.

Debt Issuance Costs

Debt issuance costs (shown as deduction from the related debt) are amortized over the terms of the related borrowings using the effective interest rate method. Upon extinguishment of the debt, the related unamortized issuance costs are charged to current operations.

Provisions

Provisions are recognized when the Group 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, 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 a borrowing cost.

Business Combinations

Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the cash paid plus the fair value at the date of exchange of any other purchase consideration given in exchange for control over the net assets of the acquired company. The cost of acquisition also includes directly attributable incidental costs. The acquired identifiable assets and liabilities are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired company, assets and liabilities are recognized at fair value to the extent of the Group's interest and the minority interest is recorded as the minority's proportion of the pre-acquisition carrying amounts of the acquired assets and liabilities.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Merchandise Inventories. Revenue is recognized upon billing, delivery and transfer of ownership of goods to customers.

Real Estate Sales. Revenue is generally accounted for under the full accrual method of accounting. Under this method, gross profit is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. When a sale does not meet the requirements for income recognition, gross profit is deferred until those requirements are met.

Real estate sales, where the Group has material obligations under the sales contract to provide improvements after the subject properties are sold, are accounted for under the percentage-of-completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Unrealized gross profit allocated to the unfulfilled obligations are deferred.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented under the "Accounts payable and accrued expenses" account in the consolidated balance sheets.

Real estate costs that relate to the acquisition, development, improvement, and construction of the condominium units are capitalized. The capitalized costs of condominium units are charged to operations when the related revenues are recognized. The costs of condominium units with contemplated construction not yet completed are determined based on actual costs incurred plus estimated costs to complete the condominium units. The estimated costs to complete the sold condominium units are shown under the "Accounts payable and accrued expenses" account in the consolidated balance sheets.

For income tax purposes, full recognition is applied when at least 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

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

Cinema Ticket Sales, Amusement and Others. Revenue is recognized upon receipt of cash from the customer.

Gain on Sale of Investments in Shares of Stock and Investments Held for Trading. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenue is recognized when the shareholders' right to receive the payment is established.

Management Fees. Revenue is recognized when earned in accordance with the terms of the agreements.

Interest. Revenue is recognized as the interest accrues (taking into account the effective yield on the assets).

Management Fees

Management fees are recognized as an expense in accordance with the terms of the agreements.

Pensions Benefits

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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 until the assets are substantially ready for their intended use. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Group. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

For income tax reporting purposes, capitalized borrowing costs are treated as deductible expenses during the year such are incurred.

Taxes

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

Deferred Tax. Deferred income tax is provided using the 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:

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

Foreign Currency-denominated Transactions

Foreign currency-denominated transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange on the balance sheet date. All foreign exchange gains and losses arising from the settlement or restatement are taken to the consolidated statements of income.

For income tax purposes, exchange gains and losses are treated as taxable income or deductible expense in the period such are realized.

Derivative Financial Instruments

The Group uses derivative financial instruments such as currency swaps and interest rate swaps to manage its risks associated with fluctuations in foreign currency and interest rates. Such derivative financial instruments are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

Earnings Per Common Share

Earnings per common share is computed by dividing the net income for the year by the weighted-average number of issued and outstanding common shares during the year.

Business Segments

For management purposes, the Group is organized into three major operating businesses, namely, shopping mall development, retail merchandising, and real estate development and tourism.

Contingencies

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

Subsequent Events

Post year-end events that provide additional information about the Group's position at the 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 the consolidated financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

	June 30, 2006	December 31, 2005
Cash on hand and in banks (see Note 18)	₱1,624,171,603	₱1,944,444,029
Temporary investments (see Notes 16 and 18)	12,892,341,040	9,230,491,647
	₱14,516,512,643	₱11,174,935,676

Cash in banks earns interest at floating rates based on daily bank deposit rates. Temporary investments are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest on the respective temporary investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of the temporary investments.

5. Investments Held for Trading

This account consists of:

	June 30, 2006	December 31, 2005
Investments in:		
Bonds	₱10,744,350,967	₱6,531,524,468
Shares of stock	2,296,051,914	2,274,834,533
	₱13,040,402,881	₱8,806,359,001

6. Receivables

This account consists of:

	June 30, 2006	December 31, 2005
Trade:		
Tenants	₱1,786,000,170	₱1,507,517,125
Banks, credit cards and others	1,979,132,610	967,628,672
Accrued interest	761,048,704	681,099,171
Notes receivable	0	500,000,000
Management fees	311,688,082	273,632,502
Dividends	394,821,340	119,033,947
Others	1,782,840,810	1,513,952,609
	7,015,531,716	5,562,864,026
Less allowance for doubtful accounts	9,194,052	9,194,052
	₱7,006,337,664	₱5,553,669,974

7. Investments Available for Sale

This account consists of:

	June 30, 2006	December 31, 2005
Investments in shares of stock:		
Listed	₱31,548,385,795	₱31,316,957,434
Unlisted (net of allowance for probable losses of ₱31,250,000)	391,669,281	145,851,627
Redeemable preferred shares (see Note 18)	5,155,500,000	5,154,500,000
Investments in bonds	989,956,770	989,944,000
Club shares	4,795,000	8,615,000
	₱38,090,306,846	₱37,615,868,061

Investments in listed shares of stock include investments in San Miguel Corporation (SMC). The Parent Company has an 11% stake in SMC, equivalent to 339,349,120 shares.

There are no quoted market prices for the unlisted investments in shares of stock and there are no other reliable sources of their fair values, therefore, they are carried at cost.

