



SEC Number 16342  
PSE Disclosure Security Code \_\_\_\_\_

**SM INVESTMENTS CORPORATION**

\_\_\_\_\_  
(Company's Full Name)

**10<sup>th</sup> Floor, One E-Com Center, Harbor Drive,  
Mall of Asia Complex, CBP-IA, Pasay City 1300**

\_\_\_\_\_  
(Company's Address)

**857- 0100**

\_\_\_\_\_  
(Telephone Number)

**December 31**

\_\_\_\_\_  
(Year Ending)  
(month & day)

**SEC Form 17-Q  
3rd Quarter Report**

\_\_\_\_\_  
Form Type

\_\_\_\_\_  
Amendment Designation (If applicable)

**September 30, 2008**

\_\_\_\_\_  
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 September 30, 2008
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. 10<sup>th</sup> Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-IA, Pasay City  
1300  
Address of principal office Postal Code
8. 857-0100  
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	Amount of Debt Outstanding
<b>COMMON STOCK P10 PAR VALUE</b>	<b>611,023,038</b>	<b>N.A.</b>

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 []

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<b>PART I FINANCIAL INFORMATION</b>
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**Item 1. Consolidated Financial Statements**

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements  
September 30, 2008 and December 31, 2007  
and for the Nine Months Ended September 30, 2008 and 2007

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited- Restated)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5, 15, 17, and 19)	P43,321,288,922	P15,756,700,448
Time deposits and short-term investments (Notes 6, 17, and 19)	1,829,068,750	4,130,250,000
Investments held for trading and sale (Notes 7, 9, 17, and 19)	28,578,480,890	33,125,710,073
Receivables - net (Notes 8 and 19)	22,320,944,706	14,442,226,070
Merchandise inventories - at cost (Note 20)	6,399,753,827	5,958,301,914
Input taxes and other current assets - net (Note 13)	2,669,105,559	2,754,483,534
<b>Total Current Assets</b>	<b>105,118,642,654</b>	<b>76,167,672,039</b>
<b>Noncurrent Assets</b>		
Available-for-sale investments - net (Notes 9 and 19)	5,769,778,561	5,765,388,907
Investments in shares of stock of associates (Note 10)	48,632,345,224	42,478,948,920
Property and equipment - net (Notes 11 and 15)	20,158,978,306	19,321,270,440
Investment properties - net (Notes 12 and 17)	78,966,605,138	70,632,864,930
Land and development (Note 13)	5,068,775,368	3,890,953,068
Time deposits (Notes 6, 17, and 19)	21,103,234,000	4,128,000,000
Intangibles (Notes 2, 4 and 14)	11,794,650,329	11,794,650,329
Other noncurrent assets (Notes 8, 10 and 14)	6,498,227,494	8,871,847,046
<b>Total Noncurrent Assets</b>	<b>197,992,594,420</b>	<b>166,883,923,640</b>
	<b>P303,111,237,074</b>	<b>P243,051,595,679</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Bank loans (Notes 15 and 19)	P8,540,196,693	P3,037,560,267
Accounts payable and other current liabilities (Notes 16 and 19)	52,026,342,064	25,663,083,758
Income tax payable	643,086,837	1,335,809,370
Current portion of long-term debt (Notes 17 and 19)	804,002,492	1,398,370,952
Current portion of notes payable (Note 10)	12,223,855,182	8,118,761,498
Derivative liabilities and others	263,531,878	407,073,672
<b>Total Current Liabilities</b>	<b>74,501,015,146</b>	<b>39,960,659,517</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 17 and 19)	72,705,520,363	45,120,859,656
Defined benefit liability	297,189,011	495,514,295
Deferred tax liabilities (Note 21)	4,058,158,073	3,517,686,023
Derivative liabilities	2,302,829,517	3,053,977,715
Tenants' deposits and others (Note 22)	5,457,988,701	6,089,473,303
<b>Total Noncurrent Liabilities</b>	<b>84,821,685,665</b>	<b>58,277,510,992</b>

(Forward)

	<b>September 30, 2008 (Unaudited)</b>	December 31, 2007 (Audited- Restated)
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock (Note 18)	<b>₱6,110,230,380</b>	₱6,110,230,380
Additional paid-in capital (Note 18)	<b>35,030,709,537</b>	35,030,709,537
Cost of common shares held by a subsidiary (Note 18)	<b>(24,077,988)</b>	(10,695,000)
Cumulative translation adjustment	<b>807,262,820</b>	-
Net unrealized gain on available-for-sale investments (Notes 9 and 10)	<b>1,786,872,061</b>	7,952,046,584
Retained earnings (Note 18):		
Appropriated	<b>5,000,000,000</b>	5,000,000,000
Unappropriated	<b>60,770,872,786</b>	54,584,475,720
<b>Total Equity Attributable to Equity Holders of the Parent</b>	<b>109,481,869,596</b>	108,666,767,221
<b>Minority Interests</b>	<b>34,306,666,667</b>	36,146,657,949
<b>Total Stockholders' Equity</b>	<b>143,788,536,263</b>	144,813,425,170
	<b>₱303,111,237,074</b>	₱243,051,595,679

*See accompanying Notes to Consolidated Financial Statements.*

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	2007 (Restated)
<b>REVENUE</b>		
Sales:		
Merchandise	<b>₱79,106,535,957</b>	₱65,235,857,637
Real estate	<b>3,444,610,827</b>	1,290,835,955
Rent (Notes 12, 19 and 22)	<b>9,777,493,200</b>	8,420,120,704
Equity in net earnings of associates (Note 10)	<b>942,389,385</b>	2,845,264,020
Cinema ticket sales, amusement and others	<b>1,785,113,146</b>	1,960,054,611
Dividend income	<b>656,229,582</b>	906,726,243
Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 7 and 9)	<b>(666,514,666)</b>	582,738,942
Management fees (Note 19)	<b>254,987,299</b>	132,704,092
Others	<b>2,069,416,323</b>	1,937,563,106
	<b>97,370,261,053</b>	83,311,865,310
<b>COST AND EXPENSES</b>		
Cost of sales:		
Merchandise (Note 20)	<b>63,837,694,177</b>	52,259,549,805
Real estate	<b>1,941,458,341</b>	890,575,041
Selling, general and administrative expenses	<b>17,687,799,539</b>	14,502,570,813
	<b>83,466,952,057</b>	67,652,695,659
<b>OTHER INCOME (CHARGES)</b>		
Interest income (expense) and others – net (Notes 9, 15, 17 and 19)	<b>1,732,780,944</b>	(1,640,732,477)
Foreign exchange gain (loss) – net	<b>288,975,040</b>	186,411,728
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 2, 10, 11 and 12)	<b>27,302,521</b>	77,998,388
	<b>2,049,058,505</b>	(1,376,322,361)
<b>INCOME BEFORE INCOME TAX</b>	<b>15,952,367,501</b>	14,282,847,290
<b>PROVISION FOR INCOME TAX (Note 21)</b>		
Current	<b>3,390,519,754</b>	2,631,911,756
Deferred	<b>312,438,470</b>	94,451,726
	<b>3,702,958,224</b>	2,726,363,482
<b>NET INCOME</b>	<b>₱12,249,409,277</b>	₱11,556,483,808
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent (Note 25)	<b>₱9,571,271,591</b>	₱8,387,509,486
Minority interests	<b>2,678,137,686</b>	3,168,974,322
	<b>₱12,249,409,277</b>	₱11,556,483,808
<b>Earnings Per Common Share (Note 25)</b>		
Basic	<b>₱15.66</b>	₱13.73

*See accompanying Notes to Consolidated Financial Statements.*

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended September 30</b>	
	<b>2008</b>	<b>2007 (Restated)</b>
<b>REVENUE</b>		
Sales:		
Merchandise	<b>₱26,527,309,909</b>	₱21,789,738,082
Real estate	<b>1,328,742,100</b>	628,358,417
Rent (Notes 12, 19 and 22)	<b>3,413,698,242</b>	2,728,521,408
Equity in net earnings of associates (Note 10)	<b>(319,992,168)</b>	1,057,786,864
Cinema ticket sales, amusement and others	<b>589,874,440</b>	648,919,889
Dividend income	<b>146,509,850</b>	261,896,742
Loss on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 7 and 9)	<b>(1,000,490,752)</b>	(343,277,986)
Management fees (Note 19)	<b>43,340,079</b>	21,113,769
Others	<b>1,015,403,146</b>	593,789,493
	<b>31,744,394,846</b>	27,386,846,678
<b>COST AND EXPENSES</b>		
Cost of sales:		
Merchandise (Note 20)	<b>21,515,786,525</b>	17,628,816,541
Real estate	<b>726,531,923</b>	421,905,978
Selling, general and administrative expenses	<b>5,283,832,069</b>	4,648,861,938
	<b>27,526,150,517</b>	22,699,584,457
<b>OTHER INCOME (CHARGES)</b>		
Interest income (expense) and others – net (Notes 9, 15, 17 and 19)	<b>485,974,904</b>	(548,762,794)
Foreign exchange gain (loss) – net	<b>131,328,168</b>	103,335,322
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 2, 10, 11 and 12)	<b>25,241,772</b>	23,763,384
	<b>642,544,844</b>	(421,664,088)
<b>INCOME BEFORE INCOME TAX</b>	<b>4,860,789,173</b>	4,265,598,133
<b>PROVISION FOR INCOME TAX (Note 21)</b>		
Current	<b>1,062,430,558</b>	786,481,407
Deferred	<b>179,385,634</b>	105,717,804
	<b>1,241,816,192</b>	892,199,211
<b>NET INCOME</b>	<b>₱3,618,972,981</b>	₱3,373,398,922
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent	<b>₱3,056,869,839</b>	₱2,654,586,874
Minority interests	<b>562,103,142</b>	718,812,048
	<b>₱3,618,972,981</b>	₱3,373,398,922
<b>Earnings Per Common Share</b>		
Basic	<b>₱5.00</b>	₱4.34

*See accompanying Notes to Consolidated Financial Statements.*

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	2007 (Restated)
<b>Common Stock - P10 par value</b> Authorized – 690,000,000 shares Issued – 611,023,038 shares	<b>P6,110,230,380</b>	P6,110,230,380
<b>ADDITIONAL PAID-IN CAPITAL</b> (Note 18)	<b>35,030,709,537</b>	35,030,709,537
<b>COST OF COMMON SHARES HELD BY SUBSIDIARIES</b> (Note 18)	<b>(24,077,988)</b>	(24,077,988)
<b>CUMULATIVE TRANSLATION ADJUSTMENT</b>	<b>807,262,820</b>	–
<b>NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENTS</b> (Note 7)	<b>1,786,872,061</b>	9,942,639,049
<b>RETAINED EARNINGS</b> (Note 18)		
Appropriated:	<b>5,000,000,000</b>	5,000,000,000
Unappropriated:		
Balance at beginning of period	<b>54,804,637,119</b>	46,206,903,642
Net income	<b>9,571,271,591</b>	8,387,509,486
Cash Dividends	<b>(3,605,035,924)</b>	(3,170,260,000)
Stock Dividends	–	(250,230,380)
Balance at end of period	<b>60,770,872,786</b>	51,173,922,748
	<b>65,770,872,786</b>	56,173,922,748
<b>MINORITY INTEREST</b>	<b>34,306,666,667</b>	33,829,165,934
	<b>P143,788,536,263</b>	P141,062,589,660

