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SEC Registration Number

SM INVESTMENTS CORPORATION

(Company's Full Name)

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

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

Ma. Ruby Ll. Cano

(Contact Person)

831-1000

(Company Telephone Number)

1 2	3 1	17-A	0 4	2 6
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number **016342**

SM INVESTMENTS CORPORATION
(Company's Full Name)

10th Floor,
OneE-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-1A
Pasay City, 1300
(Company's Address)

857-0100
(Telephone Number)

December 31
(Year Ending)
(month & day)

SEC Form 17-A
Annual Report
Form Type

Amendment Designation (If applicable)

December 31, 2011
Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2011**

2. SEC Identification Number **0000016342** 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. (SEC Use Only)
Industry Classification Code:

7. **10th Floor, OneE-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City**
Address of principal office
1300
Postal Code

8. **(632) 857-0100 / fax (632) 857-0132**
Registrant's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstandi
COMMON SHARES, P 10 PAR VALUE	**612,164,033**

11. Are any or all of these securities listed on a Stock Exchange.
Yes [**X**] No [ ]
If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, 612,164,033, P10 par value, common shares

12. Check whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
Yes [**X**] No [ ]

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

13. Aggregate market value of the voting stock held by non-affiliates: P137,931,668,530 as of December 31, 2011.

TABLE OF CONTENTS

PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

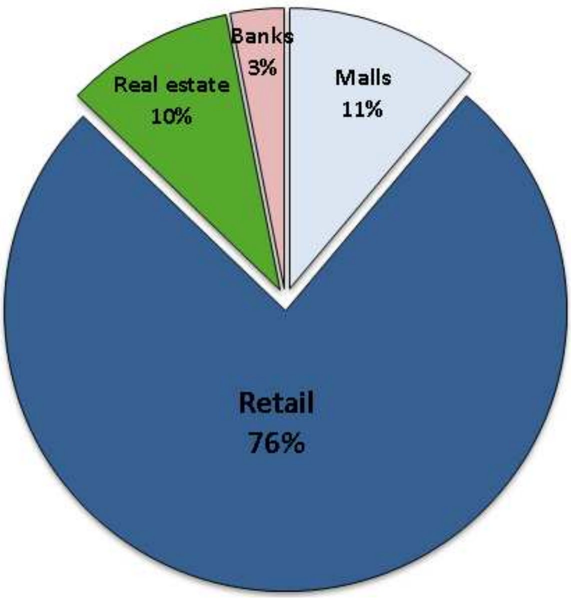
Business Development

SM Investments Corporation (SMIC) is the holding company of the SM Group of Companies. SMIC is engaged in five core businesses through its subsidiaries, namely: shopping mall development and management (SM Prime Holdings, Inc.), retail (SM Department Stores, SM Supermarket, SM Hypermarket and SaveMore Stores); financial services (BDO Unibank Inc. and China Banking Corporation) and real estate development and tourism (SM Land, Inc., SM Development Corporation, Costa Del Hamilo, Inc. Highlands Prime, Inc. and Belle Corporation) and hotels and conventions (SM Hotels, SMX Convention Specialists, Hotel Specialists - Tagaytay, Cebu and Pico). SMIC was incorporated in the Philippines on 15 January 1960. Its office is presently located at One E-Com Center, 10th floor, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, Philippines.

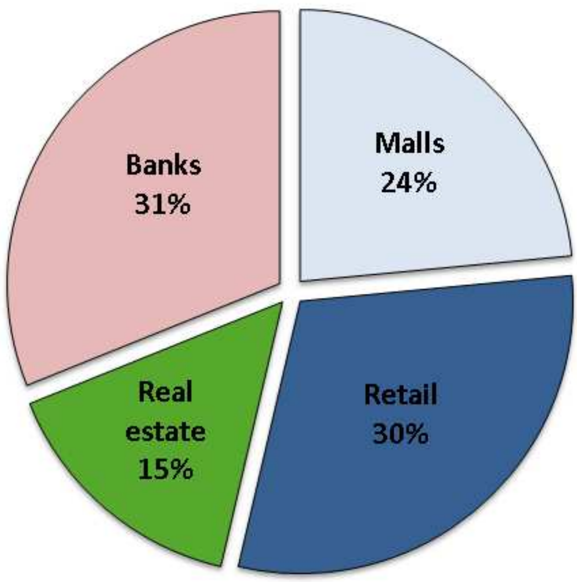
SMIC had a market capitalization of ₱356.6 billion as of December 31, 2011.

There are no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets that are not in the ordinary course of business during the period.

The contribution of each of the business segments to the December 31, 2011 consolidated revenues and net income of SMIC are as follows:



Revenue



Net Income

Business of Issuer

Shopping Mall Development

SM Prime Holdings, Inc. ("SM Prime"), is the country's leading shopping mall developer and operator. It currently has 41 supermalls which are strategically located nationwide with a total gross floor area of 5.0 million square meters (sqm). Likewise, SM Prime has four supermalls located in the cities of Xiamen and Jinjiang in the Fujian Province, Chengdu in Sichuan Province, and Suzhou in Jiangsu Province with a total gross floor area (GFA) of 0.6 million sqm.

In 2011, SM Prime opened SM Masinag which added 90,261 sqm to SM Prime's total GFA. In 2010, SM Prime opened SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches in Quezon City. The new malls and expansions in 2010 added 0.29 million sqm to SM Prime's total GFA.

For 2012, SM Prime is scheduled to launch SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City Olongapo in Zambales, SM City San Fernando in Pampanga and SM Chongqing in China. By the end of 2012, SM Prime will have 46 malls in the Philippines and five in China with an estimated combined GFA of 6.4 million sqm.

Retail

SM Department Stores is the leading innovator and trendsetter in the local retail merchandising scene. An institution that has become part of the lives of many Filipinos, it serves millions of customers in 41 stores with a total of 405,935 square meters across the country.

These forty-one stores are strategically located in Metro Manila and key provincial cities, making it possible for the SM brand to be associated with quality merchandise sold at reasonable prices, as well as services that go beyond shopping, from as far north as Baguio to as far south as Davao. Five of these department stores – in Makati, Cubao, Quiapo, Harrison, and Delgado – are stand alone stores, and thirty-six are based in the SM Supermalls.

The opening of new stores in 2010 and 2011 has allowed SM to serve more customers. Four opened in Tarlac, San Pablo, Calamba, and Novaliches in 2010 while only one opened in Masinag in 2011.

After having received the **Best of the Best Award from Retail Asia** for the past five consecutive years, the SM Department Stores was bestowed the Hall of Fame Award. With this honor, SM Department Stores will continue to uphold this honor by continuing to give its customers the best products, the best value for money, and the best services possible. It also aims to maintain its leadership in the marketplace, to be on the forefront of retail technology, and to grow through consumer marketing and product diversification. In 2012, five new department stores will be opened.

SM Supermarkets, SaveMore and SM Hypermarkets currently has thirty-three (33) supermarkets, sixty five (65) savemore stores and thirty (30) hypermarkets.

In 2011, three (3) supermarkets were opened in SM City Masinag, Megamall A, and SM Olongapo.

In 2011, savemore branches were opened in Muntinlupa, Jackmann, Capistrano, Bayambang, Malhacan, Kauswagan, COD-Araneta, Sta. Ana, Apalit, Sta. Maria, Biñan, Tuguegarao, Halang, Rempson, Balibago, Canduman, Maguikay, Pedro Gil, Iba Zambales, Kanlaon, Ilagan, A. Avenue, Laoag, Salitran, Blumentritt. In 2010, savemore branches were opened in West Kamias, Mendez Cavite, Metrohub Legazpi, Baliwag Bulacan, Pasong Tamo Makati, Amang Rodriquez, Malabon, Bacolod East, Agora Cagayan de Oro, Zapote Las Piñas, Cartimar Pasay, Berkley Q.C., Ilagan Isabela, SPC Angeles and supermarkets in SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Novaliches, Megamall Extension and Southmall Extension.

In 2011, five (5) hypermarkets were opened. These were Subangdaku Mandaue Cebu, JMall Mandaue Cebu, Imus Cavite, SM Marketmall Dasmariñas Cavite and Sucat-Lopez Parañaque, whereas in 2010, six (6) hypermarkets were opened in North Harbour Manila, Adriatico, Edsa Cubao, Jaro Iloilo, Jalandoni Batangas, and Mabalacat Pampanga.

The total stores area of the 128 stores is 734,988 sqm.

For 2012, the retail group plans to open another 28 to 32 stores. Expansion plans for 2012 include the opening of six supermarkets, 21 savemore branches and five hypermarkets.

"Makro" closed its 4 remaining stores in December 2011. Three of which will be converted into hypermarkets and the other into a SaveMore store in 2012. SMIC acquired Makro in 2007, through its parent holding company, Rappel Holdings Inc. 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. Makro, on the other hand, 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.

Financial Services

BDO Unibank, Inc. ("BDO"), is a full-service universal bank which provides a complete array of industry-leading products and services to the retail and corporate markets including Lending (corporate, middle market, SME, and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management, and Remittances. Through its subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Bancassurance, Insurance Brokerage, and Stock Brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with more than 740 operating branches and over 1,600 ATMs nationwide.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of 31 December 2011, BDO is the country's largest bank in terms of total resources, total deposits and assets under management.

Looking forward, BDO will continue to take advantage of promising growth opportunities across industry and geographic segments while positioning defensively against potential external or industry threats. It will continue to build on its strong business franchise to maintain leadership positions across most business lines, as well as further strengthen its capabilities to support future growth and actively respond to strategic opportunities and market challenges. Over the long-term, BDO aims to be the preferred bank in every market it serves and create shareholder value through superior returns.

The China Banking Corporation (China Bank), was incorporated on July 20, 1920 and commenced business on August 16 of the same year as the first privately owned local commercial bank in the Philippines. It resumed operations after World War II on July 23, 1945 and played a key role in the post-war reconstruction and economic recovery by providing financial support to businesses and entrepreneurs. China Bank was listed on the local stock exchange in 1947 and acquired its universal banking license in 1991. The Bank started by catering mainly to the Chinese-Filipino commercial sector, but has since expanded its market scope to include the retail and consumer segments. Its core banking franchise stems mainly from its 91-year history in the Philippines, a factor that has enabled it to become deeply entrenched within the socioeconomic fabric of the Chinese-Filipino community. The Bank's market comprises the corporate, commercial, middle and retail markets. It provides a wide range of domestic and international banking services, and is one of the largest commercial banks in the country in terms of assets and capital.

In 2011, China Bank was awarded "Best Wealth Management House in the Philippines" China Bank's Private Banking Group (PBG) and was also cited as a "rising star", an emerging private banking powerhouse in the country, at The Asset Triple A Investment Awards. The Bank received Straight Through Processing (STP) award for being a top Commercial Payment Bank in the Philippines. The Bank was also recognized by Bank of America Merrill Lynch for achieving an exceptionally high straight through processing rate for commercial payments in 2010.

China Bank offers a wide range of financial products and services through its network of 293 branches (including 25 branches of China Bank Savings) to-date. Complementing this branch network are convenient and secure electronic banking channels for day & night banking service, China Bank TellerCard ATM, China Bank Online (mobile and internet banking), and China Bank TellerPhone (phone banking). The Bank recently launched its Yuan Savings Account to cater to its clients' trade, investment and remittance requirements using this currency.

China Bank's expansion plans will continue for the next three (3) years as it goes full swing to reach its goal of 400 branches by 2014. The Bank will continue to invest heavily in expanding its branch and ATM networks and strengthen its technological capabilities. For 2012, the Bank will continue to carry out its core strategies which include strengthening revenue growth from its core businesses particularly on lending and treasury products, diversify its revenue sources and maximize synergy with its new businesses such as wealth management, remittances, bancassurance, cash management and its savings bank. The Bank will continue to strengthen its ability to compete through improved customer focus, strong business & entrepreneurial spirit, organizational transformation and operational efficiency.

Real Estate Development and Tourism

SM Development Corporation ("SM Development or SMDC"), was incorporated in the Philippines in 1974 under the name Ayala Fund, Inc, a publicly-listed closed-end investment company. After the SM Group obtained majority shareholdings in March 1986, it was renamed SM Fund, Inc. and continued to provide an avenue for investment in diverse businesses in the Philippines with the aim of maximizing dividend income and capital appreciation.

In May 1996, SM Fund, Inc. was renamed SM Development Corporation to reflect its new business thrust of property development, whose primary objective is to pursue opportunities in the real estate industry. In line with this, its business proposition was directed toward tapping the residential property market near/beside SM shopping malls. Meanwhile, the business of securities investment is retained to provide a regular flow of earnings in the form of interest and dividend income.

SMDC has a current portfolio of 17 residential projects, 16 of which are in Metro Manila and one in Tagaytay City in the Province of Cavite. In 2010, SMDC launched its new brand, MPlace, through the unveiling of its inaugural project, MPlace South Triangle in Panay Avenue, Quezon City. In 2011, SMDC launched its latest projects namely Mezza II Residences in Quezon City, Green Residences in Manila, Shell Residences in Pasay City, and an addition to the MPlace brand namely, MPlace Ortigas in Pasig City.

Highlands Prime, Inc ("HPI") is a publicly listed high-end property development company majority owned by the SM Group. HPI develops and sells residential properties located at a private and exclusive mountainside resort called Tagaytay Highlands. Tagaytay Highlands is in Tagaytay City, an hour and a half drive from the Makati Central Business District. It is a popular weekend destination for upscale Manila residents due to its proximity, cool climate and incomparable views of Taal lake, Laguna de Bay and the mountains of Batangas and Laguna.

HPI's assets are comprised primarily of undeveloped land in the Tagaytay Highlands and Tagaytay Midlands resort complex. HPI has completed five projects, to date - The Woodridge at Tagaytay Highlands, Phase I of The Horizon, Phase I of the Woodridge Place, Phases I and II of The Hillside, and Pueblo Real 1. The Woodridge, The Hillside Phase I and The Woodridge Place Phase I are fully sold.

In 2011, the Company has three projects under construction namely: The Woodridge Place II, Pueblo Real Phase 1 and Sierra Lago.