This account also includes investments of SM Prime in redeemable preferred shares of certain companies with annual dividend rates of 6.5% to 10.46% (see Note 18). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. These are redeemable in 2009 at the option of the issuer. These investments are unquoted and therefore were stated at cost.

Investments in bonds were purchased from different banks with fixed interest rates ranging from 10.625% to 15.625%. These investments are peso denominated and will mature on various dates starting June 27, 2007 until September 8, 2010. As of June 30, 2006 and December 31, 2005, these are carried at their respective quoted prices.

8. Investments in Shares of Stock

The details and movements of this account are as follows:

	June 30, 2006	December 31, 2005
Investments in shares of stock of associates:		
Acquisition cost:		
Balance at beginning of year	₱21,601,741,605	₱13,289,569,071
Additions	28,240,213	10,028,625,916
Disposals/reclassifications	742,544,782	(1,716,453,382)
Balance at end of the period	22,372,526,600	21,601,741,605
Accumulated equity in net earnings:		
Balance at beginning of year, as previously stated	6,236,018,048	2,839,898,633
Effect of change in accounting for goodwill	-	1,436,990,018
Share in unrealized mark-to-market gain on investments available for sale	-	206,832,656
Share from effects of changes in accounting policies of associates	-	(87,018,299)
Balance at beginning of year, as restated	6,236,018,048	4,396,703,008
Equity in net earnings during the period	912,074,254	2,079,267,626
Share in unrealized mark-to-market gain on available for sale investments of associates	14,390,411	694,111,717
Dividends declared	(233,507,894)	(618,481,282)
Accumulated equity in net earnings of investments sold/reclassified	(40,240,967)	(315,583,021)
Balance at end of the period	6,888,733,852	6,236,018,048
	₱29,261,260,452	₱27,837,759,653

The associates of the Group are as follows:

Company	Effective Percentage of Ownership		Principal Activities
	June 30, 2006	December 31, 2005	
Banco de Oro Universal Bank (BDO)*	43	46	Financial services
Sodexo Pass, Inc. (Sodexo)*	40	40	Retail merchandising
Asia-Pacific Computer Technology Center, Inc.*	39	39	Education
BDO Card Corporation (BDO Card)*	-	35	Financial services
Highlands Prime, Inc. (Highlands Prime)	24	24	Real estate and tourism

(Forward)

Company	Effective Percentage of Ownership		Principal Activities
	June 30, 2006	December 31, 2005	
Pilipinas Makro, Inc. (Pilipinas Makro)	30	30	Retail merchandising
Equitable PCI Bank (EPCIB)	25	25	Financial services
China Banking Corporation (China Bank)	19	21	Financial services

* The financial statements of these associates were audited by other independent auditors. All other associates were audited by the principal auditors.

In 2005, SMIC acquired 24.03% interest in EPCIB for a total consideration of ₱9,945.8 million. The acquisition enabled the Company to have a four member representation in the BOD of EPCIB.

The detailed carrying values of the Group's investments in associates are as follows:

	June 30, 2006	December 31, 2005
EPCIB	₱11,334,894,637	₱11,000,543,074
BDO	10,443,538,122	9,526,239,301
China Bank	4,854,759,429	4,592,620,396
Highlands Prime	1,521,804,717	1,535,887,635
Pilipinas Makro	1,106,263,547	1,182,469,247
	₱29,261,260,452	₱27,837,759,653

9. Property and Equipment

This account consists of:

	December 31, 2005	Additions	Disposals/ Transfers	June 30, 2006
Cost:				
Land and improvements	₱4,789,377	₱-	₱-	₱4,789,377
Buildings, condominium units and improvements	726,535,960	86,065,419	(96,633,485)	715,967,894
Store equipment and improvements	2,366,054,664	270,297,635	(1,015,641)	2,635,336,658
Data processing equipment	1,277,453,701	67,147,981	(11,497,578)	1,333,104,104
Furniture, fixtures and office equipment	382,767,225	21,203,239	(223,281)	403,747,183
Machinery and equipment	171,822,631	1,123,632	(19,978,973)	152,967,290
Leasehold improvements	534,894,508	-	(78,070,441)	456,824,067
Transportation equipment	263,072,404	4,731,000	(3,308,427)	264,494,977
	₱5,727,390,470	₱450,568,906	(₱210,727,826)	₱5,967,231,550

(Forward)

	December 31, 2005	Additions	Disposals/ Transfers	June 30, 2006
Accumulated depreciation and amortization:				
Buildings, condominium units and improvements	₱258,778,947	₱32,956,192	(₱18,892,037)	₱272,843,102
Store equipment and improvements	1,060,813,835	187,427,141	(319,128)	1,247,921,848
Data processing equipment	873,804,268	89,452,881	(4,253,506)	959,003,643
Furniture, fixtures and office equipment	208,761,235	16,285,992	(161,569)	224,885,658
Machinery and equipment	117,641,568	5,009,394	(7,547,671)	115,103,291
Leasehold improvements	235,170,353	15,592,367	–	250,762,720
Transportation equipment	207,303,622	4,321,944	(908,423)	210,717,143
	2,962,273,828	351,045,911	(32,082,334)	3,281,237,405
Net book value	2,765,116,642	99,522,995	(178,645,492)	2,685,994,145
Construction in progress	92,795,945	270,864,699	(40,009,711)	323,650,933
	₱2,857,912,587	₱370,387,694	(₱218,655,203)	₱3,009,645,078

10. Investment Properties

This account consists of:

	December 31, 2005	Additions/ Reclassifications	June 30, 2006
Cost:			
Land and improvements	₱14,172,794,190	₱1,408,859,186	₱15,581,653,376
Buildings and improvements	32,381,925,232	10,014,021,886	42,395,947,118
Building equipment, furniture and others	6,755,910,148	1,400,203,217	8,156,113,365
Construction in progress	13,507,197,318	(7,868,218,133)	5,638,979,185
	66,817,826,888	4,954,866,156	71,772,693,044
Less accumulated depreciation and amortization:			
Buildings and improvements	6,464,140,778	659,685,510	7,123,826,288
Building equipment, furniture and others	3,257,079,662	320,502,218	3,577,581,880
	9,721,220,440	980,187,728	10,701,408,168
Less allowance for impairment loss	600,000,000	–	(600,000,000)
Net book value	₱56,496,606,448	₱3,974,678,428	₱60,471,284,876

The construction in progress account includes shopping mall complex under construction of SM Prime. This mainly pertains to costs incurred for the development of the buildings and structures of “SM Supercenter Pasig,” “SM City North Edsa Annex 3” and “SM City Lipa”.

11. Condominium and Residential Units for Sale and Land and Development

Land and development, which amounted to ₱1,473.2 million as of June 30, 2006 and ₱1,542.5 million as of December 31, 2005, include land and cost of the condominium projects.

In 2003, SMDC and Subsidiary commenced construction of its condominium project – the “Chateau Elysee”, a French Mediterranean-inspired condoville in Parañaque City composed of six clusters. Cluster one of the project broke ground on September 29, 2003, with market take-up of 87% and 75% as of June 30, 2006 and December 31, 2005, respectively. Cluster two was 100% completed, with market take-up of 53% and 35% as of June 30, 2006 and December 31, 2005, respectively. Construction of cluster three started in 2006, with 4.5% completion and 6.5% market take-up as of June 30, 2006.

On June 30, 2004, SMDC entered into a Joint Venture Agreement (JVA) with the Government Service Insurance System (GSIS) for the development of a residential condominium project (the Project) on a parcel of land (the Property) owned by GSIS. Under the JVA, GSIS shall contribute all its rights, title and interest in and to the Property in consideration of its receipt of allocated units, which is 15% of the value of the total saleable units in the Project, in return for its contribution. In turn, SMDC shall provide financing for the implementation of the Project in consideration of its receipt of 85% of the value of the total saleable units in the Project, in return for its contribution.

On July 14, 2005, SMDC submitted to GSIS a Letter of Intent to change the Property subject for development. On September 7, 2005, the GSIS Board of Trustees approved the proposal of SMDC to change the Property subject for development. Under the amended JVA agreement, the Property will now be 14,430 square meters, more or less, a portion of the Tree Park Area of the GSIS-Baguio Convention Center.

Under the amended JVA, in the event of a decrease in the investment commitment not below the amount of ₱1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties and the sharing agreement agreed upon based on the original JVA will be maintained at 85% and 15%. In case the reduction goes lower than ₱1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties.

12. Time Deposits

This account consists of:

	June 30, 2006	December 31, 2005
Pledged	₱7,382,290,000	₱7,963,500,000
Long-term	2,655,500,000	4,780,990,601
	₱10,037,790,000	₱12,744,490,601

Time deposits amounting to US\$189.0 million and US\$240.1 million as of June 30, 2006 and December 31, 2005, respectively, will mature in October 2007 and bear an interest rate of 7.1% (net of tax) annually. A portion of these time deposits amounting to US\$139.0 million and US\$150.0 million as of June 30, 2006 and December 31, 2005, respectively, was used as collateral for a loan obtained by SMIC (see Note 16).

13. Other Noncurrent Assets

This account consists of:

	June 30, 2006	December 31, 2005
Deposits and advance rentals	₱1,010,372,497	₱826,616,217
Deferred tax assets (see Note 20)	266,947,262	269,132,258
Goodwill	255,743,567	255,743,567
Defined benefit asset	93,814,497	93,937,559
Others	115,039,982	142,168,635
	₱1,741,917,805	₱1,587,598,236

Deposits and advance rentals pertain substantially to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to the future rentals. Consequently, said deposits and advance rentals are not remeasured at amortized cost.

14. Bank Loans

This account consists of:

	June 30, 2006	December 31, 2005
Parent Company:		
U.S. dollar-denominated loans	₱2,945,321,589	₱1,306,014,000
Peso-denominated loans	1,500,000,000	5,200,000,000
Subsidiaries:		
U.S. dollar-denominated loans	5,398,631,500	2,654,500,000
Peso-denominated loans	3,755,300,000	1,018,500,000
	₱13,599,253,089	₱10,179,014,000

The US dollar-denominated loans amounting to US\$157.1 million on June 30, 2006 and US\$74.6 million on December 31, 2005 bear annual interest rates ranging from 5.42% to 5.95% and 4.50% to 5.08% for the periods ended June 30, 2006 and December 31, 2005, respectively. The peso-denominated loans bear annual interest rates ranging from 5.67% to 9.07% and 6.40% to 9.50% for the periods ended June 30, 2006 and December 31, 2005, respectively.

A portion of these loans is collateralized by chattel mortgages of merchandise inventories and property and equipment in accordance with the regulations of the Bangko Sentral ng Pilipinas (BSP). The carrying values of the collateral approximate the amounts of the bank loans.