*See accompanying Notes to Consolidated Financial Statements.*

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱15,952,367,501</b>	₱14,282,847,290
Adjustments for:		
Depreciation and amortization	<b>3,680,825,078</b>	3,248,413,231
Interest expense (income) and others	<b>(1,732,780,944)</b>	1,640,732,477
Equity in net earnings of associates	<b>(942,389,385)</b>	(2,845,264,020)
Dividend income	<b>(656,229,582)</b>	(906,726,243)
Unrealized foreign exchange loss (gain)	<b>243,510,252</b>	(755,420,755)
Loss (gain) on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives – net	<b>666,514,666</b>	(582,738,942)
Gain on sale of investments in shares of stock, investment properties and property and equipment	<b>(27,302,521)</b>	(77,998,388)
Income before working capital changes	<b>17,184,515,065</b>	14,003,844,650
Decrease (increase) in:		
Receivables	<b>(9,344,658,034)</b>	(2,940,457,151)
Merchandise inventories	<b>(441,451,913)</b>	(322,335,757)
Input taxes and other current assets	<b>90,518,721</b>	(1,250,197,042)
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>25,953,983,339</b>	(4,524,147,837)
Defined benefit liability	<b>(198,325,284)</b>	(47,195,925)
Tenants' deposits and others	<b>(908,776,375)</b>	293,504,130
Net cash generated from (used in) operations	<b>32,335,805,519</b>	5,213,015,068
Income tax paid	<b>(4,083,242,287)</b>	(2,502,691,343)
Net cash provided by (used in) operating activities	<b>28,252,563,232</b>	2,710,323,725
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of:		
Investments held for trading	<b>2,417,918,001</b>	8,702,361,626
Available-for-sale investments	<b>303,578,704</b>	158,740,237
Investments in shares of stock	–	46,731,615
Investment properties	<b>56,845,316</b>	67,016,003
Property and equipment	<b>462,293,382</b>	2,711,590
Additions to:		
Investments held for trading	<b>(2,326,536,690)</b>	(7,620,680,461)
Property and equipment	<b>(5,748,711,567)</b>	(7,388,467,718)
Investment properties	<b>(5,378,204,601)</b>	(9,077,762,330)
Interest and others received	<b>4,638,282,039</b>	1,590,530,521
Dividends received	<b>2,543,004,570</b>	1,164,249,357
Decrease (increase) in:		
Available-for-sale investments	<b>(345,101,699)</b>	2,591,072,983
Investments in shares of stock of associates	<b>(1,200,000,000)</b>	(2,934,029,465)
Land and development	<b>(1,177,822,300)</b>	(149,528,421)
Other noncurrent assets	<b>(1,206,562,752)</b>	(1,018,552,648)
Time deposits	<b>(12,380,184,080)</b>	–
Net cash used in investing activities	<b>(19,341,201,677)</b>	(13,865,607,111)

(Forward)

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments of:		
Long-term debt	<b>26,818,397,019</b>	25,420,857,000
Bank loans	<b>9,198,398,112</b>	10,203,174,932
Payments of:		
Long-term debt	<b>(4,137,556,233)</b>	(6,435,537,076)
Bank loans	<b>(3,695,761,686)</b>	(14,540,463,847)
Notes payable	<b>(1,063,611,052)</b>	(1,746,898,971)
Interest	<b>(2,153,515,519)</b>	(2,784,075,098)
Dividends	<b>(5,108,435,257)</b>	(5,136,940,626)
Increase (decrease) in minority interests	<b>(1,418,197,878)</b>	4,675,292,780
Disposal of common shares held by subsidiaries	-	31,135,514
Net cash provided by financing activities	<b>18,439,717,506</b>	9,686,544,608
<b>EFFECT OF EXCHANGE RATE CHANGES</b>		
<b>ON CASH AND CASH EQUIVALENTS</b>	<b>213,509,413</b>	(812,963,591)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>27,564,588,474</b>	(2,281,702,369)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>		
<b>OF PERIOD</b>	<b>15,756,700,448</b>	21,037,492,714
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>₱43,321,288,922</b>	₱18,755,790,345

*See accompanying Notes to Consolidated Financial Statements.*

**SM INVESTMENTS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines. Its registered address is at the 10<sup>th</sup> floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-IA, 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, real estate development and tourism and financial services.

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

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**2. Basis of Preparation**

The consolidated financial statements of the Group have been prepared on the 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 Group'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 consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

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

Company	Effective Percentage of Ownership	
	September 30, 2008	December 31, 2007
Shopping Mall Development - SM Prime Holdings, Inc. (SM Prime) and Subsidiaries (see Note 4)	51	53
Retail Merchandising:		
Supervalu, Inc. (SVI)	100	100
Super Shopping Market, Inc. (SSMI)	100	100
Marketwatch Investments Co., Inc. (Marketwatch) and Subsidiaries	100	100
MH Holdings, Inc. (MH Holdings) and Subsidiaries	100	100
Sanford Investments Corporation (Sanford) and Subsidiary	100	100
Henfels Investments Corporation (Henfels) and Subsidiaries	99	99
HMS Development Corporation (HMS) and Subsidiaries	99	99
Romer Mercantile, Inc. (Romer) and Subsidiaries	99	99

Company	Effective Percentage of Ownership	
	September 30, 2008	December 31, 2007
SM Retail, Inc. (SM Retail)	99	99
Rappel Holdings, Inc. (Rappel) and Subsidiary (see Note 4)	80	80
Shoe Mart, Incorporated (Shoemart) (see Note 26)	-	65
SM Mart, Inc.	65	65
Real Estate Development and Tourism:		
Shoemart	67	-
Mountain Bliss Resort and Development Corporation and Subsidiary	100	100
SM Commercial Properties, Inc. and Subsidiary (formerly SM Land, Inc. and Subsidiary) <sup>a</sup>	99	99
Intercontinental Development Corporation (ICDC)	72	72
Bellevue Properties, Inc.	62	62
SM Development Corporation (SMDC) and Subsidiary	44	59
Financial Services -		
Primebridge Holdings, Inc. (Primebridge)	80	80
Others -		
Asia-Pacific Computer Technology Center, Inc. (APCTC) (see Note 4)	52	52
Multi Realty Development Corporation (MRDC)	51	-

*a Incorporated on October 20, 2006 and has not yet started commercial operations.*

On September 30, 2008, the SEC approved the change in name of SM Land, Inc. to SM Commercial Properties, Inc. (see Note 26).

On August 1, 2007, the Board of Directors approved to designate Shoemart as the holding entity for the various property projects of the SM Group. On October 8, 2007, the respective BOD of SMIC and Shoemart entered into an agreement whereby SMIC agreed to swap its 1,823,841,965 SMDC common shares in exchange for 372,212 Shoemart common shares based on an independent valuation of the respective shares by Macquarie Securities (Asia) Pte Limited. On January 24, 2008, the Philippine SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issuance of 372,212 Shoemart common shares. The share swap resulted into an increase of SMIC's ownership in Shoemart from 65% to 67% while the effective ownership in SMDC was reduced to 44% from 59%. The shares swap also resulted in SMDC becoming a 65% -owned subsidiary of Shoemart.

On January 21, 2008, the Philippine SEC also approved the increase in the authorized capital stock of Shoemart from ₱500 million to ₱1 billion. This increase is necessary to provide adequate capital to absorb the transfer of the real estate development and tourism operations to Shoemart.

In December 2007, SMIC acquired a total of 42.7 million additional SM Prime shares, which is equivalent to 0.34% of the total outstanding common stock of SM Prime, at an average price of ₱10.40 a share or for a total cost of ₱444.3 million. The acquisition of such minority interest resulted in goodwill amounting to ₱307.4 million (see Note 14).

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

All intragroup balances, income and expenses resulting from intragroup transactions 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 portion of profit or loss and net assets not held by the Group 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. Acquisitions of minority interest are accounted for using parent-entity method, whereby the difference is recognized as goodwill.

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### 3. Summary of Significant Accounting 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 and are subject to an insignificant risk of change in value.

#### Financial Assets and Liabilities

*Date of Recognition.* 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.

*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 designated at fair value through profit and loss (FVPL), includes transaction cost.

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

*Determination of Fair Value.* The fair value of financial instruments traded in active markets at 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 Profit.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where

use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing 'Day 1' profit amount.

#### Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account.

Financial assets 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 or recognizing gains or losses on a different basis; or
- the assets 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.

The Group's investments held for trading (see Note 7) and derivative assets (see Note 14) are classified under this category.

*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 financial assets or financial assets at FVPL. Loans and receivable are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. 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.

The Group's cash and cash equivalents, time deposits, short-term investments and receivables, including noncurrent portion of receivables from real estate buyers, are classified under this category (see Notes 5, 6, 8 and 14).

*HTM Investments.* HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. 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 a year from balance sheet date.

The Group has no investments classified under this category.

*AFS Financial Assets.* AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain on AFS investments in the stockholders' equity section of the consolidated balance sheets 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 equity is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest rate. Assets under this category are classified as current assets if expected to be realized within 12 months from balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date.

The Group's investments in shares of stock, redeemable preferred shares, government bonds and club shares are classified under this category (see Note 9).

#### Financial Liabilities

*Financial Liabilities at FVPL.* Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group's derivative liabilities arising from issuance of convertible bonds and future sale of AFS investments in San Miguel Corporation (SMC) common shares and derivative financial instruments with negative fair values are included under this category (see Notes 9 and 17).

*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.

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.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, notes payable, long-term debt and tenants' deposits are classified under this category (see Notes 15, 17, and 17).

#### 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; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; 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 Group 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.

#### Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

The redeemable preferred shares of the Group exhibit the characteristics of a financial liability and are thus recognized as a liability under “Long-term debt” account in the consolidated balance sheets, net of transaction costs. The corresponding dividends on the shares are charged as interest expense in the consolidated statements of income.

Transaction costs are amortized over the maturity period of the preferred shares using effective interest rate method.

#### Debt Issue Costs

Debt issue 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 Hedging

*Freestanding Derivative.* The Group uses derivative financial instruments such as long-term currency swaps, foreign currency call options, interest rate swaps and nondeliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group’s derivative instruments provide economic hedges under the Group’s policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

*Embedded Derivative.* The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. 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 or combined instrument is not recognized at fair value through profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

### Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group 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 Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

*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 profit and loss.

### Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

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

*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 Financial Assets.* If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

#### Offsetting Financial Instruments

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

#### Merchandise Inventories

Merchandise inventory is valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

#### Land and Development and Condominium Units for Sale

Land and development and condominium units for sale (included under "Input taxes and other current assets" account in the consolidated balance sheets) are stated at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs of completion and the estimated cost to make the sale. Cost includes those costs incurred for development and improvement of the properties.

#### 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 an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group'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 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 in 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 in any changes and discloses this, when applicable, in the consolidated statements of changes in stockholders' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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 in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

- 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 in the associate's profits or losses.
- b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is 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 financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

#### Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

Buildings, condominium units and improvements	5-25 years
Store equipment and improvements	5-10 years
Data processing equipment	5 years

Furniture, fixtures and office equipment	3-10 years
Machinery and equipment	5-10 years
Leasehold improvements	5-10 years or term of the lease, whichever is shorter
Transportation equipment	5-10 years

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

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

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

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

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

#### 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 are ready for use.

#### Investment Properties

Investment properties, except land, are measured initially at cost, including transaction costs, less accumulated depreciation and amortization and accumulated impairment in value. 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 as cost less any impairment in value.

Depreciation and amortization are 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

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.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, 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.

#### Business Combinations

Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired company, plus any directly attributable costs. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest.

#### 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 acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment in value.

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*.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

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, 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 and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Negative goodwill, which is not in excess of the fair values of acquired identifiable nonmonetary assets of subsidiaries and associates, is charged directly to income. Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

When a business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of goodwill associated with that transaction. Any adjustment to fair values relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in the consolidated statements of income.

#### Intangible Assets

The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The Group assessed the useful life of the trademarks and brand names to be indefinite because based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income when the asset is derecognized.

#### Impairment of Non-financial Assets with Definite Lives

The carrying values of property and equipment, investment properties, land and development and investments in shares of stock of associates are 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 the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment 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 or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### 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 when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery.

*Sale of Real Estate.* Revenue and costs from sale of completed projects are accounted for using the full accrual method. The percentage of completion method is used to recognize income from sale of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, sale is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical portion of the contract work. Any excess of collections over the recognized receivables is included in "Accounts payable and other current liabilities" 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 revenue are recognized.

For income tax purposes, full recognition is applied when at least 25% of the selling price has been collected in the period 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, as applicable.

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

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

*Dividend.* Revenue is recognized when the Group's right as a shareholder 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 asset.

#### Management Fees

Management fees are recognized as 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. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning 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 reporting date, divided by the expected average remaining working lives of active plan members.

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.

If the asset is measured at 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, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or if there is an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at 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. If there is no change or if there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

#### Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income.

### Foreign Currency Translation

The assets and liabilities of foreign operations of a subsidiary are translated into Philippine peso at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in 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 and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

Leases which do not transfer to the Group 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.

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

### Provisions

Provisions are recognized when the 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. 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 Group 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 construction in progress.

### Taxes

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

*Deferred Tax.* Deferred tax is provided using the balance sheet liability method on temporary differences at 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
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each 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 income tax asset to be utilized. Unrecognized deferred tax assets are

reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

*Value Added Tax.* Revenue, expenses and assets are recognized net of the amount of tax, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

#### Business Segments

The Group is organized and managed separately according to the nature of business. The three major operating businesses of the Group are shopping mall development, retail merchandising, and real estate development and tourism. These operating businesses are the basis upon which the Group reports its primary segment information.