This 2012, the company will be introducing a new leisure lot development at The Highlands, envisioned to have modern log homes which highlight the use of rustic wood elements in modern architecture. By mid-year, HPI is slated to come out with another themed residential lot development at The Midlands.

Costa del Hamilo, Inc. ("CDHI") was incorporated in the Philippines and registered with the SEC on September 26, 2006 with the primary purpose of acquiring, developing and selling real estate and investment in various securities. CDHI is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned leisure destination development in Nasugbu Batangas encompassing 13 coastal coves.

Pico de Loro Cove is located in a lush 40-hectare valley, bound by rolling mountains and a protected cove that contains a pristine swimming beach. Pico de Loro Cove offers residential condominium unit dwellings, as well as membership in an exclusive Beach & Country Club.

The Beach Club was completed and opened in 2009, while the Country Club was completed in June 2010, providing members with the complete club experience together with attendant facilities and amenities. Most recreational activities are outdoor and nature-based owing to the rich natural environment, such as kayaking, snorkeling, mountain biking, hiking, and others.

The residential clusters of Jacana, Myna and Miranda were completed in January 2010, June 2010 and October 2011, respectively. Target completion of the Carola cluster is by 1st quarter of 2012. The ferry terminal at Hamilo Coast's Papaya Cove was completed by May 2011. The exclusive onsite Pico Sands Hotel was operational in 2nd quarter of 2011.

Belle Corporation ("Belle") was incorporated in 1973 as Belle Mining and Oil Exploration, Incorporated ("Belle Resources") and, in 1976, was listed on the Philippine Stock Exchange. In 1989, Belle Resources developed a golf club named Tagaytay Highlands International Golf Club, Incorporated ("Tagaytay Highlands"), which became its initial foray into the property development sector. In 1994, Belle Resources changed its name to Belle Corporation to underscore the shift in its principal activity of real estate development. Belle mainly develops property within the Tagaytay Highlands, Midlands and Greenlands complex ("Complex"), a 1,280-hectare property that provides excellent views of Taal lake, Laguna de Bay and the towering mountains of Batangas and Laguna. The Complex is located less than 90 minutes south of Makati City in Tagaytay City and adjoining areas in Batangas province.

Since 1989, Belle has launched a total of 19 real estate projects, two golf clubs and one country club, with total gross land area of approximately 600 hectares in Tagaytay City and Batangas.

In 2009, the Belle entered into a Memorandum of Agreement with SM Commerical Properties and its related companies, for Belle's acquisition of all the outstanding capital stock of Premium Leisure & Amusement, Inc. ("PLAI"). PLAI and its consortium members were granted a license by the Philippine Amusement and Gaming Corporation, to develop and operate an integrated resort complex. This marked the Company's strategic entry into the integrated resort industry. The construction of the Belle Grande Manila Bay integrated resort ("Belle Grande") began in January 2010 and is currently in full swing. Belle Grande is being constructed on 6.2-hectares of prime land at the corner of Roxas Boulevard and Aseana Avenue in Parañaque City. At completion, the integrated resort will have more than 25 hectares of gross floor area, and will house approximately 1.8 hectares of gaming areas, more than 2 hectares of retail and restaurant facilities, more than 800 hotel rooms of 5-star and 6-star quality, a state-of–the-art performing arts theater and other entertainment facilities. Belle Grande is only about 1 kilometer away from the Mall of Asia complex.

Other real estate projects include the development of the Mall of Asia Complex in Pasay City. It houses the SM Mall of Asia, which is the country's biggest and most ambitious mall project opened to the public; the SMX Convention Center, which serves as a venue for major conferences, trade exhibitions and shows in Metro Manila; the One E-Com Center, which is a ten-storey building specifically designed for the use of contact center, customer relationship management, business process outsourcing (BPO), and other specialized companies; the SM Corporate Offices; the OneEsplanade; and the San Miguel by the Bay. The other developments are the TwoE-Com Center, a 15-storey building with a gross floor area of approximately 100,000 square meters, which was completed at year-end 2011; and the SM Arena, which is a five-storey, first-class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events with a seating capacity of approximately 16,000.

Hotels

SM Hotels and Conventions Corp., formerly SM Hotels Corp., was incorporated in March 2008 with the primary purpose of developing and managing the various hotel and convention properties of the SM group.

In 2009, Taal Vista Hotel's newly constructed east wing with 133 guest rooms (making it a total of 261 rooms) and a 1,000-seater ballroom became fully operational. SMX, located at Mall of Asia Complex with its state of the art convention and exhibition facilities, continues to host major internal and local conventions and exhibitions. It is a three-storey structure with a gross floor area of 46,647 square metres made up of two large exhibit floors which can be divided into multiple exhibition and function halls.

In the last quarter of 2010, SM Hotels launched the 400-room Radisson Blu Hotel in Cebu, the first hotel managed by Carlson International in Asia-Pacific region to be classified under its "Blu" upscale hotel brand category. The property has been classified as a deluxe hotel category by the Department of Tourism and its facilities include an in-house spa, fitness center, business center, 800-square meter swimming pool, club lounge, 2 ballrooms and a number of smaller meeting rooms. It is strategically located beside SM City Cebu and is adjacent to the International Port Area.

In July of 2011, Pico Sands Hotel opened, a 154 room resort-type hotel in Hamilo Coast in Nasugbu, Batangas.

SM Hotels is currently developing Park Inn by Radisson Davao which will be the very first "Park Inn by Radisson" in the Asia Pacific region. The Park Inn brand is one of the hotel brands under Carlson and is the largest mid-market brand for hotels under development in Europe. Park Inn by Radisson Davao hotel project is approximately a 204-room hotel located in Lanang, Davao City. The hotel is scheduled to open in the first quarter of 2013.

Others

Atlas Consolidated Mining & Development Corporation ("Atlas") was incorporated as Masbate Consolidated Mining Company, Inc. on March 9, 1935 as a result of the merger of assets and equities of three pre-war mining companies, namely Masbate Consolidated Mining Company, Inc., Antamok Goldfields Mining Company and IXL Mining Company. Thereafter, it amended its Articles of Incorporation to reflect its present corporate name. Atlas is engaged in mineral and metallic mining, exploration and development and primarily produces cooper concentrate and gold with silver, magnetite and pyrites as major by-products.

Atlas' copper mining operations which started in 1955 are centered in Toledo City, Cebu where three main ore bodies (Lutopan, Carmen & Biga), two operating open pit mines (Lutopan & Carmen) and one milling complex (Carmen concentrator) are located. Atlas' revenues are currently derived from the sale of copper concentrates, gold, silver, pyrite, and magnetite from its Toledo Copper Mines production, nickel laterite ore in its Berong nickel operations, rental of some of its idle assets and proceeds from sale of scrap and excess materials.

Competition

The Company's subsidiaries compete with other local companies in the industry segments in which they operate. The Company believes that each of its subsidiaries has strong competitive advantages over the other industry players. In addition, the strong synergy created by the complimenting businesses of the individual subsidiaries has further reinforced each subsidiary's preparedness to face stiff competition in the coming years.

Suppliers

The Company and its subsidiaries have a broad range of suppliers, both local and foreign.

Customers / Clients

The Company and its subsidiaries are not dependent on a single or a few customer / client base. The group has a broad base of local and foreign, and corporate and individual customers / clients.

Transactions With and/or Dependence on Related Parties

All transactions with related companies are done on commercial terms and arms length basis. See Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements.

Governmental regulations and environmental laws

The Company and its subsidiaries meet all governmental, environment, health and safety requirements. The Company has not experienced significant governmental, environment, health or safety problems.

Employees

As of December 31, 2011, the Group had about 73,625 direct employees. The Parent Company had 267 regular employees as of the same period. The Parent Company employees are not subject to any Collective Bargaining Agreements (CBA).

Risks

SMIC and its subsidiaries are exposed to financial, operating, and administrative risks which are normal in the course of the business, depending on the business industry segments where each of the subsidiaries operate.

The Parent Company and its subsidiaries have formed board committees composed by their respective directors to mitigate, if not to eliminate these risks. The Audit Committee with the help of the Parent Company's external and internal auditors exercises the oversight role in managing these risks.

ITEM 2. Properties

The Company and its subsidiaries own and lease several tracts of land for shopping malls, commercial, residential and other development.

Leased properties intended for future development have lease terms ranging from 15 to 50 years. Some contracts provide for renewal options subject to mutual agreement of the parties. Rental rates are based on prevailing market rent for the said properties. Please refer to Note 28 of the accompanying Notes to the Consolidated Financial Statements for further details on Lease agreements. Other real properties that the Company intends to acquire are still under review depending on factors such as demographics and accessibility to public transport.

ITEM 3. Legal Proceedings

Please refer to Note 33 (a) of the accompanying Notes to the Consolidated Financial Statements for a discussion of legal proceedings to which the Company and its subsidiaries is a party.

ITEM 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The Company's shares of stock are traded in the Philippine Stock Exchange.

	2011				2010			
Stock Prices		High		Low		High		Low
1st Quarter	₱	551.0	₱	442.0	₱	370.0	₱	317.5
2nd Quarter		580.0		525.0		420.0		397.5
3rd Quarter		568.0		450.0		570.0		435.0
4th Quarter		585.5		480.0		545.0		485.0

As of February 29, 2012, the closing price of the Company's shares of stock is ₱637.5/share.

Shareholder and Dividend Information

The number of shareholders of record of February 29, 2012 was 1,298. Capital stock issued and outstanding as of February 29, 2012 was 613,549,871. As of December 31, 2011, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P75.1 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

On April 27, 2011, the Board of Directors approved the declaration of cash dividends of P9.04 per share in favor of stockholders on record as of May 27, 2011 and paid on June 22, 2011.

On April 28, 2010, the Board of Directors approved the declaration of cash dividends of P7.88 per share in favor of stockholders on record as of May 27, 2010 and paid on June 21, 2010.

The top 20 stockholders as of February 29, 2012 are as follows:

	Name	No. of Shares Held	% to Total
1	PCD Nominee Corp. (Non-Filipino)	155,668,488	25.37%
2	PCD Nominee Corp. (Filipino)	82,825,522	13,50%
3	Felicidad T. Sy	54,057,498	8.81%
4	Hans T. Sy	52,775,618	8.60%
5	Herbert T. Sy	52,768,360	8.60%
6	Harley T. Sy	46,822,633	7.63%
7	Henry T. Sy, Jr.	46,768,360	7.62%
8	Teresita T. Sy	45,668,360	7.44%
9	Elizabeth T. Sy	37,378,390	6.09%
10	Henry Sy, Sr.	25,732,249	4.19%
11	Henry Sy Foundation	7,000,000	1.14%
12	Felicidad Sy Foundation, Inc.	2,000,000	0.33%
13	Sybase Equity Investments Corporation	1,617,430	0.26%

14	Caceis Bank France	679,584	0.11%
15	Credit Industriel ET Commercial	407,537	0.07%
16	Sysmart Corporation	355,164	0.06%
17	Susana Fong	241,599	0.04%
18	Value Plus, Inc.	81,130	0.01%
19	Multi-Realty Development Corporation	45,879	0.01%
20	Alberto S. Yao	41,708	0.01%

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the Securities and Exchange Commission:

(1) On September 26, 2011, the Company issued corporate notes comprised of 7-year notes (Series A) and 10-year notes (Series B) amounting to P916.0 million and P4,084.0 million, respectively. Series A and Series B notes will mature on September 26, 2018 and September 26, 2021, respectively, and bear fixed interest rate of 5.75% and 6.625% per annum, respectively. Interests in arrears are payable semi-annually starting March 26, 2012. The corporate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Section 10 (1) of RA 8799. The arrangers are BDO Capital, First Metro Investment Corporation and Hongkong Shanghai Banking Corporation and the total arrangers fees amounted to P18.8 million.

(2) On February 7, 2011, the Company issued fixed rate notes amounting to P7,000.0 million which bear a fixed interest rate of 6.165% per annum, payable semi-annually. The fixed rate notes will mature on February 8, 2016. The fixed rate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Section 10 (1) of RA 8799. The arrangers are ING Bank, BPI Capital Corporation, Allied Banking Corporation, First Metro Investment Corporation, RCBC Capital Corporation and United Coconut Planters Bank and the total arrangers fees amounted to P24.1 million.

(3) On October 13, 2010, SMIC issued US$400 million bonds which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears. The bonds will mature on October 13, 2017. Of this amount, US$82.9 million and US$130.8 million were exchanged from the existing US$350 million 6.75% bonds due 2013 and US$500 million 6.00% bonds due 2014, respectively. The balance of US$186.3 million represents the new money component. The bonds, which were listed in the Sinagpore Stock Exchange, are considered as exempt pursuant to Section 10 (1) of RA No. 8799. The underwriters are Citi, HSBC and BDO and the total underwriting fees and expenses amounted to US$1.7 million.

(4) On September 22, 2009, SMIC issued US$500.0 million bonds which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014. The bonds, which were listed in Singapore Stock Exchange, are considered as exempt security pursuant to Section 10 (1) of RA No. 8799. The underwriters are Barclays Capital and Citi and the total underwriting fees and expenses amounted to US$2.1 million.

(5) On July 17, 2008, SMIC issued a US$350.0 million 6.75% bonds due on July 18, 2013. The Bonds, which were listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10(l) of R.A. No. 8799. The sole underwriter is UBS and the total underwriting fees and expenses amounted to US$1.5 million.

(6) 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 P3,300.0 million and P200.0 million, respectively. The Preferred shares issued to financial and non-financial institutions are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799. The lead underwriter is ING Manila and the total underwriting fees and expenses amounted to P17 million. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million.

(7) On March 19, 2007, SMIC issued a US$300.0 million Convertible Bonds due on March 20, 2012. The Convertible Bonds, which was listed in the Singapore Stock Exchange, are considered as exempt security pursuant to Section 10(g) of R.A. No. 8799. The lead underwriters are Citibank and Macquarie Securities and the total underwriting fees and expenses amounted to US$3.3 million.

Please refer to Note 20 of the 2011 consolidated financial statements for the details of the Company's fixed rate bonds.