15. Accounts Payable and Accrued Expenses

This account consists of:

	June 30, 2006	December 31, 2005
Trade	₱4,223,471,801	₱5,542,172,762
Payable to Cambridge	–	1,784,500,000
Due to related parties	2,496,984,484	1,118,733,177
Accrued interest	658,341,742	911,611,808
Nontrade	855,132,815	893,825,471
Liability for purchased land	689,233,844	476,848,633
Gift checks redeemable	275,354,021	411,347,125
Accrued expenses and others	1,826,510,564	1,467,399,299
	₱11,025,029,271	₱12,606,438,275

Terms and conditions of the above financial liabilities:

- Trade payables are noninterest bearing and are normally settled on a 30-day term.
- Accrued expenses, liability for purchased land and other payables are noninterest bearing and usually settled throughout the year.
- Gift checks are redeemable at face value.
- On November 26, 2004, Primebridge entered into a Subscription Agreement with Cambridge Pacific Ltd (Cambridge) whereby the latter will assign its investment in 83,000,000 common shares representing 9.14% interest in BDO at ₱21.5 per share in exchange for Primebridge's 19,999,999 preferred shares. In 2004, Primebridge recorded the amounts received arising from this Subscription Agreement as deposit for future stock subscriptions amounting to ₱1,784.5 million.

In 2005, the Subscription Agreement with Cambridge was amended wherein instead of issuing preferred shares; Primebridge will pay in cash and convert the deposit for future stock subscriptions from equity to a liability account. This liability, however, was subsequently assigned by Cambridge to MRDC. A corresponding receivable was recognized by MRDC from Primebridge of the same amount.

MRDC's liability to Cambridge amounting to ₱1,784.5 million was fully paid on February 17, 2006.

For terms and conditions relating to related party payables, refer to Note 18.

16. Long-term Debt

This account consists of:

	June 30, 2006	December 31, 2005
Parent Company:		
U.S. dollar-denominated:		
Five-year notes	₱12,498,641,848	₱12,493,935,150
Peso-denominated:		
Bank loans pledged with time deposits	6,440,000,000	7,440,000,000
Other bank loans	5,000,000,000	5,000,000,000
Subsidiaries:		
U.S. dollar-denominated-		
Five-year syndicated loan	7,966,500,000	7,963,500,000
Peso-denominated:		
Five-year and seven-year fixed rate notes	3,000,000,000	3,000,000,000
Five-year floating rate notes	3,000,000,000	-
Syndicated loan	2,362,500,000	2,775,000,000
Other bank loans	1,000,000,000	1,000,000,000
	41,267,641,848	39,672,435,150
Less:		
Current portion	1,301,000,000	1,301,000,000
Unamortized debt issuance costs	350,931,957	384,965,914
	₱39,615,709,891	₱37,986,469,236

Parent Company

Five-Year Notes

The US\$300.0 million Notes were issued on October 15, 2002 and will mature on October 16, 2007. Interest on the Notes is payable semi-annually in arrears at a fixed rate of 8.00% annually.

In August 2005, the Company retired US\$64.7 million worth of Notes. The unamortized debt issuance costs pertaining to the retired portion of the Notes amounting to US\$0.9 million (₱45.2 million) was charged to current operations.

Bank Loans Pledged with Time Deposits

The peso-denominated loans pledged with time deposits bear annual interest rates ranging from 6.51% to 12.07% and 7.41% to 12.07% for the periods ended June 30, 2006 and December 31, 2005, respectively, and are payable in installments up to October 2007. These loans are pledged with time deposits of US\$139.0 million and US\$150.0 million as of June 30, 2006 and December 31, 2005, respectively.

On April 17, 2006, SMIC prepaid its ₱1,000.0 million bank loans pledged with time deposits with original maturity date on October 16, 2007.

Other Peso Bank Loans

On June 30, 2006 and December 31, 2005, this account pertains to the following:

Series "A" Floating rate notes	₱500,000,000
Series "B" Fixed rate notes	4,000,000,000
Series "C" Fixed rate notes	500,000,000
	<hr/>
	₱5,000,000,000
	<hr/>

The five-year Series A and B notes bear interest at the three-month Treasury Bill rate plus a spread of 1.00% per annum, payable quarterly in arrears and 9.95% per annum, payable semi-annually in arrears, respectively. Both series will mature on October 28, 2010 and will be redeemed at par value on that date. The seven-year Series C notes bear interest at 10.39% per annum, payable semi-annually in arrears. The Series C notes will be subject to the periodic payment of amortization starting October 28, 2006 up to October 28, 2012.

Subsidiaries

US dollar-denominated Five-Year Syndicated Loan

The US\$150.0 million unsecured loan was obtained by SM Prime on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on a certain percentage plus LIBOR

Peso-denominated Five-Year and Seven-Year Fixed Rate Notes

This pertains to five-year and seven-year fixed rate notes issued by SM Prime on July 8, 2005 amounting to ₱1,500.0 million and ₱1,500.0 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively.

Peso-denominated Five-Year Floating Rate Notes

The ₱3,000.0 million unsecured loan was obtained by SM Prime on June 21, 2006. This is a five-year bullet term loan which carries interest rate based on MART-1 plus certain spread.

Peso-denominated Syndicated Loans

This account includes a five-year syndicated term loan obtained by SM Prime on November 21, 2003 originally amounting to ₱1,700.0 million payable in equal quarterly installments of ₱106.0 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly. The outstanding balance of the loan as of June 30, 2006 and December 31, 2005 amounted to ₱1,062.5 million and ₱1,275.0 million, respectively.

In 2004, Consolidated Prime Development Corp. and Premier Southern Corp., both wholly-owned subsidiaries of SM Prime, obtained a five-year term loan originally amounting to ₱1,600.0 million to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100.0 million starting in October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. The loan is guaranteed by SM Prime. The outstanding balance of the loan as of June 30, 2006 and December 31, 2005 amounted to ₱1,300.0 million and ₱1,500.0 million, respectively.