#### Basic/Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent by the weighted-average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all dilutive potential ordinary shares.

#### 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. Contingent assets are 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 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. Business Combinations

##### Acquisition of Rappel

On July 27, 2007, Orkam Holding Asia N.V. sold its 40% equity in Rappel to Forsyth Equity Holdings, Inc. (Forsyth). On October 3, 2007, Forsyth sold the said shares to SMIC, which increased SMIC's direct ownership in Rappel from 40% to 80%. Rappel is an unlisted company engaged in the business of investing, purchasing, acquiring and owning real or personal property, including shares of stock, bonds and other forms of securities.

SMIC and Rappel directly owns 10% and 50% interests in Pilipinas Makro, Inc. (Makro), respectively. Makro is an unlisted company engaged in buying and selling of food and non-food items to registered customers at wholesale and/or retail under a warehouse club format. As a result of the acquisition of an additional 40% interest in Rappel, Makro also became a subsidiary of SMIC through the 60% direct and indirect ownership.

The fair values of the identifiable assets and liabilities of Rappel, which were determined only provisionally because fair values were not currently available as at the date of acquisition, and the corresponding carrying amounts immediately before the acquisition are as follows:

	Fair Value	Carrying Value
Cash and cash equivalents	P221,670	P221,670
Investment in Makro	1,713,181,750	1,713,181,750
	1,713,403,420	1,713,403,420
Trade and other payables	(245,411)	(245,411)
Net assets	1,713,158,009	1,713,158,009
% of ownership acquired	40%	40%
Net assets acquired	685,263,204	P685,263,204
Goodwill arising from acquisition (see Note 14)	243,171,074	
<b>Total consideration</b>	<b>P928,434,278</b>	

The acquisition cost and the net cash outflow on the acquisition are as follows:

Acquisition Cost:	
Cash paid	P928,166,527
Costs associated with the acquisition	267,751
	<b>P928,434,278</b>
Cash outflow on acquisition:	
Net cash acquired with the subsidiary	P221,670
Cash paid	(928,434,278)
<b>Net cash outflow</b>	<b>(P928,212,608)</b>

##### Acquisition of APCTC

On June 26, 2007, SMIC acquired additional 18,210 common shares of APCTC, which is equivalent to 15.10% of the issued and outstanding capital of APCTC. The acquisition increased SMIC's interest in APCTC from 36.69% to 51.79%, thereby gaining control. APCTC is an unlisted company engaged in selling computer and its peripherals and providing computer training and education services to college students.

The total cost of the acquisition, which was paid in cash, was ₱1.8 million. At acquisition date, the fair value of the net liabilities acquired amounted to ₱2.1 million, resulting in recognition of goodwill of ₱3.9 million. The amount of cash and cash equivalents acquired from APCTC amounted to ₱4.0 million, thus, the net cash inflow from the acquisition amounted to ₱2.2 million.

The acquisition cost of the initial 36.69% interest approximates the fair value of the net assets acquired, hence, no goodwill was recognized therefrom.

#### Acquisitions of three SM Malls in China

On November 13, 2007, the BOD of SM Prime approved the acquisition of 100% of the outstanding common shares of Affluent Capital Enterprises (Affluent) and MegaMake Enterprise Limited (MegaMake), holding companies of the three SM Malls in China, in exchange for SM Prime's common shares with a valuation based on the 30-day volume weighted average price of SM Prime. Affluent is an unlisted company which indirectly owns Xiamen SM City Co. Ltd., SM Shopping Center (Chengdu) Co. Ltd. and Xiamen SM Mall Management Co. Ltd., companies incorporated in the People's Republic of China. These companies are engaged in mall operations and development and construction of shopping centers and property management. Mega Make is an unlisted company which indirectly owns Fupu SM International Square Jinjiang City Fujian, a company incorporated in the People's Republic of China. It is engaged in mall operations and development and construction of shopping centers and property management.

On February 18, 2008, SM Prime executed the subscription agreements with Grand China Oriental Limited (Grand China) and Oriental Land Development Limited (Oriental Land) for the exchange of Affluent and MegaMake shares of stock valued at ₱10,827 million equivalent to 913 million shares of SM Prime's common stock to be issued upon the approval by the SEC and PSE.

On May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China and Oriental Land and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. The listing of the shares was completed on June 18, 2008.

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## 5. Cash and Cash Equivalents

This account consists of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Cash on hand and in banks (see Note 19)	<b>₱3,124,568,362</b>	₱4,405,076,696
Temporary investments (see Notes 15, 17 and 19)	<b>40,196,720,560</b>	11,351,623,752
	<b>₱43,321,288,922</b>	₱15,756,700,448

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 Group, and earn interest at the respective temporary investment rates.

## 6. Time Deposits and Short-term Investments

This account consists of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Time deposits:		
Pledged (see Note 17)	<b>₱6,534,068,750</b>	₱7,804,208,398
Not pledged	<b>16,398,234,000</b>	451,791,602
	<b>22,932,302,750</b>	8,256,000,000
Short-term investments	–	2,250,000
	<b>22,932,302,750</b>	8,258,250,000
Less current portion	<b>1,829,068,750</b>	4,130,250,000
Noncurrent portion	<b>₱21,103,234,000</b>	₱4,128,000,000

Time deposits amounting to US\$487.3 million (₱22,930.1 million) and US\$200.0 million (₱8,256.0 million) as of September 30, 2008 and December 31, 2007, respectively, bear annual interest ranging from 5.4% to 6.5% in 2008 and from 5.0% to 5.3% in 2007.

As of September 30, 2008 and December 31, 2007, the current portion of the time deposits amounted to US\$38.9 million (₱1,829.1 million) and US\$100.0 million (₱4,128.0 million), respectively. The noncurrent portion, which amounted to US\$100.0 million (₱4,705.0 million as of September 30, 2008 and ₱4,128.0 million as of December 31, 2007) and US\$348.5 million (₱16,396.0 million as of September 30, 2008), are due in October 2010 and July 2013, respectively.

A portion of the time deposits amounting to US\$138.9 million (₱6,534.1 million and ₱7,804.2 million as of September 30, 2008 and December 31, 2007, respectively) was used as collateral for a loan obtained by SMIC (see Note 17).

## 7. Investments Held for Trading and Sale

This account consists of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Investments held for trading:		
Shares of stock	<b>₱1,598,892,594</b>	₱2,506,275,272
Bonds	<b>454,801,141</b>	442,776,480
	<b>2,053,693,735</b>	2,949,051,752
Available-for-sale investments (see Note 9):		
Shares of stock	<b>26,071,007,375</b>	29,722,878,541
Bonds	<b>453,779,780</b>	453,779,780
	<b>26,524,787,155</b>	30,176,658,321
	<b>₱28,578,480,890</b>	₱33,125,710,073

The Group recognized ₱923.9 million unrealized loss and ₱483.2 million unrealized gain from fair value adjustments of investments held for trading for the nine months ended September 30, 2008 and 2007, respectively. Gain on sale of investments held for trading and available-for-sale investments amounted to ₱257.4 million and ₱179.8 million for the nine months ended September 30, 2008 and 2007, respectively. The amounts are included under “Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives” account in the consolidated statements of income.

## 8. Receivables

This account consists of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Trade:		
Tenants (see Note 19)	<b>₱2,103,232,206</b>	₱2,067,882,499
Banks, credit cards and others	<b>2,148,003,693</b>	1,981,882,633
Real estate buyers	<b>2,248,059,737</b>	1,683,041,800
Due from related parties (see Note 19)	<b>13,329,083,173</b>	6,526,144,634
Management fees (see Note 19)	<b>615,629,473</b>	450,505,721
Accrued interest (see Note 19)	<b>477,062,559</b>	268,418,253
Dividends	<b>253,063,549</b>	118,924,269
Others	<b>2,013,444,426</b>	2,234,812,605
<b>Total</b>	<b>23,187,578,816</b>	15,331,612,414
Less allowance for doubtful accounts	<b>11,796,185</b>	11,796,185
	<b>23,175,782,631</b>	15,319,816,229
Less noncurrent portion of receivables from real estate buyers (see Note 14)	<b>854,837,925</b>	877,590,159
<b>Current portion</b>	<b>₱22,320,944,706</b>	₱14,442,226,070

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

- Trade receivables from tenants, banks, credit cards and others and management fee receivables are noninterest-bearing and normally collectible on a 30 to 90 days' term. Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions.
- The terms and conditions relating to related party receivables are further discussed in Note 19.
- Accrued interest relates mostly to short-term time deposits that will mature within the next financial year. Interests on time deposits are collected at respective maturity dates.
- Other receivables are normally collectible within the next financial year.

The receivables, other than those identified as impaired, are assessed by the Group's management as good and collectible.

## 9. Available-for-Sale Investments

This account consists of investments in:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Shares of stock:		
Listed (see Note 26)	<b>₱29,053,093,771</b>	₱32,709,216,717
Unlisted (net of allowance for probable losses of ₱45,131,638)	<b>302,048,675</b>	304,528,812
Redeemable preferred shares (see Note 19)	<b>2,534,404,430</b>	2,218,254,419
Government Bonds	<b>399,298,840</b>	704,897,280
Club shares	<b>5,720,000</b>	5,150,000
	<b>32,294,565,716</b>	35,942,047,228
Less current portion (see Note 7)	<b>26,524,787,155</b>	30,176,658,321
Long-term portion	<b>₱5,769,778,561</b>	₱5,765,388,907

Investments in listed shares of stock include investments in SMC amounting to ₱19,851.9 million and ₱20,021.6 million as of September 30, 2008 and December 31, 2007, respectively. The investments consist of 339.3 million shares and carried initially at ₱19,852.9 million.

On October 31, 2007, SMIC and San Miguel Corporation Retirement Plan (SMCRP) executed a stock purchase agreement (the Agreement), wherein SMIC agreed to sell through the PSE its 339.3 million SMC common shares (sale shares) to SMCRP at an agreed price, payable on or before October 31, 2008, extendable for additional two (2) months up to December 31, 2008, subject to interest.

Under the terms of the Agreement, all rights to, interests and title in and ownership of the sale shares shall remain with SMIC, provided that upon receipt of the agreed consideration, the voting rights shall be transferred to SMCRP. Also, all dividends and other benefits, except for stock dividends, declared by SMC in relation to the sale shares shall accrue fully to SMIC. All stock dividends declared by SMC in relation to the sale shares shall accrue to SMIC and SMCRP proportionately to the consideration paid by SMCRP.

Should any part of the total consideration remain unpaid as of December 31, 2008, any payments made by SMCRP, including any stock dividends accruing to SMCRP, shall be forfeited in favor of SMIC as liquidated damages for the failure of SMCRP to consummate the contemplated transaction.

The agreement contains an embedded derivative.

The account also includes investments of SM Prime in redeemable preferred shares issued by local entities with annual dividend rates of 6.5% to 8.25% (see Note 19). 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. The shares are mandatorily redeemable in 2009 up to 2011. Preferred shares amounting to ₱1,500.0 million and ₱1,000.0 million, with an annual dividend rate of 10.46%, were early redeemed in July 2007 and August 2007, respectively.

Investments in government bonds were purchased with fixed interest rates ranging from 10.625% to 15.625%. These investments are peso-denominated and will mature on various dates starting April 1, 2008 until September 8, 2010.

## 10. Investments in Shares of Stock of Associates

The details of and movements in this account are as follows:

	September 30, 2008	December 31, 2007 (Restated)
Acquisition cost:		
Balance at beginning of period	P <b>29,283,425,734</b>	P37,175,626,751
Additions	<b>1,200,000,000</b>	2,879,051,231
Disposals/reclassifications	<b>10,010,913,092</b>	(10,771,252,248)
Balance at end of period	<b>40,494,338,826</b>	29,283,425,734
Accumulated equity in net earnings:		
Balance at beginning of period	<b>13,195,523,186</b>	9,801,150,448
Equity in net earnings	<b>942,389,385</b>	3,456,684,195
Dividends received	<b>(2,020,914,268)</b>	(615,196,406)
Accumulated equity (loss) in net earnings of investments sold/reclassified	<b>(413,358,489)</b>	534,975,313
Share in unrealized gain (loss) on AFS investments of associates - net	<b>(3,565,633,416)</b>	17,909,636
Balance at end of period	<b>8,138,006,398</b>	13,195,523,186
	<b>48,632,345,224</b>	42,478,948,920
Allowance for probable losses:		
Balance at beginning of period	-	430,000,000
Reclassification	-	(430,000,000)
Balance at end of period	-	-
	<b>P48,632,345,224</b>	P42,478,948,920

The reclassification of P430.0 million provision for probable losses relates to the acquisition of Makro through Rappel (see Note 4).