There are no existing or planned stock options/ stock warrant offerings.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

Calendar Year Ended December 31, 2011 and 2010

Results of Operation
(amounts in billion pesos)

Accounts	**12 / 31 / 2011**	**12 / 31 / 2010**	**% Change**
Revenue	**P 200.3**	**P 177.2**	**13.0%**
Cost and Expenses	162.9	145.0	12.3%
Income from Operations	**P 37.4**	**P 32.2**	**16.2%**
Other Income (Charges)	(1.7)	(1.9)	-10.9%
Provision for Income Tax	5.5	5.4	1.7%
Minority Interest	9.0	6.4	39.4%
Net Income Attributable to Equity Holders of the Parent	**P 21.2**	**P 18.4**	**15.1%**

Consolidated revenues grew by 13.0% to P200.3 billion, as against last year's P177.2 billion. Income from operations increased by 16.2% to P37.4 billion from last year's P32.2 billion. Operating income margin and Net profit margin is at 18.7% and 10.6%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2011 increased by 15.1% to P21.2 billion compared to P18.4 billion of the same period last year.

Retail Sales accounts for 74.0% or P148.2 billion of the total revenues for the year. Consolidated Retail sales grew by 9.3% from P135.6 billion to P148.2 billion for the year ended December 31, 2011 due mainly to the opening of the following new stores in 2011:

	SM Department Stores	***SM Supermarkets / SaveMore Stores***	***SM Hypermarkets***
1	SM City Masinag	SM City Masinag	Mandaue, Cebu*
2	-	Megamall A	JMall, Mandaue, Cebu
3	-	Olongapo	Imus*
4	-	SaveMore Muntinlupa	Sucat -Lopez
5	-	SaveMore Jackman	Marketmall
6	-	SaveMore Capistrano	-
7	-	SaveMore Bayambang	-
8	-	SaveMore Malhacan	-
9	-	SaveMore Kauswagan*	-
10	-	SaveMore Araneta	-
11	-	SaveMore Sta. Ana	-
12	-	SaveMore Apalit	-
13	-	SaveMore Sta. Maria	-
14	-	SaveMore Binan	-
15	-	SaveMore Tuguegarao	-
16	-	SaveMore Halang	-
17	-	SaveMore Shoe Ave.	-
18	-	SaveMore Balibago	-
19	-	SaveMore Canduman	-
20	-	SaveMore Maguikay	-
21	-	SaveMore Pedro Gil	-
22	-	SaveMore Iba Zambales	-
23	-	SaveMore Kanlaon	-
24	-	SaveMore Ilagan	-
25	-	SaveMore A. Avenue	-
26	-	SaveMore Laoag	-
27	-	SaveMore Salitran	-
28	-	SaveMore Blumentritt	-

** These were formerly Makro stores which were converted into Hypermarket stores*

Excluding the full year sales of Makro, the retail sales growth would be 12.4% from P129.4 billion in 2010 to P145.4 billion in 2011. Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.9% or P63.6 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.1% or P84.6 billion.

As of December 31, 2011, SM Investments' retail subsidiaries have 169 stores. These consist of 41 department stores, 33 supermarkets, 65 SaveMore stores and 30 hypermarkets.

Real estate sales for the year ended December 31, 2011, derived mainly from condominium projects of SMDC, surged by 64.0% to P17.9 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2011 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 17 residential projects as of December 31, 2011. In 2011, SMDC launched Mezza II Residences in Quezon City, Green Residences in Manila, Shell Residences in Pasay City and M Place Ortigas in Pasig City. For the whole of 2011, SMDC pre-sold 11,726 residential condominium units worth approximately P26.3 billion. Compared to the same period in 2010, the number of units pre-sold increased by 14% and exceeded SMDC's sales target of P23.6 billion by 11%.

The other ongoing projects of SMDC are the following: Grass Residences beside SM City North Edsa; Sea Residences near the Mall of Asia Complex in Pasay City; Field Residences in Sucat, Paranaque; Princeton Residences along Aurora Boulevard in Quezon City; Jazz Residences near Jupiter Road in Makati City; Sun Residences right beside the Mabuhay (formerly Welcome) Rotunda near Quezon Avenue; Light Residences near Pioneer Street in Mandaluyong; Wind Residences along the Emilio Aguinaldo Highway in Tagaytay City; Blue Residences, which is located at Loyola Heights in Quezon City and M Place South Triangle in Panay Avenue, Quezon City. Currently, SMDC has four fully completed projects namely Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City; Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; and Lindenwood Residences, a residential subdivision in Muntinlupa City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

Rent revenue for the year ended December 31, 2011, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 14.3% to P20.5 billion in 2011 from P17.9 billion in 2010. SM Prime is the country's leading shopping mall developer and operator which owns 41 malls in the Philippines and four malls in China as of December 31, 2011. The increase in rental revenues is largely due to rentals from new SM Supermalls. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were opened. In 2011, SM Masinag was also opened. The new malls added 380,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 7.0%.

The four malls in China contributed P2.0 billion in 2011 and P1.4 billion in 2010, or 9.9% and 7.7%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 46.4% in 2011 compared to the same period in 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. Average occupancy rate for the four malls is now at 95%.

For the year 2011, cinema ticket sales and amusement revenues increased by 11.2% to P4.1 billion in 2011 from P3.7 billion in 2010 largely due to the success of local blockbuster movies shown in 2011 compared to 2010 and higher sponsorship revenues in 2011. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 17.9% to P6.4 billion in 2011 from P5.4 billion in 2010, primarily due to the increase in the net income of BDO which is attributed to the bank's recurring fee-based income from its service businesses which rose 18%. Amid a volatile external environment, BDO generated a 10% increase in trading and foreign exchange gains. Along with other miscellaneous income, BDO recorded a 17% growth in non-interest income. BDO continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service activities. Having completed its investment in capacity, BDO is now starting to benefit from scale with operating expenses increasing only moderately by 4% with ongoing initiatives to enhance operational efficiency.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives decreased by 55.7% to P0.4 billion in 2011 from P0.9 billion in 2010 primarily due to the gain on sale of various available-for-sale investments of certain subsidiaries in 2010.

Dividend income increased by P0.1 billion or 21.6% in 2011 to P0.4 billion from P0.3 billion in 2010 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by P0.1B or 9.1% from P0.8 billion in 2010 to P0.9 billion in 2011 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of income for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, slightly decreased by P0.06 billion or 3.8%.

Total cost and expenses went up by 12.3% to P162.9 billion for the year ended December 31, 2011 compared to 2010. Retail cost of sales increased by 8.4% from P103.5 billion to P112.2 billion while real estate cost of sales and others increased by 71.6% from P6.0 billion to P10.3 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 13.8% from P35.5 billion in 2010 to P40.4 billion in 2011. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to P34.2 billion in 2011 or a growth of 14.8% from P29.8 billion in 2010. The increase is primarily associated with new malls, department stores, supermarkets, savemore and hypermarkets and residential projects.

Other charges of P1.7 billion in 2011 decreased by 10.9% or P0.2 billion from last year's other charges of P1.9 billion. Gain on disposal of investments and properties increased by 61.3% to P2.6 billion from P1.6 billion mainly due to the gain on Belle-PLAI share swap in 2011 of P1.5 billion (net of minority interest). Interest income increased by 15.0% to P4.3 billion in 2011 from P3.7 billion in 2010 mainly due to higher average balance of temporary investments and time deposits and higher interest rates during 2011. These were offset by the increase in interest expense by 15.5% or P1.2 billion to P8.8 billion in 2011 from P7.6 billion in 2010 mainly due to new loans availed of in 2011 (refer to Note 20 of the consolidated financial statements) and the decrease in foreign exchange gains by 40.4% from P0.4 billion in 2010 to P0.2 billion in 2011 mainly from restatement of loans availed during the year wherein foreign exchange rate of peso to dollar is lower as compared with year-end exchange rate.

Provision for income tax increased by 1.7% to P5.5 billion for the year 2011 from P5.4 billion in 2010 mainly due to the increase in taxable income.

Minority interest increased to P9.0 billion in 2011 from P6.4 billion in 2010 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2011	12 / 31 / 2010	% Change
Current assets	P 101.3	P 104.3	-2.9%
Noncurrent assets	347.8	303.1	14.7%
Total assets	**P 449.1**	**P 407.4**	**10.2%**
Current liabilities	P 79.8	P 62.4	27.8%
Noncurrent Liabilities	147.0	147.2	-0.1%
Total Liabilities	**226.8**	**209.6**	**8.2%**
Stockholders' Equity	**222.3**	**197.8**	**12.4%**
Total Liabilities and Stockholders' Equity	**P 449.1**	**P 407.4**	**10.2%**

On the Balance Sheet side, consolidated total assets as of December 31, 2011 amounted to P449.1 billion, higher by 10.2% from P407.4 billion in previous year. On the other hand, consolidated total liabilities grew by 8.2% to P226.8 billion in 2011 from P209.6 billion in previous year.

Total current assets decreased by 2.9% to P101.3 billion as of December 31, 2011 from P104.3 billion as of last year. Cash and cash equivalents decreased by 16.3% to P56.1 billion in 2011 from P67.0 billion in 2010 mainly due to payments for investment acquisitions and capital expenditures. This was partially offset by the increase in receivables by 19.7% to P11.8 billion from P9.8 billion primarily due to increase in receivable from tenants and real estate buyers. Merchandise inventories increased by 28.1% to P13.4 billion from P10.5 billion primarily due to new departments stores, supermarkets, savemore and hypermarkets. Other current assets increased by 21.6% to P17.2 billion from P14.1 billion resulting mainly from the advances to contractors of the real estate group from its current projects.

Total consolidated noncurrent assets amounted to P347.8 billion as of December 31, 2011, a growth of 14.7% from P303.1 billion as of December 31, 2010. Investments available for sale increased by 12.2% to P12.4 billion in 2011 from P11.1 billion in 2010 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 24.8% to P88.4 billion in 2011 from P70.9 billion in 2010 mainly due to additional investment in and purchase of shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2011. The increase in investment properties, property and equipment and land and development by 15.5% or P17.6 billion, 12.9% or P1.7 billion and 16.8% or P3.3 billion, respectively, arose from new mall constructions, real estate developments and purchase of commercial lots in 2011. Deferred tax assets increased by 20.5% to P0.7 billion in 2011 from P0.6 billion in 2010 mainly due to tax effect of unrealized foreign exchange loss, unamortized past service cost and defined benefit liability and accrued leases. Other noncurrent assets increased by 14.4% to P24.1 billion from P21.0 billion mainly due to the non-current receivable from real estate buyers.

Total consolidated current liabilities increased by 27.8 % to P79.8 billion as of December 31, 2011 mainly due to availment of bank loans which increased by 26.2% to P25.7 billion in 2011 from P20.4 billion in 2010 and increase in accounts payable and other current liabilities by 14.6% to P44.7 billion in 2011 from P39.0 billion in 2010 mainly arising from trade transactions, subscriptions payable and accrued expenses. See note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 12.3% to P1.3 billion in 2011 from P1.2 billion in 2010 mainly due to higher taxable income in 2011. The 348.3% or P6.2 billion increase in current portion of long-term debt is mainly due to the reclassification from Long-term debt of loans which will mature in 2011. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. The 5.8% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total Noncurrent Liabilities slightly decreased by P0.1 billion to P147.0 billion in 2011 from P147.2 billion in 2010. Defined benefit liability decreased by P0.1 billion or 57.1% to P0.1 billion from P0.2 billion in 2010. Deferred tax liabilities decreased by 2.8% to P4.5 billion in 2011 from P4.6 billion in 2010. Noncurrent derivative liability decreased by 82.4% to P0.2 billion from P1.4 billion mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans. See note 30 to the audited consolidated financial statements for further discussion regarding derivative transactions. Long-term debt – net of current portion decreased by P0.1 billion or 0.1% to P128.5 billion in 2011 from P128.6 billion in 2010. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. These were partially offset by the increase in Tenants' deposits and others by 10.8% to P13.7 billion in 2011 from P12.4 billion in 2010 mainly due to new malls and expansions and from new condominium projects of the real estate group.

Total Stockholders' equity amounted to P222.3 billion as of December 31, 2011, while total Equity attributable to equity holders of the parent amounted to P157.7 billion. The 48.0% or P0.1 billion increase in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Minority interest increased by 14.8% to P64.6 billion in 2011 from P56.3 billion in 2010 mainly due to increase in net assets of certain subsidiaries. See Note 21 to the audited 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 year 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 Company for the years ended December 31, 2011 and 2010:

Accounts	**12 / 31/ 2011**	**12 / 31/ 2010**
Current Ratio	1.27 : 1.00	1.67 : 1.00
Debt-equity Ratios:		
On Gross Basis	51% : 49%	50% : 50%
On Net Basis	28% : 72%	22% : 78%
Return on Equity	14.2%	13.8%
Net Income to Revenue	10.6%	10.4%
Revenue Growth	13.0%	12.1%
Net Income Growth	15.1%	15.1%
EBITDA *(In Billions of Pesos)*	P44.6B	P38.4B

The current ratio decreased to 1.27 : 1.00 in 2011 from 1.67 : 1.00 in 2010 due to increase in current liabilities resulting from availment of new bank loans, increase in current portion of long-term debt and trade payables and decrease in cash and cash equivalents mainly from investment acquisitions and capital expenditures.

The debt-equity ratio on gross basis slightly increased to 51%:49% in 2011 from 50%:50% in 2010 mainly due to the additional loans in 2011. On a net basis, the debt-equity ratio increased to 28%:72% as some loans were used for capital expansions and general corporate purposes.

In terms of profitability, the return on equity improved to 14.2% in 2011 compared to 13.8% in 2010 due to the 15.1% increase in net income attributable to equity holders of the parent in 2011. Net income to Revenue slightly increased to 10.6% in 2011 compared to 10.4% in 2010. Revenue growth increased to 13.0% in 2011 from 12.1% in 2010 mainly attributed to the increase in merchandise and real estate sales and rental revenues, improvement in the net income of bank associates, net of the increase in costs and expenses. Net income growth is at 15.1% for both years.