As of June 30, 2006, temporary investments amounting to ₱1,933 million is pledged to secure the loans in compliance with the requirements of the BSP. In accordance with the loan agreement, the

Parent Company has the option to substitute the pledged investments held for trading with other assets as collateral, in accordance with the regulations of the BSP.

Other Bank Loans

This represents two-year and five-year unsecured loans obtained by SM Prime on December 1, 2004 amounting to ₱466.0 million and ₱534.0 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively, and will mature on December 1, 2006 and December 1, 2009, respectively.

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of June 30, 2006 and December 31, 2005, the Group is in compliance with the terms of its loan covenants.

Time deposits amounting to ₱10,037.8 million and ₱12,744.5 million as of June 30, 2006 and December 31, 2005, respectively, (see Note 12) which will mature in October 2007 are intended to be used for payment of long-term debt maturing in 2007.

17. Stockholders' Equity

Capital Stock

The details of SMIC's capital stock are as follows:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Common stock - ₱10 par value		
Authorized	600,000,000	600,000,000
Issued and Subscribed	530,000,000	530,000,000

Cost of Common Shares Held by a Subsidiary

A subsidiary holds two million common shares of the Parent Company. This is presented as "Cost of common shares held by a subsidiary" and is treated as a reduction in equity shown in the consolidated balance sheets and consolidated statements of changes in stockholders' equity.

Retained Earnings

On May 30, 2005, the BOD approved the reversal of ₱5,000.0 million previously appropriated for long-term expansion and improvement projects to unappropriated retained earnings. In addition, the BOD also approved the declaration of cash dividends of 35% of the par value or ₱3.50 per share for a total amount of ₱1,855.0 million in favor of the stockholders of record as of June 14, 2005 and paid on June 20, 2005.

On April 27, 2006, the BOD approved the declaration of cash dividends of 47% of the par value or ₱4.70 per share for a total amount of ₱2,491.0 million in favor of the stockholders of record as of May 26, 2006 and paid on June 22, 2006.

The balance of retained earnings includes accumulated equity in net earnings of subsidiaries and associates amounting to ₱30,460.2 million and ₱28,143.6 million as of June 30, 2006 and December 31, 2005, respectively, which is not available for dividend distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

18. Related Party Transactions

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at normal market prices. For the periods ended June 30, 2006 and September 30, 2005, the Group did not make any provision for doubtful debts 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.

Rent

The Parent Company and a subsidiary have existing lease agreements for office and commercial space with related companies. Total rent revenues amounted to ₱1,266.0 million for the six months ended June 30, 2006 and ₱1,091.3 million for the six months ended September 30, 2005.

Management Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for the management of the office and mall premises. Total management fees amounted to ₱189.2 million for the six months ended June 30, 2006 and ₱149.8 million for the six months ended September 30, 2005.

The Parent Company and a subsidiary also receive management fees from related companies for providing management and consultancy services. As consideration for the services provided, the Parent Company receives annual management fees based on a certain percentage of the related companies' net sales as defined in the management contracts. Total management fees earned amounted to ₱164.8 million for the six months ended June 30, 2006 and ₱152.0 million for the six months ended September 30, 2005.

Cash Placements and Loans

The Group has certain bank accounts and cash placements that are maintained with BDO, China Bank and EPCIB, and earn interest based on prevailing market interest rates.

SM Prime has investments in preferred shares of BDO (see Note 7).

The Group also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 14 and 16).

Others

- a. BDO Card issued a short-term promissory note amounting to ₱500.0 million to SMIC on December 20, 2005. The note bears interest based on three-month MART1 plus 2% spread and with maturity date on February 1, 2006. This was fully collected in February 2006.
- b. The Group, in the normal course of business, has outstanding advances to related companies.

19. Cost of Sales - Merchandise

This account consists of:

	June 30, 2006 (Six Months) (see Note 22)	September 30, 2005 (Six Months)
Merchandise inventories at beginning of the period	₱1,357,734,162	₱1,637,966,200
Add purchases	15,593,118,323	14,321,805,342
Total goods available for sale	16,950,852,485	15,959,771,542
Less merchandise inventories at end of the period	1,778,332,277	1,825,999,840
	₱ 15,172,520,208	₱14,133,771,702

20. Income Tax

The deferred tax asset of ₱266.9 million as of June 30, 2006 and ₱269.1 million as of December 31, 2005, included under “Other noncurrent assets” account in the consolidated balance sheets, represents the tax effects of defined benefit liability, mark-to-market loss on investments held for trading, unrealized foreign exchange losses, unamortized past service cost, NOLCO, accrued retirement benefits, and MCIT.

The deferred income tax liabilities of ₱505.9 million as of June 30, 2006 and ₱465.5 million as of December 31, 2005 consist of the tax effects of capitalized interest, unamortized past service cost and defined benefit asset, unrealized gross profit on sale of real estate and unrealized foreign exchange gain.

The disproportionate relationship between income before income tax and the provision for income tax is due to various factors such as interest income already subjected to final tax, non-deductible interest expense, equity in net earnings of associates, and dividend income exempt from tax.

21. Lease Agreements

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, who are granted initial lease terms of five years, renewable on an annual basis thereafter. Tenants pay either a fixed monthly rent, which is calculated by reference to fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales.

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are constructed. The terms of the lease shall be for a period ranging from 25 to 50 years, renewable for the same period under the same terms and conditions. Rental payments generally are computed based on a certain percentage of the gross rental income or a certain fixed amount whichever is higher.