The major associates of the Group are as follows:

Company	Effective Percentage of Ownership		Principal Activities
	September 30, 2008	December 31, 2007	
MRDC	-	45	Others
Sodexo Pass, Inc.	<b>40</b>	40	Retail merchandising
Banco De Oro Unibank, Inc. (BDO)	<b>39</b>	38	Financial services
Highlands Prime, Inc. (Highlands Prime)	<b>24</b>	24	Real estate and tourism
China Banking Corporation (China Bank)	<b>20</b>	20	Financial services

On September 30, 2008, SMIC invested in 120 million Series A Preferred shares of BDO at a par value of ₱10 per share. The Preferred shares are perpetual, voting, non-cumulative, non-participating and are convertible into common shares of BDO on any trading day after three years from issue date based on a specified formula.

On August 29, 2006, SMIC and other related companies filed a Tender Offer with the Philippine SEC to acquire up to around 322.3 million shares representing 44.32% of the total outstanding common shares of EPCIB at ₱92 a share. The payment terms of the offer are as follows: 10% on October 2, 2006, 10% on June 2, 2007, 10% on February 2, 2008, and the remaining balance to be paid on October 2, 2008. The negotiated sale of 78.8 million shares representing 10.84% was also consummated with EBC Investments Inc. (EBCII) under the same terms and conditions of the Tender Offer.

The Tender Offer and the negotiated sale generated participation from shareholders with total shares of 377.7 million equivalent to 51.96% of EPCIB's total shares outstanding. The sellers included EBCII with 10.84% shareholdings, Government Service Insurance System (GSIS) with 13.55%, Social Security System (SSS) with 25.84%, and other individual shareholders with 1.73%.

SMIC and MRDC purchased on October 2, 2006 a total of 189.9 million shares for a total consideration of ₱17,469.0 million. The participation of SSS was conditional on the favorable outcome of its pending case in the Supreme Court. In November 2007, the Supreme Court dismissed with finality the legal proceedings because it found the case moot and academic. An entry of judgment of this dismissal order was issued on January 10, 2008. SSS sold its EPCIB shares to a related party of the Group on January 18, 2008, in accordance with the regulations set by Bangko Sentral ng Pilipinas (BSP).

Of the total tender offer shares, SMIC purchased 115.6 million shares and paid 30% of the total consideration as of March 31, 2008. The balance which is recorded at present value amounted to ₱7,442.5 million and ₱8,118.8 million as of September 30, 2008 and December 31, 2007, respectively. By virtue of the merger, the promissory notes issued to EBCII amounting to ₱5,075.2 million as of September 30, 2008 were assigned to BDO. The promissory notes were collateralized by a portion of investments available for sale, in compliance with the requirements of BSP.

The Group's share in the identifiable assets and liabilities of EPCIB as a result of the Tender Offer was finalized in 2007, which resulted to a positive goodwill amounting to ₱5,016.6 million. Positive goodwill is determined based on the excess of the cost of acquisition over SMIC's interest in the underlying fair values of the identifiable assets and liabilities.

On April 20, 2007 and May 27, 2007, the BSP and Philippine SEC, respectively, approved the merger of BDO and EPCIB, with BDO as the surviving entity. The merger, which took effect on May 31, 2007, was effected through a swap whereby BDO issued 1.8 of its shares for every EPCIB share. The Plan of Merger was approved by the shareholders of BDO and EPCIB in separate meetings on December 27, 2006.

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

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
BDO	<b>₱41,731,631,371</b>	₱34,944,448,736
China Bank	<b>5,332,147,547</b>	5,561,275,204
Highlands Prime	<b>1,568,566,306</b>	1,546,991,837
MRDC	–	426,233,143
	<b>₱48,632,345,224</b>	<b>₱42,478,948,920</b>

## 11. Property and Equipment

The movements in this account follow:

	December 31, 2007 (Restated)	Additions	Disposals/ Transfers	<b>September 30, 2008</b>
Cost:				
Land and improvements	₱2,203,517,166	₱17,351,677	(₱-)	<b>₱2,220,868,843</b>
Buildings, condominium units and improvements	3,963,522,460	184,578,504	499,481,119	<b>4,647,582,083</b>
Store equipment and improvements	4,587,694,448	201,805,155	397,804,874	<b>5,187,304,477</b>
Data processing equipment	2,945,671,657	514,079,729	(255,079,584)	<b>3,204,671,802</b>
Furniture, fixtures and office equipment	1,436,462,274	169,311,229	(66,799,925)	<b>1,538,973,578</b>
Machinery and equipment	1,809,895,243	105,980,230	(118,594,325)	<b>1,797,281,148</b>
Leasehold improvements	1,995,719,179	111,295,025	(373,741,175)	<b>1,733,273,029</b>
Transportation equipment	545,734,150	54,272,547	6,897,299	<b>606,903,996</b>
	<b>19,488,216,577</b>	<b>1,358,674,096</b>	<b>89,968,283</b>	<b>20,936,858,956</b>
Accumulated depreciation and amortization:				
Buildings, condominium units and improvements	1,491,450,759	187,718,647	381,635,073	<b>2,060,804,479</b>
Store equipment and improvements	2,901,926,854	517,176,795	175,325,794	<b>3,594,429,443</b>
Data processing equipment	1,983,165,988	194,009,862	226,616,144	<b>2,403,791,994</b>
Furniture, fixtures and office equipment	785,662,070	198,491,314	(99,092,404)	<b>885,060,980</b>
Machinery and equipment	1,375,372,987	108,204,782	(89,043,507)	<b>1,394,534,262</b>
Leasehold improvements	1,095,762,624	193,963,598	(275,182,149)	<b>1,014,544,073</b>
Transportation equipment	244,142,067	56,876,488	40,351,710	<b>341,370,265</b>
	<b>9,877,483,349</b>	<b>1,456,441,486</b>	<b>360,610,661</b>	<b>11,694,535,496</b>
Net book value	9,610,733,228	(97,767,390)	(270,642,378)	<b>9,242,323,460</b>
Construction in progress	9,710,537,212	7,244,632,134	(6,038,514,500)	<b>10,916,654,846</b>
	<b>₱19,321,270,440</b>	<b>₱7,146,864,744</b>	<b>₱(6,309,156,878)</b>	<b>₱20,158,978,306</b>

The construction in progress account includes shopping mall complex under construction of SM Prime. As of September 30, 2008, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City North Edsa Expansion, SM Supercenter Rosales, SM Supercenter Baliuag, SM City Naga and SM City Xiamen Expansion.

Construction in progress includes cost of land amounting to ₱1,997.4 million and ₱2,210 million as of September 30, 2008 and December 31, 2007.

Interest capitalized to shopping mall under construction amounted to ₱781.0 million and ₱1,201.0 million for the nine months ended September 30, 2008 and year ended December 31, 2007, respectively. Capitalization rates used were 9.47% in 2008 and 9.01% in 2007.

## 12. Investment Properties

The movements in this account follow:

	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
<b>Cost</b>				
Balance at December 31, 2006	₱14,753,173,094	₱45,499,385,424	₱9,039,824,934	₱69,292,383,452
Additions	1,339,232,722	2,470,779,776	1,006,191,830	4,816,204,328
Reclassifications	1,488,533,189	9,363,611,475	1,556,123,310	12,408,267,974
Disposals	–	–	–	–
Balance at December 31, 2007	17,580,939,005	57,333,776,675	11,602,140,074	86,516,855,754
Additions	2,054,315,139	886,230,408	247,902,232	3,188,447,779
Reclassifications	1,348,367,329	5,683,919,907	389,215,274	7,421,502,510
Disposals	(37,499,852)	–	–	(37,499,852)
Balance at September 30, 2008	20,946,121,621	63,903,926,990	12,239,257,580	97,089,306,191
<b>Accumulated Depreciation, Amortization and Impairment Losses</b>				
Balance at December 31, 2006	351,995,000	8,507,839,604	4,010,940,568	12,870,775,172
Additions	–	1,723,625,516	699,570,054	2,423,195,570
Reclassifications	–	372,443,855	223,071,229	595,515,084
Disposed business - MRDC	–	(5,495,002)	–	(5,495,002)
Balance at December 31, 2007	351,995,000	10,598,413,973	4,933,581,851	15,883,990,824
Impairment Loss				
Additions	14,863,513	1,496,928,564	615,438,429	2,127,230,506
Reclassifications	–	88,584,427	22,895,296	111,479,723
Balance at September 30, 2008	366,858,513	12,183,926,964	5,571,915,576	18,122,701,053
<b>Net Book Value</b>				
<b>As of September 30, 2008</b>	<b>₱20,579,263,108</b>	<b>₱51,720,000,026</b>	<b>₱6,667,342,004</b>	<b>₱78,966,605,138</b>
As of December 31, 2007 (Restated)	₱17,228,944,005	₱46,735,362,702	₱6,668,558,223	₱70,632,864,930

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### 13. Land and Development and Condominium Units for Sale

Land and development, which amounted to ₱5,068.8 million as of September 30, 2008 and ₱3,891.0 million as of December 31, 2007, include land and cost of the condominium projects.

On February 24, 2006, SMDC entered into a joint venture agreement (JVA) with BDO to develop certain properties of BDO located in Quezon City into the “Mezza Residences” (Mezza Project), a residential/commercial condominium project. Under the agreement, SMDC and BDO agreed to share the net saleable area of the Mezza Project on an agreed sharing percentage, among others. In October 2006, SMDC started the construction of the Mezza Project.

On August 2, 2007, the BOD of SMDC authorized the negotiation with BDO for the purchase of the properties of BDO located in Quezon City subject of JVA together with BDO’s rights and interests in the JVA. On August 28, 2007, SMDC confirmed its interest in purchasing BDO’s rights and interests for ₱554.6 million and BDO agreed to the terms on which the sale shall be executed.

SMDC assessed that the risks and rewards on the BDO’s rights and interests have been transferred to the Company as of December 31, 2007 and accordingly recorded the transaction as acquisition of land at ₱554.6 million. The acquisition of BDO’s rights and interests in the Mezza Project was fully settled on April 2, 2008 and the Deed of Sale between SMDC and BDO for the said properties was executed on March 28, 2008.

As of September 30, 2008, the Mezza project has a market take up of 88.6%, valued at ₱3.5 billion and the total estimated cost to complete the Mezza project amounted to ₱496.8 million.

In 2003, SMDC commenced the construction of its condominium project - the “Chateau Elysee”. The “Chateau Elysee” is 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 98%, valued at ₱378.7 million as of September 30, 2008. Construction of Cluster two started in 2005, with market take-up of 96%, valued at ₱498.2 million as of September 30, 2008. Construction of Cluster three started in 2006, with market take-up of 95%, valued at ₱581.1 million as of September 30, 2008. Construction of Clusters one, two and three were already completed as of September 30, 2008. Construction of Cluster six started in 2007, with market take-up of 55%, valued at ₱418.2 million as of September 30, 2008. Total estimated cost to complete Cluster six amounted to ₱163.8 million as of September 30, 2008. Construction of Cluster 5 commenced in 2008 while construction of Cluster 4 has not yet started as of September 30, 2008.

In 2008, SMDC launched its two projects, namely, Grass Residences, a three tower condominium near SM North Edsa in Quezon City and Berkeley Residences, a 35-storey condominium building along Katipunan Avenue. The construction of Berkeley started on January 18, 2008 and the total estimated cost of the project amount to ₱1.4 billion and it has 66% market take up as of September 30, 2008. The construction of Tower One of Grass started in March 2008 and the total estimated cost of Tower One is ₱1.7 billion. It has 52% market take up as of September 30, 2008.

SMDC has also acquired several parcels of land for future development with aggregate carrying value of ₱2,331.9 million and ₱1,917.1 million as of September 30, 2008 and December 31, 2007, respectively.

Condominium units for sale which amounted to P53.2 million and P86.4 million as of September 30, 2008 and December 31, 2007, respectively are stated at cost. The amounts were included under "Input taxes and other current assets" account in the consolidated balance sheets.