EBITDA improved to P44.6 billion in 2011 over P38.4 billion in 2010 mainly due to the increase in income from operations and other income.

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

1. Current Ratio

   $$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2. Debt – Equity Ratio

   a. Gross Basis

   $$\frac{\text{Total Interest Bearing Debt less Pledged time deposits}}{\text{Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less Pledged time deposits}}$$

   b. Net Basis

   $$\frac{\text{Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents, time deposits, investments in bonds held for trading and available for sale}}$$

3. Return on Equity

   $$\frac{\text{Net Income Attributable to Equity Holders of the Parent}}{\text{Average Equity Attributable to Equity Holders of the Parent}}$$

4. Net Income to Revenue

   $$\frac{\text{Net Income Attributable to Equity Holders of the Parent}}{\text{Total Revenue}}$$

5. Revenue Growth

   $$\frac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}} - 1$$

6. Net Income Growth

   $$\frac{\text{Net Income Attributable to Equity Holders of the Parent (Current Period)}}{\text{Net Income Attributable to Equity Holders of the Parent (Prior Period)}} - 1$$

7. EBITDA

   Income from operations + Depreciation and amortization

Expansion Plans / Prospects for the Future

For 2012, SM Prime plans to open SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City Olongapo in Zambales, SM City San Fernando in Pampanga and SM Chongqing in China.

By the end of 2012, SM Prime will have 46 malls in the Philippines and five in China with an estimated combined GFA of 6.4 million sqm.

Retail expansion plans for 2012 include the opening of five department stores, six supermarkets, 21 SaveMore branches and five hypermarkets.

SMDC currently has 15 residential projects under its SM Residences brand and two projects under the M Place brand. In order to sustain the growth momentum and to further expand the SMDC's presence in the industry, SMDC will continue to vigorously pursue its vision of uplifting the Filipino lifestyles by launching products that will meet the demand for affordable and high quality residential units in prime locations and will also pursue projects that will cater to the preferences and financial capacity of its target market. Innovation shall remain to be its strength while continuously focusing attention to changing market needs. The broadening and strengthening of its revenue base shall also be pursued as it moves forward.

For the year 2012, SMDC is targeting to launch five new projects in various cities within Metro Manila. In addition, it shall continue to search for viable locations in key cities in Metro Manila in response to the increasing demands for residences. SMDC shall be open to tapping various sources of financing to support its operational needs in real estate development.

The Miranda and Carola clusters of Costa Del Hamilo are targeted to be completed 1st quarter of 2012.

SM Hotels is currently developing Park Inn by Radisson Davao, which will be the very first "Park Inn by Radisson" in the Asia Pacific region. The Park Inn brand is one of the hotel brands under Carlson and is the largest mid-market brand for hotels under development in Europe. Park Inn by Radisson Davao hotel project is approximately a 204-room hotel located in Lanang, Davao City. The hotel is scheduled to open in the first quarter of 2013.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

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

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

Calendar Year Ended December 31, 2010 and 2009

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2010	12 / 31 / 2009	% Change
Revenue	**P 179.3**	**P 160.0**	**12.1%**
Cost and Expenses	146.2	131.8	11.0%
Income from Operations	**P 33.1**	**P 28.3**	**17.2%**
Other Income (Charges)	(2.9)	(2.4)	19.2%
Provision for Income Tax	5.4	4.8	13.1%
Minority Interest	6.4	5.1	26.7%
Net Income Attributable to Equity Holders of the Parent	**P 18.4**	**P 16.0**	**15.1%**

Consolidated revenues grew by 12.1% to P179.3 billion, as against last year's P160.0 billion. Income from operations increased by 17.2% to P33.1 billion from last year's P28.3 billion. Operating income margin and Net profit margin is at 18.5% and 10.3%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2010 increased by 15.1% to P18.4 billion compared to P16.0 billion of the same period last year.

Retail Sales accounts for 75.6% or P135.6 billion of the total revenues for the year. Consolidated Retail sales grew by 9.4% from P123.9 billion to P135.6 billion for the year ended December 31, 2010 due mainly to the opening of the following new stores in 2010:

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
1	SM City Tarlac	SM City Tarlac	North Harbour*
2	SM City San Pablo	SM City San Pablo	Adriatico
3	SM City Calamba	SM City Calamba	Cubao*
4	SM City Novaliches	SM City Novaliches	Jaro, Iloilo*
5	-	Megamall Extension	Jalandoni, Batangas*
6	-	Southmall Extension	Mabalacat, Pampanga*
7	-	SaveMore West Kamias	-
8	-	SaveMore Mendez	-
9	-	SaveMore Legazpi	-
10	-	SaveMore Baliwag	-
11	-	SaveMore Pasong Tamo	-
12	-	SaveMore Amang Rodriguez	-
13	-	SaveMore Bacolod East	-
14	-	SaveMore Malabon	-
15	-	SaveMore Cagayan De Oro	-
16	-	SaveMore Zapote	-
17	-	SaveMore Cartimar	-
18	-	SaveMore Berkeley	-

** These were formerly Makro stores which were converted into Hypermarket stores*

	SM Department Stores	SM Supermarkets / SaveMore Stores	SM Hypermarkets
19	-	SaveMore Isabela	-
20	-	SaveMore Angeles	-

** These were formerly Makro stores which were converted into Hypermarket stores*

Excluding the full year sales of Makro, the retail sales growth would be 12.5% from P115.0 billion in 2009 to P129.4 billion in 2010. Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.7% or P57.9 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.3% or P77.7 bilion.

As of December 31, 2010, SM Investments' retail subsidiaries have 142 stores. These consist of 40 department stores, 30 supermarkets, 40 SaveMore stores, 25 hypermarkets and 7 Makro outlets.

Real estate sales for the year ended December 31, 2010, derived mainly from condominium projects of SMDC, surged by 64.6% to P10,557.9 million. In 2010, SMDC launched its new brand, M Place, through the unveiling of its inaugural project, M Place South Triangle, in the Panay Avenue – Mother Ignacia area of Quezon City. Another project, Blue Residences, which is located at Loyola Heights in Quezon City, was also launched in 2010. In 2009, Princeton Residences and the "Big Four" projects were launched. Princeton Residences is a 40-storey condominium located at Gilmore Ave. Quezon City. The Big Four projects namely, Jazz Residences (Jupiter St., Makati), Sun Residences (Welcome Rotonda, Quezon City), Wind Residences (Tagaytay, Cavite), and Light Residences (Pioneer, EDSA) were simultaneously introduced to the market in December 2009. These projects are experiencing brisk market uptake.

The other ongoing projects of SMDC are the following: Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; Grass Residences beside SM City North Edsa; Sea Residences near the Mall of Asia Complex in Pasay City; and Field Residences in Sucat, Parañaque. Both Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City, and Lindenwood Residences, a residential subdivision in Muntinlupa City, are 100% complete. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

Rent revenue for the year ended December 31, 2010, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.9% to P17.9 billion in 2010 from P15.7 billion in 2009. SM Prime is the country's leading shopping mall developer and operator which currently owns 40 malls in the Philippines and three malls in China. The increase in rental revenues is largely due to rentals from new SM Supermalls. Towards the end of 2008, three malls were opened, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, as well as expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were also opened. The new malls and expansions added 904,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 6.0%.

The three malls in China contributed P1.4 billion in 2010 and P1.0 billion in 2009, or 7.7% and 6.5%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these three malls in China increased by 35.5% in 2010 compared to the same period in 2009 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle which added 110,000 sqm of gross floor area. Average occupancy rate for the three malls is now at 92%.

For the year 2010, cinema ticket sales and amusement revenues increased by 31.2% to P3.7 billion in 2010 from P2.8 billion in 2009 due to the deployment of digital technology and cinema renovations which increased our market share for both local and foreign films and more blockbuster movies shown in 2010 compared to 2009. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 39.2% to P5.4 billion in 2010 from P3.9 billion in 2009, primarily due to the increase in the net income of Banco de Oro which is attributed to the continued growth of its operating income resulting from the sustained growth in business volumes, judicious management of operating costs and lower funding costs. Banco de Oro continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service activities. Also, Banco de Oro was able to capitalize on trading opportunities during the period.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives increased by 141.2% to P1.8 billion in 2010 from P0.8 billion in 2009 primarily due to the gain on sale of various available-for-sale investments of certain subsidiaries and fair value changes of the embedded derivatives related to the US$300 million convertible bonds of SMIC.

Dividend income decreased to P0.3 billion in 2010 compared to P0.4 billion in 2009 mainly due to the maturity of the $50M BDO Preferred shares under "Available-for-sale investments" account of SMPHI in October 2009.

Management fees, which is computed based on percentage of sales, increased by 22.9% from P0.6 billion in 2009 to P0.7 billion in 2010 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of service fees for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets and service income, decreased by 44.2% to P3.0 billion in 2010 from last year's P5.3 billion mainly due to the P1.2 billion reversal of asset provisions in 2009.

Total cost and expenses went up by 11.0% to P146.2 billion for the year ended December 31, 2010 compared to 2009. Retail cost of sales increased by 6.4% from P98.5 billion to P104.8 billion while real estate cost of sales and others increased by 67.1% from P3.6 billion to P6.0 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 19.5% from P29.7 billion in 2009 to P35.5 billion in 2010. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to P29.8 billion in 2010 or a growth of 17.7% from P25.3 billion in 2009. The increase is primarily associated with mall expansions and new malls, department stores, supermarkets, savemore and hypermarkets.

Other charges of P2.9 billion in 2010 increased from last year's other charges of P2.4 billion mainly due to the additional interest expense on loans availed and bonds issued in 2010 (refer to Note 20 of the consolidated financial statements). Interest income increased by 7.5% from P3.4 billion in 2009 to P3.7 billion in 2010 mainly due to higher balance of temporary investments and time deposits in 2010. Gain on sale of investments in associates and real properties increased by 235.3% to P697.4 billion from P208.0 billion mainly due to disposal of certain investments in associates during the year. The increase in foreign exchange gains by 81.8% from P0.2 billion in 2009 to P0.4 billion in 2010 is primarily related to the decline in exchange rate from P46.20:US$1.00 in 2009 to P43.84:US$1.00 in 2010.

Provision for income tax increased by 13.1% to P5.4 billion for the year 2010 from P4.8 billion in 2009 mainly due to the increase in taxable income.

Minority interest increased to P6.4 billion in 2010 from P5.1 billion in 2009 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2010	12 / 31 / 2009	% Change
Current assets	P 104.3	P 88.5	17.9%
Noncurrent assets	303.1	253.2	19.7%
Total assets	**P 407.4**	**P 341.6**	**19.2%**
Current liabilities	P 62.4	P 40.8	53.1%
Noncurrent Liabilities	147.2	135.1	8.9%
Total Liabilities	**209.6**	**175.9**	**19.1%**
Stockholders' Equity	**197.8**	**165.7**	**19.4%**
Total Liabilities and Stockholders' Equity	**P 407.4**	**P 341.6**	**19.2%**

On the Balance Sheet side, consolidated total assets as of December 31, 2010 amounted to P407.4 billion, higher by 19.2% from P341.6 billion in previous year. On the other hand, consolidated total liabilities grew by 19.1% to P209.6 billion in 2010 from P175.9 billion in previous year.

Total current assets increased by 17.9% to P104.3 billion as of December 31, 2010 from P88.5 billion as of last year. Cash and cash equivalents increased by 53.8% to P67.0 billion in 2010 from P43.5 billion in 2009 mainly due to proceeds from loan availments during the year. Time deposits and short-term investments decreased by 91.5% to P0.9 billion from P10.4 billion as these were used to fund the early redemption by the bondholders of the US$246.3 million convertible bonds in March 2010. Investments held for trading and sale decreased by 58.1% to P2.0 billion in 2010 from P4.8 billion in 2009 mainly due to disposal of certain investments in bonds. Receivables increased by 11.7% to P9.8 billion from P8.8 billion primarily due to increase in receivable from tenants and real estate buyers associated with the increase in real estate sales and rental revenues. Merchandise inventories increased by 35.1% to P10.5 billion from P7.8 billion primarily due to new departments stores, supermarkets, savemore and hypermarkets. Other current assets increased by 6.9% to P14.1 billion from P13.2 billion mainly due to the increase in inventory of club shares of Costa del Hamilo in Pico de Loro to P0.9 billion in 2010 from P0.02 billion in 2009.

Total consolidated noncurrent assets amounted to P303.1 billion as of December 31, 2010, a growth of 19.7% from P253.2 billion as of December 31, 2009. Investments available for sale increased by 44.5% to P11.1 billion in 2010 from P7.7 billion in 2009 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 22.5% to P70.9 billion in 2010 from P57.8 billion in 2009 mainly due to additional investment in shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2010. The increase in investment properties, property and equipment and land and development by 11.8% or P12.0 billion, 21.6% or P2.4 billion and 59.3% or P7.3 billion, respectively, arose from new mall constructions and expansions, real estate developments and purchase of commercial lots in 2010. The increase in noncurrent time deposits by 16.1% to P37.4 billion in 2010 from P32.2 billion in 2009 mainly came from the US$186.3 million bonds issued in 2010. Deferred tax assets went down by 39.6% to P0.6 billion in 2010 from P0.9 billion in 2009 mainly due to the decrease in deferred tax from unrealized foreign exchange loss and others of the group. Other noncurrent assets grew by 49.8% to P21.0 billion from P14.0 billion mainly due to the increase in non-current receivable from real estate buyers and escrow fund for SMDC projects.

Total consolidated current liabilities increased by 53.1% to P62.4 billion as of December 31, 2010 mainly due to availment of bank loans which increased by 318.8% to P20.4 billion in 2010 from P4.9 billion in 2009 and increase in accounts payable by 15.2% to P39.0 billion in 2010 from P33.9 billion in 2009 arising from trade transactions, acquisition of land and payable to government agencies in 2010. See note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 11.0% to P1.2 billion in 2010 from P1.1 billion in 2009 mainly due to higher taxable income in 2010. The 92.0% or P0.8 billion increase in current portion of long-term debt is mainly due to the reclassification from Long-term debt of loans which will mature in 2011. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt.