22. Change in Accounting Period

On August 13, 2005 and September 6, 2005, the SEC and the Bureau of Internal Revenue, respectively, approved the change in the Parent Company's accounting period from a fiscal year ending March 31 to calendar year ending December 31.

23. Earnings Per Common Share (EPS) Computation

	June 30, 2006 (see Note 22)	September 30, 2005
Net income attributable to equity holders of the Parent	₱5,054,347,366	₱2,730,334,569
Divided by weighted average number of common shares outstanding for the period	530,000,000	530,000,000
Earnings per common share	₱9.54	₱5.15

24. Other Matters

- a. On January 25, 2006, February 14, 2006, and May 15, 2006, Primebridge, a stockholder of BDO owning 22.08% of total outstanding shares as of December 31, 2005, offered and sold 9,399,700 global depositary receipts (GDRs) each representing 20 shares of BDO's common stock with a par value of ₱10 per share. The proceeds from the issuance of the 9,399,700 GDRs amounted to US\$120,012,035. As of June 30, 2006, US\$103,946,535 (net of converted GDRs in 2006) are shown as part of "Tenants' deposits and depositary receipts".

The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR is US\$12.70. As part of the offering, Primebridge remains as the registered holder of BDO shares underlying the GDRs. At the same time, Primebridge shall transfer all rights and interests in BDO shares underlying the GDRs to the depository and the holders of the GDRs are entitled to receive dividends paid on the shares. However, GDR holders will have no voting rights or other direct rights of a shareholder with respect to BDO shares under GDRs.

As of June 30, 2006, 1,265,000 GDRs with equivalent price of US\$16,065,500 were converted into 25,300,000 BDO shares. The BDO shares underlying the GDRs issued are shown as part of the "Investments in shares of stock" in the balance sheet. As of June 30, 2006, the unconverted GDRs is 8,134,700 or 162,694,000 equivalent BDO shares.

In July 2006, an additional 77,934 GDRs with equivalent price of US\$989,762 were converted into 1,558,680 BDO shares.

- b. On December 13, 2005, the BOD approved SMIC's acquisition of 100% of the outstanding common shares of Supervalve, Inc. and 81% of the outstanding common

shares of Super Shopping Market, Inc. in exchange for SMIC common shares with a valuation based on the 30-day volume weighted average price of SMIC.

On June 9, 2006, SM Investments Corporation executed the relevant documents for the Supervalve, Inc. and Super Shopping Market, Inc. shares of stock in exchange for 56,000,000 shares of SMIC common stocks to be issued upon the approval by the Securities and Exchange Commission and the Philippine Stock Exchange.

On June 29, 2006, the Philippine Stock Exchange approved the additional listing of 56,000,000 SMIC shares, subject to the approval by the Securities and Exchange Commission.

- c. In August 2005, BDO, jointly with SMIC, acquired the shares of EPCIB and Equitable Card Network, Inc. (ECNI) totaling of 24.4% interest in EPCIB and a 10% interest in ECNI (see Note 8). BDO's acquisition cost of the shares of stock of EPCIB amounted to ₱1,400.0 million representing 3.4% of EPCIB's total outstanding shares while the acquisition cost for the shares of stock of ECNI amounted to ₱600.0 million representing 10% of ECNI's total outstanding shares.
- d. On May 6, 2005, BDO and United Overseas Bank Philippines (UOBP) and United Overseas Bank Limited (UOBL) signed a Memorandum of Agreement (MOA) whereby BDO acquired the 66 branches of UOBP for a total consideration of ₱600.0 million. As part of the MOA, BDO assumed the deposit liabilities of UOBP in consideration of an equivalent amount of related assets of UOBP, including cash payment in case the assets would be lower than the assumed liabilities. Also under the MOA, the ₱600.0 million payment of BDO will be used by UOBL to subscribe for the Bank's shares of common stock valued at ₱26.75 per share, or equivalent to 22,429,906 shares. On December 19, 2005, the transfer of the assets including cash payment made by UOBP to fully offset the assumed liabilities by the BDO was carried out.

The UOBP acquisition was approved by the BSP on September 8, 2005 while the shares to be subscribed by UOBL were subsequently issued in February 2006.

- e. BDO signed a letter agreement dated December 30, 2003 with the Social Security System (SSS) regarding the sale of the latter's investment of approximately 25.8% ownership of EPCIB.

BDO and SSS committed to execute a final Purchase Agreement on or before September 30, 2004. SSS failed to execute the Share Purchase Agreement within the prescribed period and BDO filed an action for specific performance with the Regional Trial Court of Mandaluyong to compel SSS to comply with its obligations under the letter agreement with BDO dated December 30, 2003.

SSS announced that the EPCIB shares would be subjected to a public auction scheduled on October 30, 2004 under the terms of a Swiss Challenge whereby BDO will be given the right to match the highest bid price. The auction has been put on hold by the Supreme Court. As of June 30, 2006, no consideration has been tendered by BDO.

- f. On June 27, 2002, BDO entered into a US\$20.0 million convertible loan agreement with the International Finance Corporation (IFC). IFC has the option to convert a portion of the loan into common shares of the BDO commencing two years after the date of the agreement for ₱16.70 per share.

On February 11, 2005, BDO's Board of Directors approved the conversion of US\$10.0 million convertible loan from IFC, qualified as Tier 2 capital, into 31,403,592 common shares of BDO based on the conversion price of ₱16.70 per share and a foreign exchange rate of ₱52.44 to a dollar. The PSE subsequently approved the listing of the converted shares.