On June 30, 2004, SMDC entered into a JVA with 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 P1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties as agreed upon based on the original JVA. In case the reduction goes lower than P1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties.

As of September 30, 2008, the development of the Project has not yet started.

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#### 14. Intangibles and Other Noncurrent Assets

These accounts consist of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
<b>Intangibles:</b>		
Trademarks and brand names (see Note 4)	<b>P6,124,762,000</b>	P6,124,762,000
Goodwill	<b>5,669,888,329</b>	5,669,888,329
	<b>P11,794,650,329</b>	P11,794,650,329
<b>Other noncurrent assets:</b>		
Deferred tax assets (see Note 21)	<b>P1,611,995,413</b>	P1,439,338,317
Deposits and advance rentals	<b>1,639,087,096</b>	1,402,596,267
Receivables from real estate buyers (see Note 10)	<b>854,837,925</b>	877,590,159
Defined benefit asset	<b>45,829,870</b>	45,829,870
Escrow fund	<b>456,839,223</b>	3,524,743,951
Others	<b>1,889,637,967</b>	1,581,748,482
	<b>P6,498,227,494</b>	P8,871,847,046

Trademarks and brand names acquired in a business combination in 2006 were assessed to have an indefinite useful life. The Relief-from-Royalty method was used in determining the recoverable amount of trademarks and brand names for impairment testing. The royalty rate used was 3.5%, which is the prevailing royalty rate in the retail assorted category where SVI and SSMI fall. As of December 31, 2007 and 2006, no impairment loss was identified.

The recoverable amount of goodwill has been determined using the cash flow projections based on the financial budgets approved by senior management covering a 5-year period. The pre-tax discount rates applied to cash flow projections ranged from 13.34% to 14.84%. The discount rates were determined based on the yield of a 20-year government bonds at the beginning of the forecasted year. The discount rates also imputes the risk of the cash-generating units compared to the respective risk of the overall market, and equity risk premium. Management assessed no impairment loss in the value of goodwill.

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 future rentals. Consequently, the said deposits and advance rentals are not remeasured at amortized cost.

“Others” account pertains mostly to advances for project developments of SMDC.

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## 15. Bank Loans

This account consists of:

	<b>September 30, 2008</b>	December 31, 2007 (Restated)
Parent Company:		
Peso-denominated loans	<b>₱1,200,000,000</b>	–
Subsidiaries:		
U.S. dollar-denominated loans	–	₱190,920,000
Peso-denominated loans	<b>7,340,196,693</b>	2,846,640,267
	<b>₱8,540,196,693</b>	<b>₱3,037,560,267</b>

The US dollar-denominated loans amounting to US\$4.6 million (₱190.9 million) as of December 31, 2007 bear annual interest rates ranging from 4.90% to 5.45%. The peso-denominated loans bear annual interest rates ranging from 5.00% to 8.50% in 2008 and 2007.

A portion of these loans is collateralized by temporary investments and property and equipment in accordance with the regulations of the BSP. The carrying values of the collaterals approximate the amounts of the loans.

## 16. Accounts Payable and Other Current Liabilities

This account consists of:

	September 30, 2008	December 31, 2007 (Restated)
Trade	<b>₱12,332,947,606</b>	₱15,255,407,160
Nontrade and others	<b>27,461,235,845</b>	1,519,515,807
Accrued expenses and others (see Note 19)	<b>9,090,633,141</b>	6,153,302,525
Due to related parties (see Note 19)	<b>1,962,285,048</b>	1,955,988,741
Accrued interest (see Note 19)	<b>929,959,746</b>	553,893,696
Gift checks redeemable	<b>249,280,678</b>	224,975,829
	<b>₱52,026,342,064</b>	₱25,663,083,758

The terms and conditions of the above financial liabilities are as follows:

- Trade payables are noninterest-bearing and are normally settled on a 30 to 60 days' term.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.
- Accrued interest pertains to unpaid interest on bank loans and long-term debt which are normally settled quarterly or semi-annually.
- Nontrade payables are expected to be settled within the next financial year.
- Gift checks are redeemable at face value.
- The terms and conditions relating to related party payables are further discussed in Note 19.

## 17. Long-term Debt

This account consists of:

	September 30, 2008			December 31, 2007 (Restated)		
	Gross Amount	Debt Issue Cost	Net Amount	Gross Amount	Debt Issue Cost	Net Amount
Parent Company:						
U.S. dollar-denominated-						
Fixed Rate Bonds	<b>₱16,467,500,000</b>	<b>(₱154,795,014)</b>	<b>₱16,312,704,986</b>	₱-	₱-	₱-
Convertible Bonds	<b>13,461,443,269</b>	<b>(105,863,321)</b>	<b>13,355,579,948</b>	11,260,034,544	(123,414,962)	11,136,619,582
Peso-denominated:						
Bank loans collateralized						
with time deposits	<b>6,000,000,000</b>	<b>(24,981,935)</b>	<b>5,975,018,065</b>	6,000,000,000	(28,934,582)	5,971,065,418
Preferred shares	<b>3,500,000,000</b>	<b>(16,800,352)</b>	<b>3,483,199,648</b>	3,500,000,000	(19,550,618)	3,480,449,382
Other bank loans	<b>10,050,000,000</b>	<b>(42,295,907)</b>	<b>10,007,704,093</b>	6,500,000,000	(27,425,829)	6,472,574,171
Subsidiaries:						
U.S. dollar-denominated-						
Five-year syndicated loan	<b>7,057,500,000</b>	<b>(51,253,504)</b>	<b>7,006,246,496</b>	6,192,000,000	(88,026,478)	6,103,973,522
Peso-denominated:						
Five-year, Seven-year, Ten-year fixed rate notes	<b>3,000,000,000</b>	<b>(24,971,633)</b>	<b>2,975,028,367</b>	-	-	-
Five-year floating rate notes	<b>3,998,000,000</b>	<b>(24,552,717)</b>	<b>3,973,447,283</b>	4,000,000,000	(29,494,201)	3,970,505,799
Five-year bilateral loans	<b>3,250,000,000</b>	<b>(16,485,554)</b>	<b>3,233,514,446</b>	3,250,000,000	(20,982,666)	3,229,017,334
Five-year syndicated loans	<b>506,250,000</b>	<b>(4,888,508)</b>	<b>501,361,492</b>	1,125,000,000	(10,233,100)	1,114,766,900
Other bank loans	<b>2,200,000,000</b>	<b>(15,834,969)</b>	<b>2,184,165,031</b>	2,200,000,000	(13,092,500)	2,186,907,500

	September 30, 2008			December 31, 2007 (Restated)		
	Gross Amount	Debt Issue Cost	Net Amount	Gross Amount	Debt Issue Cost	Net Amount
Renminbi-denominated:						
Ten-year bilateral loan	3,436,300,000	-	3,436,300,000	-	-	-
Seven-year loan	1,065,253,000	-	1,065,253,000	875,781,000	-	875,781,000
Five-year syndicated loan	-	-	-	1,977,570,000	-	1,977,570,000
	73,992,246,269	(482,723,414)	73,509,522,855	46,880,385,544	(361,154,936)	46,519,230,608
Less current portion	809,291,000	(5,288,508)	804,002,492	1,405,645,000	(7,274,048)	1,398,370,952
Noncurrent portion	₱73,182,955,269	(₱477,434,906)	₱72,705,520,363	₱45,474,740,544	(₱353,880,888)	₱45,120,859,656

## Parent Company

### Bonds

On July 17, 2008, SMIC issued US\$350 million bonds which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed before then at the option of the relevant holder on July 18, 2011 at their principal amount.

### Convertible Bonds

The US\$300.0 million (financial liability component amounted to ₱13,461.4 million) Convertible Bonds (the Bonds) were issued on March 19, 2007 and will mature on March 20, 2012. The Bonds carry a zero coupon with a yield to maturity of 3.5%.

The Bonds are convertible, at the option of the holders, into SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted, or purchased and cancelled. Conversion price is the equivalent of ₱453.39 a share, after giving effect to the 4.27% stock dividend declared on April 25, 2007 (see Note 18). On March 19, 2010, the bondholders may avail of the early redemption option at the fixed price of 110.97%. The Bonds will be redeemed upon maturity at 118.96% of the principal amount.

The bonds contain embedded derivatives.

### Bank Loans Collateralized with Time Deposits

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest at the three-month Philippine Dealing System Treasury - Fixing (PDST-F) rate plus a margin of 0.375% per annum, payable quarterly in arrears. The loan is collateralized by SMIC's time deposits amounting to US\$138.9 million (₱6,534.1 million) (see Note 6) and several parcels of land included under, "Investment properties" account.

### Preferred Shares

On August 6, 2007 and November 6, 2007, SMIC issued Series 1 and Series 2 of nonconvertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. Each share has a par value of ₱10 a share and an offer price of ₱10,000 a share.

The Series 1 preferred shares carry a fixed dividend rate of 7.5% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus a margin of 75 basis points (bps). The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

The preferred shares are redeemable on August 6, 2012 at redemption price, which consists of (1) 100% of the offer price; (2) all unpaid cash dividends accruing thereon, if any, and/or in the event no cash dividends are declared for the relevant period, an amount equivalent to the sum of

the cash dividends on the preferred shares had dividends been declared and paid for the relevant period; and (3) any charges on unpaid amounts due then outstanding. SMIC has an option to early redeem the preferred shares subject to certain conditions.

Other Peso Bank Loans

This account includes the following:

	<b>September 30, 2008</b>	December 31, 2007
Seven-year term loans	<b>₱6,500,000,000</b>	₱5,000,000,000
Ten-year term loans	<b>2,050,000,000</b>	–
Five-year term loan	<b>1,000,000,000</b>	1,000,000,000
Series “A” Floating rate notes	<b>500,000,000</b>	500,000,000
	<b>₱10,050,000,000</b>	₱6,500,000,000

In April 2008, SMIC obtained a seven-year and ten-year term loan amounting to ₱500.0 million each, which bear a fixed interest of 8.56% and 8.79%, respectively.

In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest of 7.28% per annum.

In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear a fixed interest of 6.85% and 6.71% per annum, respectively.

In October 2007, SMIC obtained two seven-year term loans at a principal amount of ₱2,000.0 million each, wherein one bears a fixed interest of 6.90% and the other bears a floating interest based on three-month PDST-F plus a margin of 0.125% per annum. On November 23, 2007, SMIC also availed another seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest of 6.91% annually, payable quarterly.

On October 11, 2006 and November 8, 2006, SMIC obtained five-year term loans amounting to ₱600.0 million and ₱400.0 million, respectively, which bear fixed interest rate of 7.59% and 6.65%, respectively.

The five-year Series A notes bears interest at the three-month Treasury Bill rate plus a spread of 1.00% per annum, payable quarterly in arrears and have a maturity date of October 28, 2010.

Subsidiaries

US dollar-denominated Five-Year Syndicated Loan

The US\$150.0 million (₱7,057.5 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 London Inter-Bank Offered Rate (LIBOR) plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1%.

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%, and will mature on June 17, 2013, 2015 and 2018, respectively.

Philippine Peso-denominated Five-Year Floating Rate Notes

This represents a five-year bullet term loan obtained by SM Prime on June 18, 2007 and July 9, 2007 amounting to ₱4,000.0 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin.

Philippine Peso-denominated Five-Year Bilateral Loans

This consists of a ₱3,000.0 million five-year bullet term loan obtained by SM Prime on June 21, 2006 that will mature on June 21, 2011, and a ₱250 million five-year term loan obtained by two subsidiaries of SM Prime on September 28, 2007 and November 6, 2007 to finance the construction of a project called San Miguel by the Bay. The ₱250.0 million five-year term loan is payable in quarterly installments of ₱15.6 million starting December 2008 up to September 2012. Both loans carry an interest rate based on PDST-F plus an agreed margin.

Philippine Peso-denominated Five-Year Syndicated Loans

This 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. Starting April 2007, the fixed interest rate of 8% was reduced to 7.0625%. The outstanding balance of the loan as of September 30, 2008 and December 31, 2007 amounted to ₱106.2 million and ₱425.0 million, respectively.

In 2004, Consolidated Prime Dev. 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 October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. Starting April 2007, the fixed interest rate of 9.66% was reduced to 6.75%. The outstanding balance of the loan as of September 30, 2008 and December 31, 2007 amounted to ₱400.0 million and ₱700.0 million, respectively.