Total Noncurrent Liabilities increased to P147.2 billion, mainly due to the issuance of additional bonds by SMIC (US$186.3 million new money component of the US$400 million exchangeable bonds), corporate notes by SMDC (P10.0 billion) and SM Prime (P6.0 billion) and loan availments of the group, net of loan payments. The details of these transactions are further discussed in Note 20 to the audited consolidated financial statements. Defined benefit liability decreased by 49.0% to P0.2 billion in 2010 from P0.3 billion in 2009 due to additional contributions to the retirement fund in 2010. Deferred tax liabilities increased by 6.6% to P4.6 billion in 2010 from P4.3 billion in 2009 mainly due to higher capitalized interest and deferred rent income in 2010. Tenants' deposits and others increased by 23.9% to P12.4 billion in 2010 from P10.0 billion in 2009 mainly due to new malls and expansions in 2009 and 2010 and from new condominium projects of the real estate group. Noncurrent derivative liability decreased by 38.5% to P1.4 billion from P2.2 billion mainly due to the availment by the bondholders of US$246.3 million of the early redemption option in March 2010 and conversion of US$9M convertible bond of SMIC. See note 30 to the audited consolidated financial statements for further discussion regarding derivative transactions.

Total Stockholders' equity amounted to P197.8 billion as of December 31, 2010, while total Equity attributable to equity holders of the parent amounted to P141.5 billion. Cost of common shares held by a subsidiary increased by 993.1% to P0.3 billion in 2010 from P0.02 billion in 2009 mainly due to the acquisition by a subsidiary of parent common shares during the year. The 16.0% or P0.06 billion decrease in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Minority interest increased by 37.5% to P56.3 billion in 2010 from P40.9 billion in 2009 mainly due to increase in net assets of certain subsidiaries. See Note 21 to the audited 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 year 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 Company for the years ended December 31, 2010 and 2009:

Accounts	**12 / 31/ 2010**	**12 / 31/ 2009**
Current Ratio	1.67 : 1.00	2.17 : 1.00
Debt-equity Ratios:		
On Gross Basis	50% : 50%	49% : 51%
On Net Basis	22% : 78%	21% : 79%
Return on Equity	13.8%	13.6%
Net Income to Revenue	10.3%	10.0%
Revenue Growth	12.1%	8.5%
Net Income Growth	15.1%	14.4%
EBITDA *(In Billions of Pesos)*	P39.4B	P34.2B

The current ratio decreased to 1.67 : 1.00 in 2010 from 2.17 : 1.00 in 2009 due to increase in current liabilities resulting from availment of new bank loans, increase in current portion of long-term debt, decline in current time deposits as result of the availment of the early redemption option by the bondholders of US$246.3 million in March 2010 and proceeds from sale of certain investments held for trading and sale which were placed in non-current time deposits.

The debt-equity ratio on gross basis increased to 50%:50% in 2010 from 49%:51% in 2009 mainly due to the additional loans and bond issuances in 2010. On a net basis, the debt-equity ratio increased to 22%:78% as some loans were used for capital expansions and general corporate purposes.

In terms of profitability, the return on equity improved to 13.8% in 2010 compared to 13.6% in 2009 due to the 15.1% increase in net income attributable to equity holders of the parent in 2010. Net income to Revenue slightly increased to 10.3% in 2010 compared to 10.0% in 2009. Revenue growth in 2010 increased to 12.1% compared to 8.5% in 2009 mainly due to growth in sales, rent, equity in net earnings and gain on sale of investments. Net income attributable to equity holders of the Parent grew by 15.1% in 2010 due to the increase in merchandise and real estate sales, improvement in the net income of bank associates, net of the increase in costs and expenses and other charges.

EBITDA improved to P39.4 billion in 2010 over P34.2 billion in 2009 mainly due to higher revenue growth of 12.1% this year compared with last year's 8.5% and higher operating margin of 18.5% this year compared with last year's 17.7%.

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

1. Current Ratio — Current Assets / Current Liabilities

2. Debt – Equity Ratio

   a. Gross Basis — Total Interest Bearing Debt less Pledged time deposits / (Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less Pledged time deposits)

   b. Net Basis — Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale / (Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents, time deposits and investments in bonds held for trading and available for sale)

3. Return on Equity — Net Income Attributable to Equity Holders of the Parent / Average Equity Attributable to Equity Holders of the Parent

4. Net Income to Revenue — Net Income Attributable to Equity Holders of the Parent / Total Revenue

5. Revenue Growth — Total Revenues (Current Period) / Total Revenues (Prior Period) - 1

6. Net Income Growth — Net Income Attributable to Equity Holders of the Parent (Current Period) / Net Income Attributable to Equity Holders of the Parent (Prior Period) - 1

7. EBITDA — Income from operations + Depreciation and amortization

Expansion Plans / Prospects for the Future

For 2011, SM Prime plans to open SM City Masinag in Antipolo City, SM City San Fernando in Pampanga and SM City Olongapo in Zambales. Part of the 2011 program is for SM Prime to also expand two of its existing malls namely SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. SM Prime is also scheduled to open SM Suzhou in first half of 2011, its fourth mall in China, which is located in the province of Jiangsu. SM Suzhou will have a GFA of approximately 70,000 sqm.

By the end of 2011, SM Prime will have 43 malls in the Philippines, of which 16 are in Metro Manila, and the others are spread out nationwide, and four malls in China. The 47 malls will have an estimated combined GFA of 5.9 million sqm. by the end of 2011.

Retail expansion plans for 2011 include the opening of four department stores, six supermarkets, 13 SaveMore branches and five hypermarkets.

By end 2010, SMDC had 14 projects from only 12 in 2009. With the strong and positive reception of the market on SMDC's newly launched M Place and Blue Residences together with the "Big Four" projects (Jazz Residences, Sun Residences, Wind Residences, and Light Residences) launched in December 2009, SMDC management is very confident toward expanding its market share by going to "high-end" locations and focusing on 5-star quality homes at affordable prices. With many of its residential projects nearly sold out, SMDC plans to unveil five new projects in 2011.

Miranda and Carola clusters of Costa Del Hamilo are targeted to be completed by 3rd quarter and 4th quarter of 2011, respectively. A ferry terminal at Hamilo Coast's Papaya Cove is targeted for completion and operation by April 2011.

In 2nd half of 2011, SM Hotels will open Pico Sands Hotel, a 154 room resort-type hotel development in Hamilo Coast in Nasugbu, Batangas.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

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

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

Calendar Year Ended December 31, 2009 and 2008

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2009	12 / 31 / 2008	% Change
Revenue	**P 160.0**	**P 147.5**	**8.5%**
Cost and Expenses	131.8	125.8	4.8%
Income from Operations	**P 28.3**	**P 21.7**	**30.3%**
Other Income (Charges)	(2.4)	1.4	-271.2%
Provision for Income Tax	4.8	5.7	-15.8%
Minority Interest	5.1	3.4	49.9%
Net Income Attributable to Equity Holders of the Parent	**P 16.0**	**P 14.0**	**14.4%**

Consolidated revenues grew by 8.5% to P160.0 billion, as against last year's P147.5 billion. Income from operations increased by 30.3% to P28.3 billion from last year's P21.7 billion. Operating income margin and Net profit margin is at 17.7% and 10.0%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2009 increased by 14.4% to P16.0 billion compared to P14.0 billion of the same period last year.

Retail Sales accounts for 77% of the total revenues for the year. Consolidated Retail sales grew by 7.9% to P123.9 billion for the year ended December 31, 2009 due mainly to the opening of the following new stores in 2009:

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
1	SM City Naga	Mezza, Sta. Mesa	SM City Fairview
2	SM City Rosales	SM City Naga	SM City Las Piñas
3	SM City Rosario	SM City Rosario	Eton, Quezon Avenue, Quezon City
4	-	SaveMore Laon Laan	Mandaluyong *
5	-	SaveMore P. Tuazon	Makati *
6	-	SaveMore Del Monte	Novaliches*
7	-	SaveMore Amigo Mall	-
8	-	SaveMore Mega Center	-
9	-	SaveMore Broadway	-
10	-	SaveMore Taft	-
11	-	SaveMore Anonas	-
12	-	SaveMore Libertad	-
13	-	SaveMore Novaliches	-
14	-	SaveMore Visayas	-
15	-	SaveMore Solano	-

** These were formerly Makro stores which were converted into Hypermarket stores*

Excluding the full year sales of Makro, the retail sales growth would be 11.3%. The sales contribution of SM Department Stores, SM Supermarkets and SM Hypermarkets (including

Makro) are 42.8%, 33.5%, and 23.7%, respectively in 2009 and 42.4%, 33.2%, and 24.4%, respectively in 2008.

Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.8%, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.2%.

As of December 31, 2009, SM Investments' retail subsidiaries have 119 stores. These consist of 36 department stores, 26 supermarkets, 26 SaveMore stores, 19 hypermarkets and 12 Makro outlets.

Real estate sales for the year ended December 31, 2009, derived mainly from condominium projects of SMDC, surged by 68.4% to P6,415.2 million. In 2009, Princeton Residences and the "Big Four" projects were launched. Princeton Residences is a 40-storey condominium located at Gilmore Ave. Quezon City. The Big Four projects namely, Jazz Residences (Jupiter St., Makati), Sun Residences (Welcome Rotonda, Quezon City), Wind Residences (Tagaytay, Cavite), and Light Residences (Pioneer, EDSA) were simultaneously introduced to the market in December 2009. These projects, which will have fully furnished units, are experiencing brisk market uptake.

The other ongoing projects of SMDC are the following: Chateau Elysee, a mid-rise condominium project in Parañaque City, which has completed five of its six clusters; Berkeley Residences in Katipunan Road, Quezon City, which is 63% complete; Grass Residences beside SM City North Edsa, which is 58% complete with its Tower 1; Sea Residences near the Mall of Asia Complex in Pasay City, which is 38% complete with Phase 1; and Field Residences in Sucat, Parañaque, which is 95% complete with its Tower 1. Both Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City, and Lindenwood Residences, a residential subdivision in Muntinlupa City, are 100% complete. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

SM Prime Holdings, Inc. (SM Prime), the country's leading shopping mall developer and operator which currently owns 36 malls in the Philippines and three malls in China posted a 15% increase in rental revenue. This is largely due to rentals from new SM Supermalls. Towards the end of 2008, three malls were opened, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, as well as expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. The new malls and expansions in 2009 added 226,000 square meters (sqm) to total gross floor area, bringing it to 4.5 million sqm, for a 5% increase. Excluding the new malls and expansions which opened in 2008, same store rental growth is at 5%.

The three malls in China contributed P1.0 billion in 2009 and P0.8 billion in 2008, or 6.5% and 6.0%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these three malls in China increased by 26.4% in 2009 compared to the same period in 2008 largely due to improvements in the average occupancy rate and the opening of the SM Xiamen Lifestyle which added 110,000 sqm of gross floor area. Average occupancy rate for the three malls is now at 86%.

For the year 2009, cinema ticket sales and amusement revenues increased due to more blockbuster movies shown in 2009 compared to 2008. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates expanded by 138.7% to P3.9 billion in 2009 from P1.6 billion in 2008, primarily due to the increase in the net income of Banco de Oro and China Banking Corporation as a result of the turnaround in the market conditions following the previous year's financial crisis.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives decreased significantly from P6.6 billion in 2008 to P0.8 billion in 2009 primarily due to the P7.2 billion gain from the sale of 339.3 million shares of San Miguel Corporation, net of the provision for the decline in mark-to-market valuation of investment securities in 2008.

Dividend income decreased to P0.4 billion for the year 2009 compared to P0.8 billion in 2008 mainly due to the sale of 339.3 million San Miguel shares in October 2008.

Other revenues, which comprise mainly of service fees for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets and service income, increased by 52.6% to P5.3 billion in 2009 from last year's P3.5 billion mainly due to the opening of new stores and expansions in 2009.

Total cost and expenses went up by 4.8% to P131.8 billion for the year ended December 31, 2009 compared to 2008 primarily brought about by increase in costs associated with mall expansions and new malls, department stores, supermarkets, savemore and hypermarkets, net of the effect of general asset provisions amounting to P5.6 billion in 2008.

Other charges of P2.4 billion in 2009 increased from last year's other income of P1.4 billion mainly due to the additional interest expense on loans availed and bonds issued in 2009 and the decrease in interest income in 2009 compared to 2008. (please refer to Note 25 of the consolidated financial statements).

Provision for income tax decreased by 15.8% to P4.8 billion for the year 2009 from P5.7 billion in 2008 mainly due to the reduction in the corporate income tax rate from 35% in 2008 to 30% starting 2009.

Minority interest increased to P5.1 billion in 2009 from P3.4 billion in 2008 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2009	12 / 31 / 2008	% Change
Current assets	P 88.5	P 83.2	6.3%
Noncurrent assets	253.2	209.2	21.0%
Total assets	**P 341.6**	**P 292.4**	**16.8%**
Current liabilities	P 40.8	P 57.7	-29.3%
Noncurrent Liabilities	135.1	84.9	59.1%
Total Liabilities	**175.9**	**142.6**	**23.3%**
Stockholders' Equity	**165.7**	**149.8**	**10.7%**
Total Liabilities and Stockholders' Equity	**P 341.6**	**P 292.4**	**16.8%**

On the Balance Sheet side, consolidated total assets as of December 31, 2009 amounted to P341.6 billion, higher by 16.8% from P292.4 billion in previous year. On the other hand, consolidated total liabilities grew by 23.3% to P175.9 billion in 2009 from P142.6 billion in previous year.

Total current assets increased by 6.3% to P88.5 billion as of December 31, 2009 from P83.2 billion as of last year mainly due to additional investments in time deposits and short term investments (partly from issuance of US$500 million bonds) and reclassification of noncurrent time deposits in 2008 which will mature in 2010, increase in merchandise inventories, current receivable from real estate buyers, and condominium units for sale accounts, net of decrease in cash and cash equivalents as a result of payments for capital expenditures and debt maturities.