- g. In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a public bidding and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from the DBP.

Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge filed with the Regional Trial Court of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of these properties. The Parent Company was impleaded as a party defendant in 1995. The Regional Trial Court of Makati voided the foreclosure by the DBP on the mortgaged properties.

DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. The appeal is still pending. DBP believes that all the legal requirements on the foreclosure of the mortgages were complied with and the said foreclosures of mortgages are legal and binding. Management also believes that it had no notice of any infirmity that would void its title to the properties.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Due to the change in our accounting period from a fiscal year ending March 31 to a calendar year ending December 31 effective December 31, 2005, the amounts presented in the previous year's 1st Half 2005 consolidated statements of income, changes in stockholders' equity and cash flows are for the six months ended September 30, 2005

Results of Operation (in '000,000,000)

2nd Quarter 2006 and 2nd Quarter 2005

Accounts	2 nd Quarter		% Change
	2006	2005	
Revenue	P 15.5	P 14.0	10.4%
Cost and Expenses	12.1	10.9	10.3%
Income from Operations	P 3.4	P 3.1	10.8%
Other Income (Charges)	0.8	(0.1)	530.4%
Provision for Income Tax	0.8	0.6	29.5%
Minority Interest	1.2	0.8	48.9%
Net Income	P 2.1	P 1.4	48.4%

SM Investments Corporation posted a net income growth of 48.4% to P3.4 billion for the 2nd quarter of 2006. Gross Revenues and Income from operations similarly increased by 10.4% and 10.8%, respectively, compared to the 2nd quarter of 2005. Operating Income Margins and Net profit margins for the 2nd quarter of 2006 are 21.8% and 13.7%, respectively, higher as compared to 21.7% and 10.2% of the 2nd quarter of 2005.

1st half year 2006 (six months ended June 30, 2006) and fiscal 1st half year 2005 (six months ended September 30, 2006)

Accounts	Six Months ended		% Change
	2006	2005	
Revenue	P 27.8	P 25.0	11.1%
Cost and Expenses	21.4	19.6	8.7%
Income from Operations	P 6.4	P 5.4	18.2%
Other Income (Charges)	2.1	(0.1)	3,219.8%
Provision for Income Tax	1.3	1.0	34.5%
Minority Interest	2.1	1.6	30.4%
Net Income	P 5.1	P 2.7	85.1%

Consolidated revenues for the six-month period amounted to P27.8 million or a growth of 11.1% in 2006. Operating income margin and Net profit margin were at 23.0% and 18.2%, respectively.

Net income for the six months ended June 30, 2006 increased by 85.1% to P5.1 billion compared to P2.7 billion of the same period last year. An extraordinary income of P1.3 billion was realized in the 1st Quarter of 2006, on account of the gain from the sale of Global Depository Receipts in which the underlying securities are the Banco De Oro Shares, enhanced the net income. The Global Depository Receipts are listed in the London Stock Exchange.

Retail Sales remains to be the greater part, comprising 70% of the total revenues. Retail sales increased by 7.2% to P19.4 billion for the six months period ending June 30, 2006, primarily due to the contribution of the new SM Department Stores, namely SM San Lazaro and SM Sucat, which were opened in later part of 2005, and SM Sta. Rosa, SM Clark and SM Mallof Asia, which were opened in the 1st half of 2006.

Real estate sales for the 1st half of 2006 improved also by 830%. The increase came from the sale of condominium units in Clusters 1, 2 and 3 of SMDC's Chateau Elysee, a six-cluster, six-storey French-Mediterranean inspired residential development near SM City Bicutan in Paranaque, and the sales of units at Towers 1 and 2 of Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa.

Similarly, rental revenue from malls, which represented 17% of the total revenues, grew by 16.8% to P4.9 billion in 2005. The primary source of growth for the six month period was the rental revenues from new supermalls in 2005 namely SM City San Lazaro, SM Supercenter Valenzuela and SM Supercenter Molino, and new supermalls in 2006 namely SM City Sta. Rosa, SM City Clark and SM Mall of Asia. These new malls have an average occupancy level of around 95%. Same stores growth of the rental revenues for the six-month period is 4%.

Equity in net earnings of associates decreased by 7.9% to P912.1 million in 2006 from P990.0 million in 2005, primarily due to the decrease in the effective ownership and in the net income in certain subsidiaries.

Cinema ticket sales and amusement revenues increased by 15.7% from P906.6 million last year to P1,049.6 million this year. The growth in this account is attributable to more blockbuster movies shown during the current period as compared to the previous year.

Dividend income improved by 31.3% to P638.3 million for the six-month period from P486.3 million last year, primarily due to more cash dividends earned from the investment in San Miguel Corporation as a result of the increase in effective ownership.

Total cost and expenses rose by 9.1% to P21.4 billion for the six months period ending June 30, 2006 compared to 2005. Cost of sales increased 9.7% to P15.5 Billion brought about by the increased sales volume. Operating expenses increased 7.5% to P5.9 billion due to associated costs of newly opened malls and department stores, including growth in personnel costs, insurance costs, and depreciation costs.

Other financial income increased to P2.1 billion due to the net effect of the decrease in interest expense, slight decrease in interest income, and the gain on sale of GDR and investments. Interest Expense amounted to P1.55 billion for the 1st half of 2006, a decline of 5.2% compared to the previous year's P1.64 billion, brought about by the reduction in borrowings during the current period. Interest Income slightly decreased by 1.1% to P1.2 billion. Gain on sale of investments and properties significantly increased to P2.5 billion due to the gain realized in the sale of certain listed shares of stock in the 2nd quarter, and the one-time extraordinary income of P1.3 billion from the GDR offering in the 1st quarter.