Other Bank Loans

This account consists of the following:

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200.0 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016.
- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000.0 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The entire loan was prepaid in March 2008. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱3.6 million.
- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000.0 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 6.82%.

China Yuan Renminbi-denominated Ten-Year Bilateral Loan

This represents a ten year loan to finance the construction of shopping malls obtained on June 11, 2008. The loan is payable in unequal annual installments until 2018. The interest rate is based on the PBOC plus an agreed margin.

China Yuan Renminbi-denominated Seven-Year Loan

This represents a seven-year loan obtained on December 28, 2005 to finance the construction of shopping malls. The loan is payable in unequal annual installments with two years grace period until December 2012. The loan carries an interest rate based on PBOC less an agreed margin.

China Yuan Renminbi-denominated Five-Year Syndicated Loan

This represents a five-year syndicated loan obtained on June 9, 2006 to finance the construction of shopping malls. The loan is payable in equal quarterly installments until June 9, 2011. The interest rate is based on the applicable basic rate at drawdown dates and re-priced on each anniversary date. The loan was prepaid in June 2008.

The China yuan renminbi-denominated loans are secured by investment properties in China.

As of September 30, 2008 and December 31, 2007, investments held for trading and temporary investments totaling ₱1,563.0 million and ₱1,388.0 million, respectively, were pledged to secure the loans in compliance with the requirements of the BSP. In accordance with the loan agreement, SM Prime has the option to substitute the pledged investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 19). The re-pricing frequencies of floating rate loans range from three to six months.

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
2008	₱809,291,000	(₱5,288,508)	₱804,002,492
2009	7,394,904,000	(51,653,504)	7,343,250,496
2010	871,767,000	(2,555,907)	869,211,093
2011	4,543,582,000	(15,285,554)	4,528,296,446
2012	43,839,299,269	(326,993,339)	43,512,305,930
2013	2,412,356,000	(15,630,097)	2,396,725,903
2014	7,446,719,000	(39,037,755)	7,407,681,245
2015	2,152,897,000	(7,500,000)	2,145,397,000
2016	1,371,815,000	(8,528,750)	1,363,286,250
2018	3,149,616,000	(10,250,000)	3,139,366,000
<b>Total</b>	<b>₱73,992,246,269</b>	<b>(₱482,723,414)</b>	<b>₱73,509,522,855</b>

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 September 30, 2008 and December 31, 2007, the Group is in compliance with the terms of its loan covenants.

Time deposits amounting to ₱22,932.3 million as of September 30, 2008 are intended to be used for payment of the long-term debt maturing in 2012 (see Note 6).

## 18. Stockholders' Equity

### Capital Stock

The details of and movements in SMIC's common stock, with a par value of ₱10 a share, are as follows:

	Number of Shares			
	Authorized		Issued and Subscribed	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Balance at beginning of year	<b>690,000,000</b>	600,000,000	<b>611,023,038</b>	586,000,000
Additions	-	100,000,000	-	-
Reclassification to preferred stock (see Note 17)	-	(10,000,000)	-	-
Stock dividends	-	-	-	25,023,038
Balance at end of year	<b>690,000,000</b>	690,000,000	<b>611,023,038</b>	611,023,038

On April 25, 2007, the BOD approved the increase in SMIC's authorized capital stock from ₱6,000.0 million, consisting of 590,000,000 common shares and 10,000,000 non-voting, cumulative and redeemable preferred shares both with a par value of ₱10 a share, to ₱7,000.0 million, consisting of 690,000,000 common shares and 10,000,000 non-voting, cumulative and redeemable preferred shares both with par value of ₱10 a share. On the same day, the stockholders, which represent at least two-thirds of the outstanding capital stock of SMIC, approved via a written assent the amendment of the articles of incorporation to increase the authorized capital stock. The Philippine SEC approved the increase in the authorized capital stock on June 14, 2007.

On December 12, 2006, the BOD approved an amendment to the Articles of Incorporation of SMIC to reclassify 10 million of its unissued shares into preferred shares. On January 16, 2007, the amendment was approved via written assent of the stockholders representing at least two-thirds of the outstanding capital stock of SMIC. The Philippine SEC approved the reclassification of unissued shares on March 5, 2007. The terms of the preferred shares are further discussed in Note 17.

On June 27, 2007, the PSE approved the application of SMIC to list additional 30,694,870 common shares to cover the issuance of convertible bonds.

### Cost of Common Shares Held by Subsidiaries

Certain subsidiaries hold common shares of the Parent Company. This is presented as "Cost of common shares held by subsidiaries" and is treated as a reduction in equity as shown in the consolidated balance sheets and consolidated statements of changes in stockholders' equity.

### Retained Earnings

On April 25, 2008, the BOD approved the declaration of cash dividends of 59% of the par value or ₱5.90 a share for a total amount of ₱3,605.0 million in favor of stockholders of record as of May 25, 2008. This was paid on June 21, 2008.

On April 25, 2007, the BOD approved the declaration of the following dividends:

- a. Cash dividends of 54.1% of the par value or ₱5.41 a share for a total amount of ₱3,170.3 million in favor of stockholders of record as of May 25, 2007. This was paid on June 21, 2007.

- b. Stock dividends of 4.27% equivalent to 25,023,038 million common shares to all stockholders as of June 28, 2007. This shall constitute the minimum subscription and paid capital requirement to the increase in the authorized capital stock of ₱1,000.0 million as discussed above.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱45,087.7 million and ₱43,949.2 million as of September 30, 2008 and December 31, 2007, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

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## 19. Related Party Transactions

### Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at normal market prices. For the nine months ended September 30, 2008 and 2007, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year by 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 spaces with related companies. Total rent income amounted to ₱1,744.4 million and ₱1,270.8 million for the nine months ended September 30, 2008 and 2007, respectively, and related rent receivables amounted to ₱589.2 million and ₱1,952.8 million as of September 30, 2008 and December 31, 2007, respectively.

### 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 ₱373.9 million and ₱342.0 million for the nine months ended September 30, 2008 and 2007, respectively. The related management fees payable amounted to ₱60.4 million and ₱61.5 million as of September 30, 2008 and December 31, 2007, respectively.

The Parent Company and a subsidiary also receive management fees from related companies for management and consultancy services. The annual management fees are based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱255.0 million and ₱132.7 million for the nine months ended September 30, 2008 and 2007, respectively. Accrued management fees receivable amounted to ₱615.6 million and ₱450.5 million as of September 30, 2008 and December 31, 2007, respectively.

### Cash Placements and Loans

The Group has certain bank accounts and cash placements that are maintained with BDO and China Banking Corporation amounting to ₱38,535.4 million and ₱12,538.0 million as of September 30, 2008 and December 31, 2007, respectively, which earn interest based on prevailing interest rates. Pledged time deposits amounting to ₱22,930.1 million and ₱8,256.0 million as of September 30, 2008 and December 31, 2007, respectively, were deposited with BDO. The related

accrued interest receivables amounted to ₱419.3 million and ₱165.4 million as of September 30, 2008 and December 31, 2007, respectively (see Notes 15 and 17).

SM Prime has investments in preferred shares of BDO (see Note 9).

Others

The Group, in the normal course of business, has outstanding advances to related companies amounting to ₱13,329.1 million and ₱6,526.1 million as of September 30, 2008 and December 31, 2007 respectively. Advances from related parties amounted to ₱1,962.3 million and ₱1,956.0 million as of September 30, 2008 and December 31, 2007, respectively.

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**20. Cost of Sales - Merchandise**

This account consists of:

	<b>September 30, 2008</b>	September 30, 2007
Merchandise inventories at beginning of period	<b>₱5,958,301,914</b>	₱4,488,187,321
Add purchases	<b>64,279,146,090</b>	52,581,885,562
Total goods available for sale	<b>70,237,448,004</b>	57,070,072,883
Less merchandise inventories at end of period	<b>6,399,753,827</b>	4,810,523,078
	<b>₱63,837,694,177</b>	₱52,259,549,805

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**21. Income Tax**

The deferred tax asset of ₱1,612.0 million as of September 30, 2008 and ₱1,439.3 million as of December 31, 2007, 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, unrealized foreign exchange losses, unamortized past service cost, NOLCO, accrued retirement benefits, deferred income on sale of real estate and MCIT.

The deferred tax liabilities of ₱4,058.2 million as of September 30, 2008 and ₱3,517.7 million as of December 31, 2007 consist of the tax effects of trademarks and brand names, capitalized interest, unamortized past service cost and defined benefit asset, unrealized gross profit on sale of real estate, unrealized mark-to-market gain on investments 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.

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**22. 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, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise

pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments generally are computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

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### **23. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise bank loans, long-term debt, AFS investments, investments held for trading and cash and cash equivalents. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps, cross currency swaps, call options and nondeliverable forwards. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and agrees policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of September 30, 2008:

	1-2 years	2-3 Years	3-5 Years	Over 5 Years	Total		Total (Net of Debt Issue Cost)		Fair Value	
					In Dollars	In Pesos	In Dollars	In Pesos	In Dollars	In Pesos
<i>(in Millions)</i>										
Liabilities										
Long-term Debt										
Fixed Rate:										
US\$300 million convertible bonds			281.6		281.6	13,461.4	283.9	13,355.6	267.3	12,575.8
Interest rate			3.500%							
US\$350 million fixed rate loan			350.0		350.0	16,467.5	346.7	16,312.7	343.6	16,168.3
Interest rate			6.750%							
Peso denominated preferred shares, series 1			3,300.0		70.1	3,300.0	69.8	3,283.9	92.8	4,364.8
Interest rate			7.510%							
Peso five-year syndicated loan	506.3				10.8	506.3	10.7	501.4	10.7	501.4
Interest rate	6.75% - 7.06%									
Peso fixed rate notes				3,000.0	63.8	3,000.0	63.2	2,975.0	63.2	2,975.0
Interest rate				9.31%-9.60%-9.85%						
Other bank loans			5,500.0	4,250.0	207.2	9,750.0	206.2	9,703.0	211.0	9,925.3
Interest rate			6.6483%-8.5692%	6.7077% - 9.75%						
Variable Rate:										
US\$150 million five-year syndicated loan		150.0			150.0	7,057.5	148.9	7,006.2	148.9	7,006.2
Interest rate		LIBOR+margin%								
C.Y. renminbi seven-year bilateral loan	¥30.0	¥30.0	¥35.0	¥60.0	22.6	1,065.3	22.6	1,065.3	22.6	1,065.3
Interest rate	PBOC-margin%	PBOC-margin%	PBOC-margin%	PBOC-margin%						
C.Y. renminbi nine-year loan	¥5.0	¥10.0	¥10.0	¥80.0	73.0	3,436.3	73.0	3,436.3	73.0	3,436.3
Interest rate										
Peso Series A floating loan		500.0			10.6	500.0	10.6	497.8	10.1	475.5
Interest rate		7.194%								
Peso redeemable preferred shares, series 2			200.0		4.3	200.0	4.2	199.3	4.2	199.3
Interest rate			6.889%							
Peso five-year floating rate loan				3,998.0	85.0	3,998.0	84.5	3,973.4	84.5	3,973.4
Interest rate				PDST-F+margin%						
Peso five-year bilateral loan	62.5	62.5	62.5	3,062.5	69.1	3,250.0	68.7	3,233.5	68.7	3,233.5
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
Peso loans collateralize with time deposits			6,000.0		127.5	6,000.0	127.0	5,975.0	127.0	5,975.0
Interest rate			6.517%		0.0					
Other loans			2,000.0		42.5	2,000.0	42.3	1,991.1	42.3	1,991.1
Interest rate			6.292%							

**Interest Rate Risk**

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of December 31, 2007:

	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total		Total (Net of Debt Issue Cost)		Fair Value	
						In Dollars	In Pesos	In Dollars	In Pesos	In Dollars	In Pesos
<i>(In Millions)</i>											
<b>Liabilities:</b>											
Long-term Debt											
Fixed Rate:											
US\$300 million convertible bonds	-	-	-	273.2	-	273.2	11,260.0	269.8	11,136.6	275.5	11,373.7
Interest rate	-	-	-	3.50%	-						
Peso Loans:											
Redeemable preferred shares - Series 1	-	-	-	3,300.0	-	79.9	3,300.0	79.5	3,282.6	85.0	3,508.1
Interest rate	-	-	-	7.51%	-						
Five-year syndicated loans	825.0	300.0	-	-	-	27.3	1,125.0	27.0	1,114.8	27.6	1,140.7
Interest rate	6.75% to 7.06%	6.75% to 7.06%	-	-	-						
Other bank loans	-	-	-	1,000.0	4,200.0	126.0	5,200.0	125.4	5,175.9	136.3	5,626.4
Interest rate	-	-	-	6.91%	6.90% to 9.75%						
Variable Rate:											
US\$ five-year syndicated loan	-	150.0	-	-	-	150.0	6,192.0	147.9	6,104.0	150.0	6,192.0
Interest rate	-	LIBOR + margin %	-	-	-						
C.Y. renminbi-denominated five-year syndicated loan	70.0	130.0	100.0	50.0	-	350.0	1,977.6	-	-	350.0	1,977.6
Interest rate	6.75%-7.65%	6.75%-7.65%	6.75%-7.65%	6.75%-7.65%	-						
C.Y. renminbi-denominated seven-year loan	30.0	30.0	35.0	40.0	20.0	155.0	875.8	-	-	155.0	875.8
Interest rate	PBOC-margin%	PBOC-margin%	PBOC-margin%	PBOC-margin%	PBOC-margin%						
Series "A" floating rate note	-	-	500.0	-	-	12.1	500.0	12.0	497.1	12.1	500.0
Interest rate	-	-	3-month T-bill rate + margin %	-	-						
Bank loans collateralized with time deposits	-	-	-	6,000.0	-	145.3	6,000.0	144.6	5,971.1	145.3	6,000.0
Interest rate	-	-	-	3-month PDST-F + margin %	-						
Five-year bilateral loans	15.6	62.5	62.5	3,109.4	-	78.7	3,250.0	78.2	3,229.0	78.7	3,250.0
Interest rate	3-month PDST-F + margin %	3-month PDST-F + margin %	3-month PDST-F + margin %	3-month PDST-F + margin %	-						
Five-year floating rate notes	-	-	-	4,000.0	-	96.9	4,000.0	96.2	3,970.5	96.9	4,000.0
Interest rate	-	-	-	3-month PDST-F + margin %	-						
Redeemable preferred shares - Series 2	-	-	-	200.0	-	4.8	200.0	4.8	197.8	4.8	200.0
Interest rate	-	-	-	3-month PDST-F + margin %	-						
Other loans	-	-	-	1,000.0	2,000.0	72.7	3,000.0	72.3	2,986.5	72.6	3,000.0
Interest rate	-	-	-	3-month PDST-F + margin %	3-month PDST-F + margin %						

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.

Repricing of floating rate financial instruments is mostly done in intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 50% and 60% of its borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge the underlying debt obligations. As of September 30, 2008 and December 31, 2007, after taking into account the effect of interest rate swaps, approximately 61% and 47%, respectively, of the Group's borrowings are kept at a fixed rate of interest.

#### Foreign Currency Risk

The Group's foreign currency-denominated monetary assets and liabilities amounted to ₱31,583.7 million (US\$671.3 million) and ₱33,692.9 million (US\$716.1 million) as of September 30, 2008, respectively, and ₱13,399.4 million (US\$ 324.6 million) and ₱14,802.2 million (US\$ 358.6 million) as of December 31, 2007, respectively.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱47.05 to US\$1.00 and ₱41.28 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as of September 30, 2008 and December 31, 2007, respectively.

To manage foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, the Group enters into foreign currency swaps aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

#### Liquidity Risk

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

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

The table below summarizes the maturity profile of the Group's financial liabilities as of September 30, 2008 based on the contractual undiscounted payments:

	Less than 1 year	2 to 5 years	More than 5 years	Total
Bank loans	₱8,540,196,693	₱-	₱-	₱8,540,196,693
Accounts payable and other current liabilities	52,026,342,064	-	-	52,026,342,064
Notes payable	12,223,855,182	-	-	12,223,855,182
Long-term debt (including current portion)	809,291,000	59,061,908,269	14,121,047,000	73,992,246,269
Derivative liabilities (including current portion)	236,937,197	2,302,829,517	-	2,539,766,714
Dividends payable	26,594,681	-	-	26,594,681
Tenants' deposits and others	-	5,457,988,701	-	5,457,988,701
	₱73,863,216,817	₱66,822,726,487	₱14,121,047,000	₱154,806,990,304

### Credit Risk

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, time deposits and short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, without considering the effects of collateral.

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

*Credit Risk Exposure and Concentration.* The table below shows the maximum exposure to credit risk of the Group per business segment as of September 30, 2007, without considering the effects of collaterals and other credit risk mitigation techniques.

	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Total
Cash and cash equivalents	₱4,674,233,174	₱8,512,958,314	₱1,002,114,665	₱29,131,982,769	₱43,321,288,922
Time deposits and short-term investments (including noncurrent portion)	-	-	-	22,932,302,750	22,932,302,750
Investments held for trading	151,879,753	-	1,598,892,594	302,921,388	2,053,693,735
AFS investments	2,874,435,675	10,398,501	7,178,877,683	22,230,853,857	32,294,565,716
Receivables (including noncurrent portion of receivables from real estate buyers)	2,763,339,676	4,079,905,746	3,561,397,306	12,771,139,903	23,175,782,631
	₱10,463,888,278	₱12,603,262,561	₱13,341,282,248	₱87,369,200,667	₱123,777,633,754

The total financial assets under "Others" business segment relate primarily to the Parent Company's financial assets. The balances presented are net of intercompany eliminations.

As of September 30, 2008, these financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit

history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

#### Equity Price Risk

Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Management.

The Group's exposure to equity price pertains to its investments in quoted equity shares which are either classified as investments held for trading and AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange. The Group has no equity risk exposure on stocks that are not traded.

The Group recognized ₱923.9 million unrealized loss and ₱483.2 million unrealized gain from fair value adjustments of investments held for trading for the nine months ended September 30, 2008 and 2007, respectively. For the period ended September 30, 2008 and December 31, 2007, an unrealized mark-to-market gain for its investments available-for-sale was recognized amounting to ₱1,786.9 million and ₱7,952.0 million, respectively, as addition in the stockholders' equity.

#### Capital Management

The primary objective of the Group'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 Group 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 Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of gross debt to total capital and net debt to total capital. Gross debt includes all short-term and long-term debt while net debt includes all short-term and long-term debt net of cash and cash equivalents, investments in bonds held for trading and time deposits. The Group's policy is to keep the gearing ratio at 50:50. As of September 30, 2008 and December 31, 2007, the Group's ratio of gross debt to total capital were 46:54 and 35:65, respectively, and the ratio of net debt to total capital were 20:80 and 23:77, respectively.

As of September 30, 2008 and December 31, 2007, the Group's ratio of gross debt to total capital and ratio of net debt to total capital were as follows:

Gross debt to total capital

	September 30, 2008	December 31, 2007 (Restated)
Bank loans	<b>₱8,540,196,693</b>	₱3,037,560,267
Current portion of notes payable	<b>12,223,855,182</b>	8,118,761,498
Current portion of long-term debt	<b>804,002,492</b>	1,398,370,952
Long-term debt - net of current portion	<b>72,705,520,363</b>	45,120,859,656
Total debt (a)	<b>94,273,574,730</b>	57,675,552,373
Total equity attributable to parent equity holders	<b>109,481,869,596</b>	108,666,767,221
Total debt and equity attributable to parent equity holders (b)	<b>₱203,755,444,326</b>	₱166,342,319,594
Gearing ratio (a/b)	<b>46%</b>	35%

Net debt to total capital

	September 30, 2008	December 31, 2007 (Restated)
Bank loans	<b>₱8,540,196,693</b>	₱3,037,560,267
Current portion of notes payable	<b>12,223,855,182</b>	8,118,761,498
Current portion of long-term debt	<b>804,002,492</b>	1,398,370,952
Long-term debt - net of current portion	<b>72,705,520,363</b>	45,120,859,656
Less cash and cash equivalents, time deposits and short-term investments and investments in bonds held for trading	<b>(66,708,392,813)</b>	(24,457,726,928)
Total net debt (a)	<b>27,565,181,917</b>	33,217,825,445
Total equity attributable to parent equity holders	<b>109,481,869,596</b>	108,666,767,221
Total net debt and equity attributable to parent equity holders (b)	<b>₱137,047,051,513</b>	₱141,884,592,666
Gearing ratio (a/b)	<b>20%</b>	23%

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## 24. Financial Assets and Liabilities

### Fair Value of Financial Instruments

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities by category and by class recognized as of December 31, 2007 and 2006. There are no material unrecognized financial assets and liabilities as of December 31, 2007.

	September 30, 2008		December 31, 2007 (Restated)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Financial Assets at FVPL:				
Investments held for trading:				
Shares of stock	<b>₱1,598,892,594</b>	<b>₱21,598,892,594</b>	₱2,506,275,272	₱2,506,275,272
Bonds	<b>454,801,141</b>	<b>454,801,141</b>	442,776,480	442,776,480
Derivative assets (included under “Other noncurrent assets” account in the consolidated balance sheets)	–	–	347,248,200	347,248,200
	<b>2,053,693,735</b>	<b>2,053,693,735</b>	3,296,299,952	3,296,299,952
Loans and Receivables:				
Cash and cash equivalents	<b>43,321,288,922</b>	<b>43,321,288,922</b>	15,756,700,448	15,756,700,448
Time deposits and short-term investments (including noncurrent portion)	<b>22,932,302,750</b>	<b>21,379,269,852</b>	8,258,250,000	8,676,448,824
Receivables (including noncurrent portion of receivables from real estate buyers in 2008)	<b>23,175,782,631</b>	<b>23,175,782,631</b>	15,319,816,229	15,319,816,229
	<b>89,429,374,303</b>	<b>87,876,341,405</b>	39,334,766,677	39,752,965,501
AFS Investments:				
Shares of stock	<b>29,355,142,446</b>	<b>29,355,142,446</b>	33,013,745,529	33,013,745,529
Redeemable preferred shares	<b>2,534,404,430</b>	<b>2,534,404,430</b>	2,218,254,419	2,218,254,419
Government bonds	<b>399,298,840</b>	<b>399,298,840</b>	704,897,280	704,897,280
Club shares	<b>5,720,000</b>	<b>5,720,000</b>	5,150,000	5,150,000
	<b>32,294,565,716</b>	<b>32,294,565,716</b>	35,942,047,228	35,942,047,228
	<b>₱123,777,633,754</b>	<b>₱122,224,600,856</b>	₱78,573,113,857	₱78,991,312,681
<b>Financial Liabilities</b>				
Financial Liabilities at FVPL -				
Derivative liabilities (including current portion)	<b>₱2,539,766,714</b>	<b>₱2,539,766,714</b>	₱3,290,914,912	₱3,290,914,912
Other Financial Liabilities:				
Bank loans	<b>8,540,196,693</b>	<b>8,540,196,693</b>	3,037,560,267	3,037,560,267
Accounts payable and other current liabilities	<b>52,026,342,064</b>	<b>52,026,342,064</b>	25,663,083,758	25,663,083,758
Long-term debt (including current portion and net of unamortized debt issue cost)	<b>73,509,522,855</b>	<b>73,866,140,459</b>	46,519,230,608	48,881,363,312
Notes payable (including current portion in 2008)	<b>12,223,855,182</b>	<b>12,223,855,182</b>	8,118,761,498	8,252,535,856
Dividends payable	<b>26,594,681</b>	<b>20,416,956</b>	170,136,475	170,136,475
Tenants’ deposits	<b>5,457,988,701</b>	<b>4,724,735,699</b>	6,089,473,303	6,089,473,303
	<b>151,784,500,176</b>	<b>151,401,687,053</b>	89,598,245,909	92,094,152,971
	<b>₱154,324,266,890</b>	<b>₱153,941,453,767</b>	₱92,889,160,821	₱95,385,067,883

#### Derivative Financial Instruments

To address the Group’s exposure to market risk for changes in interest rates primarily to long-term floating rate debt obligations and manage its foreign exchange risks, the Group entered into various derivative transactions such as cross currency swaps, interest rate swaps and currency options. These derivative instruments provide economic hedges under the Group’s policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

The table below shows information on the Group's cross currency and interest rate swaps presented by maturity profile.