Total consolidated noncurrent assets amounted to P253.2 billion as of December 31, 2009, a growth of 21.0% from P209.2 billion as of December 31, 2008 mainly due to increase in investment properties arising from new mall constructions and expansions and real estate developments, purchase of commercial lots, additional investments in shares of stocks of associates, additional investments in time deposits (partly from issuance of US$500 million bonds), increase in non-current receivable from real estate buyers and recognition of goodwill arising from the acquisition of the minority interest of a certain subsidiary.

Total consolidated current liabilities decreased by 29.3% to P40.8 billion as of December 31, 2009 mainly due to payment of bank loans and current portion of long-term debt, net of increase in accounts payable. Current portion of derivative liabilities account in 2008 mainly pertains to marked-to-market losses on the plain vanilla cross currency swap entered into in 2004 by SM Prime which was fully settled in October 2009.

Total Noncurrent Liabilities increased to P135.1 billion, mainly due to the Group's loan availments, net of loan payments and issuance of bonds by SMIC (P10 billion retail bond in June 2009 and US$500 million bond in September 2009) and the issuance of corporate notes by SM Prime (P5 billion in April 2009). The details of these transactions are further discussed in Note 20 to the audited consolidated financial statements.

Total Stockholders' equity amounted to P165.7 billion as of December 31, 2009, while total Equity attributable to equity holders of the parent amounted to P124.8 billion. See Note 21 to the audited 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 year 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 Company for the years ended December 31, 2009 and 2008:

Accounts	**12 / 31/ 2009**	**12 / 31/ 2008**
Current Ratio	2.17 : 1.00	1.44 : 1.00
Debt-equity Ratios:		
On Gross Basis	49% : 51%	45% : 55%
On Net Basis	21% : 79%	18% : 82%
Return on Equity	13.6%	12.9%
Net Income to Revenue	10.0%	9.5%
Revenue Growth	8.5%	19.1%
Net Income Growth	14.4%	15.6%
EBITDA *(In Billions of Pesos)*	P34.2B	P28.1B

The current ratio increased to 2.17 : 1.00 in 2009 from 1.44:1.00 in 2008 due to decline in current liabilities resulting from payment of bank loans and current portion of long-term debt which matured during the year and additional investments in time deposits and short term investments (partly from issuance of US$500 million bonds).

The debt-equity ratio on gross basis increased to 49%:51% in 2009 from 45%:55% in 2008 mainly due to the additional loans and bond issuances in 2009. On a net basis, the debt-equity ratio increased to 21%:79%.

In terms of profitability, the return on equity improved to 13.6% in 2009 compared to 12.9% in 2008 due to the 14.4% increase in net income attributable to equity holders of the parent in 2009. Net income to Revenue slightly increased to 10.0% in 2009 compared to 9.5% in 2008 due to the minimal increase in costs and the decrease in other income in 2009 over 2008. Revenue growth in 2009 decreased to 8.5% compared to 19.1% in 2008 mainly due to the gain on sale of 339.3 million shares of stock of San Miguel Corporation in 2008 in spite of the growth in sales, rent, equity in net earnings and other revenues. Net income attributable to equity holders of the Parent grew by 14.4% in 2009 due to the increase in merchandise and real estate sales, improvement in the net income of bank associates, net of the increase in costs and expenses and other charges.

EBITDA improved to P34.2 billion in 2009 over P28.1 billion in 2008 mainly due to higher income from operations in 2009 resulting from lower growth of costs and expenses by 4.8% compared with last year's 22.9%.

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

1. Current Ratio — Current Assets / Current Liabilities

2. Debt – Equity Ratio

   a. Gross Basis — Total Interest Bearing Debt less Pledged time deposits / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less Pledged time deposits

   b. Net Basis — Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale / Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less cash and cash equivalents, time deposits and investments in bonds held for trading and available for sale

3. Return on Equity — Net Income Attributable to Equity Holders of the Parent / Average Equity Attributable to Equity Holders of the Parent

4. Net Income to Revenue — Net Income Attributable to Equity Holders of the Parent / Total Revenue

5. Revenue Growth — Total Revenues (Current Period) / Total Revenues (Prior Period) - 1

6. Net Income Growth — Net Income Attributable to Equity Holders of the Parent (Current Period) / Net Income Attributable to Equity Holders of the Parent (Prior Period) - 1

7. EBITDA — Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

For 2010, SM Prime plans to open SM City Novaliches in Quezon City; SM City Tarlac; SM Supercenter Masinag in Antipolo City, Rizal; and SM City Calamba and SM Supercenter San Pablo, both of which will be in the province of Laguna. SM Prime is also scheduled to open SM Suzhou in fourth quarter, its fourth mall in China, which is located in the province of Jiangsu. SM Suzhou will have a GFA of approximately 70,000 sqm.

By the end of 2010, SM Prime will have 41 malls in the Philippines, of which 16 are in Metro Manila, and the others are spread out nationwide. The 41 malls will have an estimated combined GFA of 4.8 million sqm. by the end of the year.

Expansion plans for 2010 include the opening of six department stores, six supermarkets, ten SaveMore branches and ten hypermarkets.

By end 2009, SMDC had 12 projects from only seven in 2008. With the strong and positive reception of the market on SMDC's newly launched "Big Four" projects (Jazz Residences, Sun Residences, Wind Residences, and Light Residences) in December 2009, SMDC management is very confident toward expanding its market share by going to "high-end" locations and focusing on 5-star quality homes at affordable prices.

In May 2008, Costa commenced the construction of the Myna Condominium Project (the Myna Project). While in August 2009, Costa started the construction of Miranda and Carola Condominium Projects. As of December 31, 2009 , the Miranda and Carola Projects have a combined market take up of 31%. As of December 31, 2009, the Myna Project has a market take up of 90%.

The new wing of Taal Vista Hotel in Tagaytay City, which was constructed in 2008 and increased room inventory from 128 rooms to 261 with an additional 1,000-seater ballrom, is now enjoying high occupancy and the hotel has been playing a host to a number of large-scale events at the new ballroom. In 2010, SM Hotels is slated to open a 400-room five-star hotel strategically situated beside SM City Cebu, the Radisson Hotel Cebu.

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

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

ITEM 7. Financial Statements

Please see the attached consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 1 – 116).

ITEM 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There were no changes in and disagreements with accountants on accounting and financial disclosure.

Independent Public Accountants, External Audit Fees and Services

Sycip, Gorres, Velayo & Company is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled stockholders' meeting. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Mr. Ramon D. Dizon of SGV & Co. for the examination of the Company's financial statements from 2008 to 2011. Previously, the Company engaged Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2006 to 2007 and 2001 to 2005, respectively.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor were P1,500,000 and P1,200,000 for 2011 and 2010, respectively. The audit fees for 2012 is estimated to be at P1,500,000. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, and assistance in the preparation of annual income tax returns. Also, in 2010, SGV rendered other professional services relating to the bond issuances of SMIC and none in 2011. The professional fees amounted to P9.0 million in 2010 and nil in 2011. There were no other professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from other entities other than the external auditor.

The Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the Audit Committee's recommendation.

PART III- CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Registrant

The incumbent Directors and Executive Officers of the Company are as follows:

Office	Name	Age	Citizenship
Chairman	Henry Sy, Sr.	87	Filipino
Vice Chairman	Teresita T. Sy	61	Filipino
Vice Chairman	Henry T. Sy, Jr.	58	Filipino
Director and President	Harley T. Sy	52	Filipino
Director and Executive Vice President and CFO	Jose T. Sio	72	Filipino
Independent Director	Vicente S. Perez, Jr.	53	Filipino
Independent Director	Ah Doo Lim	62	Singaporean
Independent Director	Joseph R. Higdon	70	American
Treasurer	Grace F. Roque	61	Filipino
Senior Vice President, Corporate Legal Affairs, Compliance Officer and Asst. Corp. Sec.	Corazon I. Morando	70	Filipino
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	56	Filipino
Senior Vice President - Legal	Marianne Malate-Guerrero	47	Filipino
Senior Vice President - Controllership	Ma. Ruby Ll. Cano	53	Filipino
Senior Vice President - Taxes	Cecilia Reyes-Patricio	54	Filipino
Senior Vice President - Internal Audit	Luis Y. Benitez	64	Filipino
Senior Vice President - Investor Relations	Corazon P. Guidote	51	Filipino
Senior Vice President - Investments Portfolio	Frederic C. DyBuncio	52	Filipino
Corporate Secretary	Emmanuel C. Paras	62	Filipino

MANAGEMENT

<u>Board of Directors</u>

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

The following are the business experience/s of the Company's Directors during the last five years:

Henry Sy, Sr., is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman of SM Prime, SM Land, Inc., SM Development, and Highlands Prime Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with five lines of businesses - shopping malls, retail, financial services, real estate development and tourism, hotels and conventions. He is likewise Chairman Emeritus of BDO Universal Bank, Inc. and Honorary Chairman of China Banking Corporation.

Teresita T. Sy, is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairman of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

Henry T. Sy, Jr., is the Vice Chairman of SMIC. He is also the Vice Chairman – President of Highlands Prime, Inc. and SM Land, Inc., Vice Chairman of SM Development Corporation, Director of SM Prime Holdings, Inc. and BDO Unibank, Inc. He is likewise the President of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from De La Salle University.

Harley T. Sy, is the President of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Executive Vice-president for Merchandising of SM Retail, Inc. He holds a degree in Bachelor of Science, Major in Finance from De La Salle University.

Jose T. Sio, is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, SM Keppel Land, Inc., Manila North Tollways Corporation, and Atlas Consolidated Mining and Development Corporation as well as other companies within the SM Group. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and SM Development Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. (a member practice of Ernst & Young).

Vicente S. Perez, Jr. *, is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is the Chief Executive Officer of Alternergy Partners, a renewable power company for emerging Asian countries, Chairman of Merritt Partners, an energy advisory firm, and Chairman of Ten Knots Philippines, the holding company of El Nido Resorts. He was the youngest and longest serving Secretary of the Department of Energy. He had also briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez is a member of the advisory boards of Coca-Cola Phils., Pictet Clean Energy Fund, and Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

Ah Doo Lim *, a Singaporean, is an Independent Director of SMIC. He is currently a Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector, and of ARA-CWT Trust Management (Cache) Ltd., PST Management Pte Ltd., Chemoil Energy Limited and GP Industries Ltd. He is also a Director of EDB Investments Pte Ltd., investment management arm of the Singapore Economic Development Board and of U Mobile Sdn Bhd. He obtained a degree in Engineering from Queen Mary College, University of London in 1971, and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

Joseph R. Higdon*, an American, is an Independent Director of SMIC. He was a Senior Vice-President of Capital Research and Management, a Los Angeles-based international investment management firm. He joined Capital Research in 1974 and covered Philippine equities from 1989 to 2006. He was also a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is presently an Independent Director of International Container Terminal Services, Inc., of the Advisory Board of Coca-Cola Bottling Company, Philippines and of BPI Globe BanKO, Inc.

** Independent director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director.. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule*

<u>Period of Directorship</u>

Name	**Period Served**
Henry Sy, Sr.	1960 to present
Teresita T. Sy	1979 to present
Henry T. Sy, Jr.	1979 to present
Harley T. Sy	1993 to present
Jose T. Sio	2005 to present
Vicente S. Perez, Jr.	2005 to present
Ah Doo Lim	2008 to present
Joseph R. Higdon	2010 to present

Executive Officers

Grace F. Roque is the Treasurer of SMIC. She is the Assistant Treasurer of SM Land, Inc. She is also the President and Chairman of Metro Manila Shopping Mecca and President and Director of HFS Corporation and Mercantile Stores Group, Inc. She holds a Bachelor Degree in Economics from Maryknoll College and a Masters in Business Administration Degree from the University of the Philippines.

Corazon I. Morando, is Senior Vice President, Corporate Legal Affairs, Compliance Officer and Assistant Corporate Secretary of SMIC. She is also the Vice President and Corporate Secretary of China Banking Corporation and Corporate Secretary and Compliance Officer of Highlands Prime, Inc.; Senior Vice President - Corporate Legal Affairs, Assistant Corporate Secretary and Compliance Officer of SM Prime; and the Corporate Secretary of Pico de Loro Beach and Country Club, Inc. She holds a Bachelor of Laws degree from the University of the Philippines and took up graduate studies under the MBA-Senior Executive Program in the Ateneo de Manila University. She was formerly Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

Elizabeth Anne C. Uychaco, is Senior Vice President, Corporate Services of SMIC. She is also a Board Director of Belle Corporation, Megawide Construction Corporation, Asia Pacific College, Generali Pilipinas Holding Company, Inc., Sinophil Corporation, APC Group, Inc. and Premium Leisure & Amusement, Inc. She was formerly Senior Vice President and Chief Marketing Officer of Philippine American Life Insurance Company and Board Director of Philam Call Center. Prior to that, she was Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

Marianne Malate-Guerrero, is Senior Vice President, Legal Department of SMIC. She formerly worked as Senior Vice President and Legal Department Head of United Overseas Bank Philippines. Previous to that, she was Vice President and Legal Officer of Solidbank Corporation. She began her practice with the law firm of Castillo Laman Tan & Pantaleon Law office. She graduated from the Ateneo School of Law in 1988.

Ma. Ruby Ll. Cano is Senior Vice President for Controllership of SMIC. She is a Certified Public Accountant and holds a Masters in Business Administration degree from Ateneo Graduate School of Business. She graduated from De La Salle University with a Bachelor of Science degree in Accountancy. Prior to her joining the Company, she served as Director of Finance for two leading hotels. She started her professional career in Sycip Gorres Velayo & Co.

Cecilia Reyes-Patricio is the Senior Vice President, Corporate Tax Department of SMIC. Prior to joining SMIC in 1988, she was a financial and tax auditor at SyCip, Gorres Velayo & Co. She holds a Master of Science degree (with highest honors) in Commerce, Major in Taxation, from the Manuel Luis Quezon University. A Certified Public Accountant, she graduated magna cum laude with a Bachelor of Science degree in Business Administration from the University of the East.