Provision for income tax increased by 34.5% to P1.3 billion for the 1st half of 2006 from P997.1 million in the first half of 2005.

Financial Position (in '000,000,000)

Accounts	06 / 30 / 2006	12 / 31 / 2005	% Change
		(audited)	
Current assets	P 38.4	P 28.4	35.1%
Noncurrent assets	144.1	140.7	2.4%
Total assets	P 182.5	P 169.1	7.9%
Current liabilities	P 27.4	P 25.9	5.8%
Noncurrent Liabilities	50.0	42.1	18.5%
Total Liabilities	P 77.3	P 68.0	13.7%
Equity	P 105.2	P 101.1	4.0%

SM Investments Corporation's Balance Sheet as of June 30, 2006 remained robust. On a consolidated basis, total assets amounted to P182.5 billion, while consolidated liabilities amounted to P77.3 billion as of the same period.

As of June 30, 2006, total current assets increased by 35.1% to P38.4 billion from P28.4 billion as of December 31, 2006, due to the following factors: Cash and cash equivalents increased by 29.9% to P 14.5 billion, Investments held for trading increased by 48.1% to P13.0 billion, and the increase in Receivables by 26.2% to P7.0 billion. As of June 30, 2006, current assets composed 21% of the total assets. Current ratio further improved to 1.40:1 as of June 30, 2006.

Consolidated noncurrent assets as of June 30, 2006 is steady at P144.1 billion and composed 79% of the total assets. Significant movement in the non current asset accounts are from the restatement of Investments available for sale to reflect its fair market value, the adjustment of the Investments in shares of stocks of subsidiaries to reflect SM Investments' share in the subsidiary's net profit, and the increase in Investment properties primarily due to the construction and development costs incurred for the mall projects, namely, SM Sta. Rosa, SM Clark, Mall of Asia, SM North Edsa Annex 3, SM Pasig and SM Lipa, and the Central Business Park Projects, namely, OneEcom Center, MAITRADE Expo & Convention.

Total consolidated current liabilities as of June 30, 2006 increased by 5.8% to P27.4 billion from P25.9 billion as of December 31, 2005, mainly due to increase in Bank loans as a result of the net effect of the payments made by SM Investments, and loan availments by a subsidiary. Please see note 14 of the Notes to the Consolidated Financial Statements for more details on Bank loans.

Total noncurrent liabilities increased by 18.5% to P50.0 billion as of June 30, 2006 from P42.1 billion as of December 31, 2005. On January 25, 2006, a subsidiary issued Global Depository Receipts amounting to P5 billion. Please see note 24 of the Notes to the Consolidated Financial Statements for details. The consolidated long-term debt amounted to P40.9 billion as of June 30, 2006 or an increase of 4.1% from P39.3 billion as of December 31, 2005 due to the P3 billion floating rate note facility availed by a subsidiary in June. The details of the long-term debt are further discussed in Note 16 of the accompanying Notes to the consolidated Financial Statements.

Total Stockholders' equity amounted to P105.2 billion while total Equity attributable to equity holders of the parent amounted to P80.9 billion as of June 30, 2006. The movement in this account is due to the net effect of the net income for the six months ended June 30, 2006 amounting to P5.1 billion, payment of cash dividends in June amounting to P2.5 billion, and the restatement of investments available for sale to reflect its fair value as of balance sheet date. The details of the equity account are shown in the Statement of Changes in Equity, please also refer to note 7 of the accompanying Notes to the consolidated financial statements for the details of the investments classified as available for sale.

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.

Key Performance Indicators

The following are the major financial ratios of the Company for the six months ended June 30, 2006, and year ended December 31, 2005:

Accounts	06 / 30/ 2006	12 / 31/ 2005 (audited)
Current Ratio	1.40 : 1.00	1.10 : 1.00
Debt-equity Ratio	42% : 58%	32% : 68%
Return on Equity <i>(annualized)</i>	8%	10%
Net Income to Revenue	18%	13%
Revenue Growth	11%	8%
Net Income Growth	85%	24%
EBITDA	P7.7B	P14.8B

The manner by which the Company calculates the foregoing indicators is as follows:

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt – Equity Ratio	$\frac{\text{Total Interest Bearing Liabilities (net of time deposits)}}{\text{Total Stockholders' Equity (attributable to equity holders of the parent) + Total Interest Bearing Liabilities (net of pledged time deposits)}}$
Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity (attributable to equity holders of the parent)}}$
Net Income to Revenue	$\frac{\text{Net Income}}{\text{Total Revenue}}$
Revenue Growth	$\frac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}}$
Net Income Growth	$\frac{\text{Net Income (Current Period)}}{\text{Net Income (Prior Period)}}$
EBITDA	Income from operations + Depreciation & Amortization

Item 3.

**SM Investments Corporation and Subsidiaries
Aging of Rental and Trade Receivables
As of June 30, 2006**

Receivable from tenants	P	1,786,000,170
Trade receivables		<u>1,979,132,610</u>
total	P	<u><u>3,765,132,780</u></u>

Aging

Current	P	3,253,788,317
1-3 months past due		448,388,908
over 3 months past due		<u>62,955,555</u>
	P	<u><u>3,765,132,780</u></u>

SIGNATURE

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

Registrant: **SM INVESTMENTS CORPORATION**



Ma. Ruby LI. Cano
Vice President - Controller



Jose T. Sio
Executive Vice President
and Chief Financial Officer

Date: 8-14-06