	<1 year	>1-<2 years	>2-<5 years
<b>Cross-Currency Swaps</b>			
Floating-Fixed:			
Notional amount	\$70,000,000	\$70,000,000	
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	12.58-12.75%	12.58-12.75%	
Weighted swap rate	₱56.31	₱56.31	
<b>Interest Rate Swap</b>			
Floating-Fixed:			
Notional amount	\$80,000,000	\$80,000,000	
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	
Pay-fixed rate	5.34%	5.34%	
Fixed-Floating:			
Notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST+margin%	3MPDST+margin%	3MPDST+margin%

*Cross Currency Swaps.* In 2004, SM Prime entered into cross currency swap agreements with an aggregate notional amount of US\$70 million and weighted average swap rate of ₱56.31 to US\$1. Under these agreements, SM Prime effectively swaps the principal amount and interest of the U.S. dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of September 30, 2008 and December 31, 2007, the cross currency swaps have negative fair values of ₱1,103 million and ₱1,496 million, respectively.

*Interest Rate Swaps.* Also in 2004, SM Prime entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$80 million. Under these agreements, SM Prime effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of September 30, 2008 and December 31, 2007, the floating to fixed interest rate swaps have negative fair values of ₱39 million and ₱20 million, respectively.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million. Under these agreements, SM Prime effectively swaps these fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013. As of September 30, 2008, the fixed to floating interest rate swaps have positive fair values of ₱1 million.

*Options Arising from Convertible Bonds.* The Parent Company's convertible bonds contain multiple embedded derivatives such as short call equity option, long call option and short put option.

Short call equity option pertains to the option of the bondholders to convert the Bonds into SMIC's common shares prior to maturity. If a bondholder exercised its conversion option, the

Parent Company can choose either to settle the Bonds in cash or issue common shares, and such option on the part of the Parent Company is a long call option.

The Bonds are denominated in US dollar while the currency of the underlying asset is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱48.37 to US\$1. Considering the exposure of the Parent Company, the option was assessed as short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bond at 110.79% of the principal amount on March 19, 2010, and such option is also considered a short put option.

As of September 30, 2008 and December 31, 2007, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱1,285.5 million.

*Call Options Arising from Future Sale of SMC Common Shares.* The stock purchase agreement discussed in Note 11 grants SMCRP the right but not the obligation to pay the remaining balance of the total consideration. Such option is an embedded derivative, which is valued using Black-Scholes Merton model. As of September 30, 2008 and December 31, 2007, the option, which is shown as a current liability in the consolidated balance sheets, has a carrying value of ₱236.9 million.

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## 25. Earnings Per Common Share (EPS) Computation

	September 30, 2008	September 30, 2007 (Restated)
<b>Net income attributable to common equity holders of the Parent</b>		
Net income attributable to common equity holders of the Parent for basic earnings (a)	<b>₱9,571,271,591</b>	₱8,387,509,486
<b>Weighted average number of common shares outstanding</b>		
Weighted average number of common shares outstanding for the period (b)	<b>611,023,038</b>	611,023,038
<b>Basic EPS (a/b)</b>	<b>₱15.66</b>	₱13.73

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## 26. Subsequent Events

- a. On October 3, 2008, the SEC approved the change in name of Shoemart Inc. to SM Land, Inc. SM Land, Inc., a subsidiary of SMIC, will be the main holding company for SM property-related subsidiaries and projects.
- b. On October 31, 2008, SMIC crossed 339.3 million shares of San Miguel Corporation at the PSE.

**PART I FINANCIAL INFORMATION**

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

**Consolidated Results of Operations**

**For the Nine Months Ended September 30, 2008 and 2007**  
(Amounts in Billions of Pesos)

Accounts	Nine Months ended		% Change
	09 / 30 / 2008	09 / 30 / 2007	
<b>Revenue</b>	<b>P 97.4</b>	<b>P 83.3</b>	<b>16.9%</b>
Cost and Expenses	83.5	67.6	23.4%
<b>Income from Operations</b>	<b>P 13.9</b>	<b>P 15.7</b>	<b>(11.2%)</b>
Other Income (Charges)	2.0	(1.4)	248.9%
Provision for Income Tax	3.7	2.7	35.8%
Minority Interest	2.6	3.2	(15.5%)
<b>Net Income</b>	<b>P 9.6</b>	<b>P 8.4</b>	<b>14.1%</b>

For the nine months ended September 30, 2008, SM Investments Corporation (SMIC) posted a consolidated net income of P9.6 billion, a growth of 14.1% over P8.4 billion in the same period in 2007.

Consolidated revenues grew by 16.9% to P97.4 billion, as against last year’s P83.3 billion.

Sales from the retail business and real estate business accounted for 81.2% and 3.5%, respectively, of the consolidated revenues as compared to 78.3% and 1.6%, respectively, for the same period last year.

Merchandise sales grew by 21.3% in 2008 due mainly to the following:

- (1) consolidation of Pilipinas Makro, Inc. (Makro) in SMIC starting October 2007 (see related discussion in Note 4 of the consolidated financial statements) and;
- (2) opening of the following new stores from October 2007 to September 2008:

	SM Department Stores	SM Supermarkets	SM Hypermarkets
1	SM City Taytay	Morong, Rizal	SM Supercenter Muntinlupa
2	SM City Marikina	Savers Square, Pasay	SM City Taytay
3	-	Park Mall, Cebu	-
4	-	SM Marikina	-
5	-	Savemore Nagtahan	-

Excluding the sales of Makro in 2008, the merchandise sales growth would be 8.7%. The sales contribution of SM Department Stores, SM Supermarkets and SM Hypermarkets (including Makro in 2008) are 40.7%, 34.3% and 25.0%, respectively in 2008 and 47.4%, 37.4% and 15.2%, respectively in 2007.

On the other hand, real estate sales grew by 166.8% in 2008 due to SM Development Corporation's projects namely Chateau Elysee, Mezza Residences, Grass and Berkeley Residences. Please see Note 13 of the consolidated financial statements on further discussion on these projects. Also, in 2008, Costa Del Hamilo, Inc., the developer of Pico de Loro Cove at Nasugbu, Batangas, recognized sale of condominium units amounting to P533.3 million.

SM Prime Holdings, Inc. (SM Prime), the country's leading shopping mall developer and operator which currently owns 31 malls in the Philippines and 3 malls in China, posted a 10% increase in rental revenues for the nine months ended September 30, 2008 due to rental revenue from new SM Supermalls which opened in 2007 namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa and from three malls which expanded in the latter part of 2007, namely, SM City Pampanga, SM City Cebu and Mall of Asia. Last September 5, SM Marikina was also opened to the public. The new malls and expansion added 475,000 square meters to total gross floor area. Currently, the new malls have an average occupancy level of 94%.

The three malls in China contributed P0.64 billion in 2008 and P0.44 billion in 2007, or 6.5% and 5.2%, respectively, of SMIC's consolidated rental revenue. Average occupancy rate for the three malls is at 88% in 2008 compared to 81% in 2007. Rental revenues accounted for 10.0% in 2008 and 10.1% in 2007 of the consolidated revenues of SMIC.

Cinema ticket sales decreased due to lack of blockbuster movies compared to the same period in 2007. In addition, there were also more Filipino movies shown in 2007 compared to 2008.

Equity in net earnings of associates decreased by 66.9% to P0.9 billion in 2008 from P2.8 billion in 2007, due to the decrease in the net income of Banco de Oro Unibank, Inc. and China Banking Corporation after making provisions for trading and investments in 2008.

Cost of sales and operating expenses increased by 23.8% and 22.0%, respectively in 2008 primarily brought about by the consolidation of Makro starting October 2007 and increase in costs associated with the new malls, department stores, supermarkets and hypermarkets. Excluding the impact of Makro in 2008, cost of sales and operating expenses would increase by 9.9% and 14.0%, respectively.

Provision for income tax amounted to P3,702.9 million in 2008 and P2,726.4 million in 2007, an increase of 35.8% due to the increase in taxable income.

**Consolidated Financial Position**  
*(Amounts in billions of Pesos)*

<b>Accounts</b>	<b>09 / 30 / 2008</b>	<b>12 / 31 / 2007</b>	<b>% Change</b>
	<b>(unaudited)</b>	<b>(audited)</b>	
Current assets	P 105.1	P 76.1	38.0%
Noncurrent assets	198.0	166.9	18.6%
<b>Total assets</b>	<b>P 303.1</b>	<b>P 243.0</b>	<b>24.7%</b>
Current liabilities	P 74.5	P 39.9	86.4%
Noncurrent Liabilities	84.8	58.3	45.5%
<b>Total Liabilities</b>	<b>P 159.3</b>	<b>P 98.2</b>	<b>62.2%</b>
<b>Stockholders' Equity</b>	<b>P 143.8</b>	<b>P 144.8</b>	<b>(.7%)</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>P 303.1</b>	<b>P 243.0</b>	<b>24.7%</b>

On the Balance Sheet side, consolidated total assets as of September 30, 2008 amounted to P303.1 billion, higher by 24.7% from P243.0 billion as of December 31, 2007. On the other hand, consolidated total liabilities increased by 62.2% to P159.3 billion as of September 30, 2008 from P98.2 billion as of December 31, 2007.

Consolidated current assets increased by 38.0% to P105.1 billion as of September 30, 2008 from P76.1 billion as of December 31, 2007 mainly due to the net effect of the increase in cash and cash equivalents and receivables net of the decrease in investments held for trading. The decrease of 13.7% in investments held for trading and sale is a reflection of lower market prices as of September 30, 2008 of the listed shares held by the Group compared to December 31, 2007.

Consolidated noncurrent assets amounted to P198.0 billion as of September 30, 2008, a growth of 18.6% from P166.9 billion as of December 31, 2007 mainly due to the proceeds from the US\$350 million 5-year 6.75% Bonds issued in July 2008 which was invested in time deposit and the increase in the mall construction and real estate developments.

Consolidated total liabilities increased by 62.2% to P159.3 billion as of September 30, 2008 from P98.2 billion as of December 31, 2007 mainly due to the issuance of the US\$350 million 5-year 6.75% Bonds in July 2008, increase in accounts payable and other current liabilities.

As of September 30, 2008, stockholders' equity amounted to P143.8 billion with the total equity attributable to equity holders of the parent amounting to P109.5 billion. The movement in this account is mainly due to the net income for the nine months ended September 30, 2008 and the restatement of investments available for sale to reflect their fair value as of balance sheet date. The details of the equity account are shown in the Statement of Changes in Stockholders' Equity. (Please see Note 18 of the consolidated financial statements for further discussion regarding the stockholders' equity.)

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting period and as of the 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 Group for the nine months ended September 30, 2008 and for the year ended December 31, 2007:

Accounts	09 / 30/ 2008 (nine months)	12 / 31/ 2007 (one year)
Current Ratio	1.41 : 1.00	1.91 : 1.00
Gross Debt-equity Ratio	46% : 54%	35% : 65%
Net Debt-equity Ratio	20% : 80%	23% : 77%
Return on Equity ( <i>annualized</i> )	12.6%	11.1%
Net Income to Revenue	10%	10%
Revenue Growth	17%	38%
Net Income Growth	14%	12%
EBITDA	P18.3B	P25.1B

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

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt – Equity Ratio	$\frac{\text{Total Interest Bearing Liabilities}}{\text{Total Stockholders' Equity (attributable to equity holders of the parent) + Total Interest Bearing Liabilities}}$
Net Debt – Equity Ratio	$\frac{\text{Total Interest Bearing Liabilities – Cash and Cash Equivalents and Investment in bonds held for trading and time deposits}}{\text{Total Stockholders' Equity (attributable to equity holders of the parent) + Total Interest Bearing Liabilities net of Cash and Cash Equivalents and Investments in bonds held for trading and time deposits}}$
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

<b>PART I FINANCIAL INFORMATION</b>
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**Item 3. Aging of Accounts Receivable – Trade**

SM Investments Corporation and Subsidiaries

Aging of Accounts Receivable - Trade

As of September 30, 2008

Receivable from Tenants	P 2,103,232,206
Banks, credit cards and others	2,148,003,693
Receivables from Real Estate Buyers – net of noncurrent portion	<u>1,393,221,812</u>
Total	P <u><u>5,644,457,711</u></u>

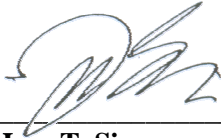
*Aging:*

Neither past due nor impaired	P 5,000,249,969
31-90 days	391,512,359
91-120 days	34,633,713
Over 120 days	209,135,435
Impaired	<u>8,926,235</u>
Total	P <u><u>5,644,457,711</u></u>

**PART II - 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**



\_\_\_\_\_  
**Jose T. Sio**  
**Second Executive Vice President**  
**and Chief Financial Officer**

11-12-08  
Date: \_\_\_\_\_