Luis Y. Benitez is a Senior Vice President of SMIC for Internal Audit. Prior to joining SMIC, Mr. Benitez was a Senior Partner of SyCip Gorres Velayo & Co., where he served as Vice Chairman and Head of the Assurance & Advisory Business Services. He is a member of the Makati Business Club, The Philippine British Business Council, and the Philippine Institute of Certified Public Accountants. Mr. Benitez holds a Master of Business Administration degree from New York University, Stern School of Business. He is a graduate of the Pacific Rim Bankers Program, University of Washington. He holds a Bachelor of Science in Business Administration degree, Major in Accounting from the University of the Philippines.

Corazon P. Guidote is Senior Vice President for Investor Relations of SMIC. She was formerly a Presidential Consultant for Investor Relations and Executive Director of the Investor Relations Office of the Republic of the Philippines. Prior to government service, she was a Director and Chief Operating Officer of ABN AMRO Asia Securities Philippines, Group Vice President for Corporate Communications and Investor Relations at Metro Pacific Corporation, and Managing Director of Citibank Securities, Philippines, Inc. A Certified Public Accountant, Ms. Guidote is a Bachelor of Science graduate of the University of Santo Tomas. She holds a Master in Applied Business Economics degree from the University of Asia and the Pacific and is a Chevening Fellow of the United Kingdom Foreign and Commonwealth Office. She is also a fellow at the Institute of Corporate Directors.

Frederic C. DyBuncio is Senior Vice President, Investments Portfolio of SMIC. He is also a Director of Atlas Consolidated Mining and Development Corporation. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

Emmanuel C. Paras, is the Corporate Secretary of SMIC and other companies within the SM Group. He holds a Bachelor of Law degree from Ateneo de Manila University and is a senior partner and Head of the Corporate Services Department of the Sycip, Salazar, Hernandez and Gatmaitan Law Offices.

Period of Officership

Name	**Office**	**Period Served**
Harley T. Sy	President	2005 to present
Jose T. Sio	Executive Vice President and Chief Financial Officer	2005 to present
Corazon I. Morando	Senior Vice President, Corporate Legal Affairs, Compliance Officer and Asst. Corp. Sec.	2005 to present
Marianne Malate-Guerrero	Senior Vice President - Legal	2006 to present
Elizabeth Anne C. Uychaco	Senior Vice President - Corporate Services	2009 to present
Ma. Ruby Ll. Cano	Senior Vice President - Controllership	2009 to present
Grace F. Roque	Treasurer and Senior Vice President	2010 to present
Cecilia Reyes-Patricio	Senior Vice President - Taxes	2010 to present
Luis Y. Benitez	Senior Vice President - Internal Audit	2010 to present
Corazon P. Guidote	Senior Vice President - Investor Relations	2011 to present
Frederic C. DyBuncio	Senior Vice President - Investment Portfolio	2011 to present
Emmanuel C. Paras	Corporate Secretary	2005 to present

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The same set of directors will be nominated in the coming regular annual stockholders' meeting. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC and its Implementing Rules and Regulations.

Nomination of Independent Directors shall be conducted by the Nomination Committee prior to the stockholders' meeting. The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of independent directors and which list shall contain all the information about these nominees. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting. In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

Significant Employees

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

Directorships in Other Reporting Companies

The following are directorships held by Directors and Executive Officers in other reporting companies during the last five years:

Name of Corporation	Position
Henry Sy, Sr.	
SM Prime Holdings Inc…………………..	Chairman
SM Development Corporation……………	Chairman
Highlands Prime, Inc……………………..	Chairman
BDO Unibank Inc………………...............	Chairman Emeritus
China Banking Corporation………..……..	Honorary Chairman
Teresita T. Sy	
BDO Unibank, Inc.……………….............	Chairman
SM Prime Holdings, Inc…………………..	Adviser to the Board
Henry T. Sy, Jr.	
SM Development Corporation…………....	Vice Chairman/CEO
Highlands Prime, Inc……………………..	Vice Chairman - President
National Grid Corporation..........................	President
SM Prime Holdings, Inc…………………..	Director
BDO Unibank, Inc………………...............	Director
Pico de Loro Beach and Country Club Inc.	Chairman
Harley T. Sy	
China Banking Corporation……………….	Director

Name of Corporation	Position
Jose T. Sio	
China Banking Corporation……………….	Director
Belle Corporation............………………..…...	Director
Atlas Consolidated Mining and Development Corporation....................	Director
BDO Unibank Inc……………….................	Adviser to the Board
SM Development Corporation..........…….	Adviser to the Board
Vicente S. Perez, Jr.	
Singapore Technologies Telemedia Pte Ltd	Independent Director
Ah Doo Lim	
Sembcorp Marine Ltd…………………….	Director
GP Industries Ltd………………………….	Director
EDB Investments Pte Ltd………………….	Director
ARA-CWT Trust Management (Cache) Ltd..	Director
PST Management Pte Ltd………………….	Director
Chemoil Energy Liminted...........................	Director
U Mobile Sdn Bhd………………..........	Director
Joseph R. Higdon	
International Container Terminal Services……………………………….	Independent Director
Coca-Cola Bottling Company…………….	Director of the Advisory Board
Elizabeth Anne C. Uychaco	
Belle Corporation……...………………….	Director
APC Group, Inc…………………………..	Director
Megawide Construction Corporation….…	Director
Sinophil Corporation……….…………….	Director
Frederic C. DyBuncio	
Atlas Consolidated Mining and Development Corporation....................	Director

(b) Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

(c) Certain Relationships and Related Transactions

There are no known related party transactions other than those described in Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements.

(d) Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Company:

(1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
(2) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
(3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
(4) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
(5) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

ITEM 10. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and executive officers of the Company are as follows:

Name and Position

1. Harley T. Sy
   President
2. Jose T. Sio
   Executive Vice President & CFO
3. Grace F. Roque
   Treasurer and Senior Vice President

4. Atty. Corazon I. Morando
   Senior Vice President -Corporate Legal
   Affairs Compliance Officer and
   Asst. Corp. Secretary
5. Elizabeth Anne C. Uychaco
   Senior Vice President – Corporate Services
6. Atty. Marianne M. Guerrero
   Senior Vice President – Legal
7. Ma. Ruby Ll. Cano
   Senior Vice President – Controllership
8. Cecilia Reyes-Patricio
   Senior Vice President –Taxes
9. Luis Y. Benitez
   Senior Vice President - Internal Audit
10. Corazon P. Guidote
    Senior Vice President - Investor Relations
11. Frederic C. Dybuncio
    Senior Vice President - Investment Portfolio

Summary Compensation Table

	Year	Salary	Bonus	Other Annual Compensation
President and 10 Most	2012 (estimate)	65,370,600	10,895,000	2,724,000
Highly Compensated	2011	56,844,000	9,474,000	2,369,000
Executive Officers	2010	50,940,000	8,490,000	2,123,000
All other Officers and	2012 (estimate)	85,632,726	14,272,000	3,568,000
Directors as a group	2011	74,463,240	12,411,000	3,103,000
unnamed	2010	83,050,000	13,842,000	3,460,000

Aside from the aforementioned compensation, these officers do not receive any other form of remuneration.

There are no outstanding warrants or options held by directors and officers. There are no actions to be taken with regard to election, any bonus or profit-sharing, change in pension/retirement plan, granting of or extension of any options, warrants or rights to purchase any securities.

ITEM 11. Security Ownership of Certain Record and Beneficial Owners as of February 29, 2012

As of February 29, 2012, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Felicidad T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	54,057,498	8.81%
-do-	Teresita T. Sy (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	45,668,360	7.44%
-do-	Harley T. Sy (Director and President) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	46,822,633	7.63%
-do-	Hans T. Sy (Shareholder of Issuer) No. 11 Harvard Road, Forbes Park, Makati City	Same as the Record Owner	Filipino	52,775,618	8.60%
-do-	Henry T. Sy, Jr. (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	46,768,360	7.62%
-do-	Herbert T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	52,768,360	8.60%
-do-	Elizabeth T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	37,378,390	6.09%
-do-	PCD Nominee Corp. (Non-Filipino)	Various clients [1]	Foreign	155,668,488	25.37%
-do-	PCD Nominee Corp. (Filipino)	Various clients [1]	Filipino	82,825,522	13.50%

(1) The Company has no information as to the beneficial owners of the shares of stocks held by PCD Nominee Corp. The clients of PCD Nominee Corp. have the power to decide how their shares are to be voted.

Security Ownership of Management as of February 29, 2012

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership (D) direct / (I) indirect		Citizenship	Percent of Class
Common	Henry Sy, Sr.	P 257,322,490	D	Filipino	4.19%
Common	Teresita T. Sy	456,683,600	D	Filipino	7.44%
Common	Harley T. Sy	468,226,330	D	Filipino	7.63%
Common	Henry T. Sy, Jr.	467,683,600	D	Filipino	7.62%
Common	Jose T. Sio	110	D	Filipino	.00%
Common	Vicente S. Perez, Jr.	110	D	Filipino	.00%
Common	Ah Doo Lim	1,000	D	Singaporean	.00%
Common	Joseph R. Higdon	1,000	D	American	.00%
Common	Grace F. Roque	0		Filipino	.00%
Common	Ma. Ruby Ll. Cano	32,200	D	Filipino	.00%
Common	Corazon I. Morando	0		Filipino	.00%
Common	Elizabeth Anne C. Uychaco	0		Filipino	.00%
Common	Marianne M. Guerrero	0		Filipino	.00%
Common	Cecilia Reyes-Patricio	0		Filipino	.00%
Common	Luis Y. Benitez	0		Filipino	.00%
Common	Corazon P. Guidote	17,000	D	Filipino	.00%
Common	Frederic C. DyBuncio	0		Filipino	.00%
Common	Emmanuel C. Paras	0		Filipino	.00%
		P 1,649,967,440			26.88%

There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of balance sheet date.

(b) Change in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

ITEM 12. Certain Relationships and Related Transactions

Please refer to Item 1, Transactions With and/or Dependence on Related Parties, page 8.

PART IV- CORPORATE GOVERNANCE

ITEM 13. CORPORATE GOVERNANCE

The Company's platform of governance remains rooted in its Manual on Corporate Governance and its Code of Ethics. The Manual on Corporate Governance (the "Manual") institutionalizes the principles of good corporate governance throughout the organization. It lays down the Company's compliance system and identifies the responsibilities of the Board of Directors (the "Board") and management in relation to good corporate governance. The Manual also provides the policies on disclosure and transparency, the conduct of communication and training programs on corporate governance, the rights of all shareholders, and the protection of the interests of minority shareholders. Under the Manual, it is the Board's responsibility to foster the long term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interests of the Company, its shareholders and other stakeholders.

The Code of Ethics (the "Code") serves as a guiding principle for the Company's directors, officers and employees in the performance of their duties and responsibilities, and in their business transactions with investors, creditors, customers, contractors, suppliers, regulators, and the public. The Code also reflects the Company's mission, vision and values statement. To align with the Code, the Company adopted policies on acceptance of gifts, insider trading, placement of advertisements, and guidelines on the Anti-Money Laundering Law. The Company continues to align itself with corporate governance best practices by developing policies on conflict of interest, related party transactions and enhancing its risk management systems.

Three (3) independent directors namely, Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim and Mr. Joseph R. Higdon, sit on the Board. The Company adopts the definition of independence under the Securities Regulation Code. The Company considers an independent director as one who, except for his director's fees and minimal qualifying shares, is independent of management and free from any business or other relationship which could reasonably be perceived to materially interfere with his exercise of independent judgement in carrying out his responsibilities as a director of the Company.

The Board is supported in its corporate governance functions by three (3) committees: the Compensation and Remuneration Committee, the Nomination Committee and the Audit and Risk Management Committee. The Compensation and Remuneration Committee is tasked to establish a formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of officers and directors. The Nomination Committee evaluates all persons nominated to the Board in accordance with the Manual. The Audit and Risk Management Committee reviews and approves the Company's financial reports, performs oversight financial management functions, and evaluates and approves internal and external audit plans and oversees the effectiveness of the risk management program. All Board Committees have adopted their respective charters which identify the Committees' composition, roles and responsibilities, as culled from the Manual.

There have been no deviations from the Company's Manual on Corporate Governance since its adoption. The Company has adopted in the Manual the leading practices and principles on good corporate governance and has fully complied with all the requirements of the Manual for the year 2011.

PART V- EXHIBITS AND SCHEDULES

ITEM 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - See accompanying Index to Exhibits (page 50).

The following exhibit is filed as a separate section of this report:

(18) Subsidiaries of the Registrant

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

Reports on SEC Form 17-C (Current Report) have been filed during the last six months period covered by this report.

INDEX TO EXHIBITS

Form 17-A

* These Exhibits are either not applicable to the Company or require no answer.

EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT

Please refer to *Note 2* of the accompanying Notes to the Consolidated Financial Statements for details.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
FORM 17-A, ITEM 7

**These schedules, which are required by SRC Rule 68.1, As Amended (2011), have been omitted because they are either not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.*

COVER SHEET

							1	6	3	4	2

SEC Registration Number

S M   I N V E S T M E N T S   C O R P O R A T I O N   A N D   S U
B S I D I A R I E S

(Company's Full Name)

1 0 t h   F l o o r ,   O n e   E - C o m   C e n t e r ,   H a r
b o r   D r i v e ,   M a l l   o f   A s i a   C o m p l e x ,
C B P - 1 A ,   P a s a y   C i t y   1 3 0 0

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

Ms. Ma. Ruby Ll. Cano
(Contact Person)

857-0100
(Company Telephone Number)

1	2		3	1

Month *Day*
(Fiscal Year)

A	A	C	F	S

(Form Type)

0	4		2	6

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of SM Investments Corporation and Subsidiaries in accordance with the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

TERESITA T. SY-COSON	**HARLEY T. SY**	**JOSE T. SIO**
Vice Chairperson of the Board	President	Chief Financial Officer

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)

SUBSCRIBED AND SWORN to before this 27th DAY MARCH at Makati City, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
TERESITA T. SY-COSON	17339257	February 9, 2012	Manila
HARLEY T. SY	17339261	February 9, 2012	Manila
JOSE T. SIO	02480801	January 5, 2012	Bacoor

Emmanuel C. Paras

EMMANUEL C. PARAS
Notary Public for Makati City
Appointment No. M-251 until Dec. 31, 2012
Roll of Attorney No. 27192
PTR No. 3178236MA; 01/04/12; Makati City
IBP No. 869717; 01/02/12; Makati Chapter
SyCipLaw Center, 105 Paseo de Roxas
Makati City, 1226 Metro Manila
Philippines

DOC NO. 184;
PAGE NO. 38;
BOOK NO. 277;
SERIES OF 2012

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 financial statements of 33 consolidated subsidiaries. The accompanying consolidated financial statements include the accounts of such consolidated subsidiaries which reflect net income amounting to ₱5,594.6 million (26.5% of total net income) for the year ended December 31, 2009. We also did not audit the financial statements of two associates in 2009 which reflect equity in net earnings for the year ended December 31, 2009 amounting to ₱2,989.1 million. The financial statements of these subsidiaries and associates were audited by other auditors whose unqualified reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained, and the reports of the other auditors in 2009 are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors in 2009, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2 (Group A),
February 4, 2010, valid until February 3, 2013
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174592, January 2, 2012, Makati City

March 7, 2012

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 18, 22, 29 and 30)	**₱56,050,322**	₱66,961,010
Time deposits and short-term investments (Notes 8, 20, 22, 29 and 30)	**879,410**	876,800
Investments held for trading and sale (Notes 9, 12, 22, 29 and 30)	**1,939,709**	2,007,801
Receivables (Notes 10, 17, 22, 29 and 30)	**11,764,852**	9,826,776
Merchandise inventories - at cost (Note 23)	**13,436,456**	10,485,903
Other current assets (Notes 11, 16, 22, 29 and 30)	**17,189,740**	14,133,252
Total Current Assets	**101,260,489**	104,291,542
Noncurrent Assets		
Available-for-sale investments (Notes 12, 22, 29 and 30)	**12,453,181**	11,097,407
Investments in shares of stock of associates (Note 13)	**88,417,849**	70,860,181
Time deposits (Notes 8, 20, 22, 29 and 30)	**37,416,562**	37,419,095
Property and equipment (Note 14)	**15,092,354**	13,368,539
Investment properties (Notes 15 and 20)	**131,275,911**	113,667,244
Land and development (Note 16)	**23,012,453**	19,703,595
Intangibles (Note 17)	**15,354,200**	15,354,200
Deferred tax assets - net (Note 27)	**694,644**	576,364
Other noncurrent assets (Notes 10, 17, 22, 26, 29 and 30)	**24,084,415**	21,045,636
Total Noncurrent Assets	**347,801,569**	303,092,261
	₱449,062,058	₱407,383,803

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 29 and 30)	**₱25,747,920**	₱20,408,800
Accounts payable and other current liabilities (Notes 19, 22, 29 and 30)	**44,749,807**	39,039,326
Income tax payable	**1,331,046**	1,185,678
Current portion of long-term debt (Notes 15, 20, 22, 29 and 30)	**7,920,961**	1,766,761
Dividends payable (Notes 29 and 30)	**25,696**	24,287
Total Current Liabilities	**79,775,430**	62,424,852
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15, 20, 22, 29 and 30)	**128,464,019**	128,600,570
Derivative liabilities (Notes 29 and 30)	**237,980**	1,351,441
Deferred tax liabilities - net (Note 27)	**4,507,979**	4,636,174
Defined benefit liability (Note 26)	**76,487**	178,274
Tenants' deposits and others (Notes 15, 28, 29 and 30)	**13,713,302**	12,375,013
Total Noncurrent Liabilities	**146,999,767**	147,141,472
Total Liabilities	**226,775,197**	209,566,324
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**6,121,640**	6,119,826
Additional paid-in capital (Note 21)	**35,536,615**	35,456,200
Equity adjustments from business combination under common control (Note 5)	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 21)	**(263,195)**	(263,195)
Cumulative translation adjustment of a subsidiary	**428,058**	289,260
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**7,008,067**	6,798,095
Retained earnings (Note 21):		
Appropriated	**5,000,000**	5,000,000
Unappropriated	**106,167,942**	90,475,674
Total Equity Attributable to Owners of the Parent	**157,666,331**	141,543,064
Non-controlling Interests	**64,620,530**	56,274,415
Total Equity	**222,286,861**	197,817,479
	₱449,062,058	₱407,383,803

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Sales:			
Merchandise	**₱148,182,071**	₱135,570,401	₱123,895,504
Real estate and others	**17,874,409**	10,896,597	6,666,399
Rent (Notes 15, 22 and 28)	**20,472,785**	17,904,661	15,722,077
Equity in net earnings of associates (Note 13)	**6,415,424**	5,440,826	3,908,242
Cinema ticket sales, amusement and others	**4,138,053**	3,722,983	2,838,665
Management and service fees (Note 22)	**880,679**	807,507	767,573
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**410,522**	926,799	769,691
Dividend income (Note 22)	**368,919**	303,518	364,950
Others	**1,538,940**	1,599,684	3,099,413
	200,281,802	177,172,976	158,032,514
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 23)	**112,192,756**	103,500,345	96,480,309
Real estate and others	**10,289,007**	5,995,214	3,588,302
Selling, general and administrative expenses (Note 24)	**40,412,750**	35,496,334	29,702,814
	162,894,513	144,991,893	129,771,425
OTHER INCOME (CHARGES)			
Interest expense (Notes 18, 20, 22, 25, 29 and 30)	**(8,836,013)**	(7,652,557)	(6,266,135)
Interest income (Notes 7, 8, 9, 12, 22 and 25)	**4,274,640**	3,716,452	3,458,066
Gain on disposal of investments and properties (Notes 13, 14, 15 and 20)	**2,623,864**	1,626,816	207,971
Foreign exchange gain - net (Note 29)	**242,862**	407,208	223,954
	(1,694,647)	(1,902,081)	(2,376,144)
INCOME BEFORE INCOME TAX	**35,692,642**	30,279,002	25,884,945
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**5,534,187**	5,109,646	4,430,076
Deferred	**(39,369)**	291,407	347,667
	5,494,818	5,401,053	4,777,743
NET INCOME	**₱30,197,824**	₱24,877,949	₱21,107,202
Attributable to			
Owners of the Parent (Note 31)	**₱21,224,592**	₱18,440,169	₱16,025,038
Non-controlling interests	**8,973,232**	6,437,780	5,082,164
	₱30,197,824	₱24,877,949	₱21,107,202
Earnings Per Common Share (Note 31)			
Basic	**₱34.68**	₱30.17	₱26.23
Diluted	**34.63**	30.17	26.18

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱30,197,824**	₱24,877,949	₱21,107,202
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in unrealized gain on available-for-sale investments of associates - net (Note 13)	**440,127**	2,065,101	1,603,186
Net unrealized gain (loss) on available-for-sale investments (Note 12)	**(434,299)**	1,941,882	1,958,955
Income tax relating to components of other comprehensive income	**207,106**	(375,510)	102,079
Cumulative translation adjustment of a subsidiary	**177,178**	(75,740)	(91,154)
	390,112	3,555,733	3,573,066
TOTAL COMPREHENSIVE INCOME	**₱30,587,936**	₱28,433,682	₱24,680,268
Attributable to			
Owners of the Parent	**₱21,573,362**	₱21,366,625	₱18,922,049
Non-controlling interests	**9,014,574**	7,067,057	5,758,219
	₱30,587,936	₱28,433,682	₱24,680,268

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands, Except Per Share Data)

	Equity Attributable to Owners of the Parent									Non-controlling Interests	Total Equity
	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Equity Adjustments from Business Combination Under Common Control (Note 5)	Cost of Parent Common Shares Held by Subsidiaries (Note 21)	Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 12 and 13)	Appropriated Retained Earnings	Unappropriated Retained Earnings (Note 21)	Total		
Balance at December 31, 2010	**₱6,119,826**	**₱35,456,200**	**(₱2,332,796)**	**(₱263,195)**	**₱289,260**	**₱6,798,095**	**₱5,000,000**	**₱90,475,674**	**₱141,543,064**	**₱56,274,415**	**₱197,817,479**
Net income for the year	–	–	–	–	–	–	–	**21,224,592**	**21,224,592**	**8,973,232**	**30,197,824**
Other comprehensive income	–	–	–	–	**138,798**	**209,972**	–	–	**348,770**	**41,342**	**390,112**
Total comprehensive income for the year	–	–	–	–	**138,798**	**209,972**	–	**21,224,592**	**21,573,362**	**9,014,574**	**30,587,936**
Issuance of Parent common shares	**1,814**	**80,415**	–	–	–	–	–	–	**82,229**	–	**82,229**
Cash dividends - ₱9.04 a share (Note 21)	–	–	–	–	–	–	–	**(5,532,324)**	**(5,532,324)**	–	**(5,532,324)**
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	**1,562,422**	**1,562,422**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	**(2,230,881)**	**(2,230,881)**
Balance at December 31, 2011	**₱6,121,640**	**₱35,536,615**	**(₱2,332,796)**	**(₱263,195)**	**₱428,058**	**₱7,008,067**	**₱5,000,000**	**₱106,167,942**	**₱157,666,331**	**₱64,620,530**	**₱222,286,861**
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)	₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266
Net income for the year	–	–	–	–	–	–	–	18,440,169	18,440,169	6,437,780	24,877,949
Other comprehensive income	–	–	–	–	(55,042)	2,981,498	–	–	2,926,456	629,277	3,555,733
Total comprehensive income for the year	–	–	–	–	(55,042)	2,981,498	–	18,440,169	21,366,625	7,067,057	28,433,682
Issuance of Parent common shares	9,596	425,490	–	–	–	–	–	–	435,086	–	435,086
Acquisition of Parent common shares held by a subsidiary	–	–	–	(249,812)	–	–	–	–	(249,812)	–	(249,812)
Disposal of Parent common shares held by a subsidiary	–	–	–	10,695	–	–	–	–	10,695	–	10,695
Cash dividends - ₱7.88 a share (Note 21)	–	–	–	–	–	–	–	(4,814,862)	(4,814,862)	–	(4,814,862)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	9,688,915	9,688,915
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(1,411,491)	(1,411,491)
Balance at December 31, 2010	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)	₱289,260	₱6,798,095	₱5,000,000	₱90,475,674	₱141,543,064	₱56,274,415	₱197,817,479
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)	₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334
Net income for the year	–	–	–	–	–	–	–	16,025,038	16,025,038	5,082,164	21,107,202
Other comprehensive income	–	–	–	–	(70,524)	2,967,535	–	–	2,897,011	676,055	3,573,066
Total comprehensive income for the year	–	–	–	–	(70,524)	2,967,535	–	16,025,038	18,922,049	5,758,219	24,680,268
Share in equity adjustment from business combination	–	–	(21,717)	–	–	–	–	–	(21,717)	(2,694)	(24,411)
Cash dividends - ₱6.88 a share (Note 21)	–	–	–	–	–	–	–	(4,203,838)	(4,203,838)	–	(4,203,838)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	(2,786,981)	(2,786,981)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(1,703,106)	(1,703,106)
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)	₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱35,692,642**	₱30,279,002	₱25,884,945
Adjustments for:			
Interest expense (Note 25)	**8,836,013**	7,652,557	6,266,135
Depreciation and amortization (Notes 14, 15 and 24)	**7,193,100**	6,321,252	5,968,144
Equity in net earnings of associates (Note 13)	**(6,415,424)**	(5,440,826)	(3,908,242)
Interest income (Note 25)	**(4,274,640)**	(3,716,452)	(3,458,066)
Gain on disposal of investments and properties (Notes 13, 14 and 15)	**(2,623,864)**	(1,626,816)	(207,971)
Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**(410,522)**	(926,799)	(769,691)
Dividend income	**(368,919)**	(303,518)	(364,950)
Unrealized foreign exchange loss (gain)	**190,586**	(435,321)	(282,928)
Provision for (reversal of) impairment loss (Notes 10, 11, 12, 13, 15 and 24)	**72,567**	557,536	(1,209,646)
Income before working capital changes	**37,891,539**	32,360,615	27,917,730
Decrease (increase) in:			
Land and development	**(14,042,798)**	(13,991,134)	(3,080,324)
Merchandise inventories	**(2,950,553)**	(2,725,140)	(549,559)
Receivables	**(1,861,758)**	(4,529,308)	(773,740)
Other current assets	**(405,838)**	(1,374,622)	204,343
Increase (decrease) in:			
Accounts payable and other current liabilities	**4,362,657**	4,442,599	3,392,912
Tenants' deposits and others	**1,300,123**	2,411,126	2,167,004
Defined benefit liability	**(101,787)**	(170,977)	(162,594)
Net cash generated from operations	**24,191,585**	16,423,159	29,115,772
Income tax paid	**(5,390,172)**	(4,991,668)	(4,514,091)
Net cash provided by operating activities	**18,801,413**	11,431,491	24,601,681
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments in shares of stock of associates	**289,416**	1,506,807	182,514
Property and equipment	**265,060**	210,586	341,554
Investment properties	**141,361**	194,208	86,087
Available-for-sale investments	**84,604**	2,878,859	4,014,430
Investments held for trading	–	3,713,156	95,030
Additions to:			
Investment properties (Note 15)	**(21,140,911)**	(15,426,869)	(13,566,283)
Investments in shares of stock of associates	**(7,109,378)**	(1,598,303)	(3,242,909)
Property and equipment (Note 14)	**(4,791,062)**	(4,403,485)	(2,868,231)
Available-for-sale investments	**(1,619,334)**	(3,384,105)	(2,603,561)
Investments held for trading	–	(2,491,297)	(1,573,150)
Decrease (increase) in:			
Other noncurrent assets	**1,923,878**	(1,639,195)	(1,933,100)
Time deposits and short-term investments	–	2,583,891	(19,157,056)
Interest received	**4,152,181**	4,113,667	3,114,030
Dividends received (Note 13)	**1,910,255**	1,669,398	990,240
Net cash used in acquisition of subsidiaries (Note 5)	–	–	(588,900)
Acquisition of non-controlling interest in a subsidiary (Note 2)	–	–	(3,384,213)
Net cash used in investing activities	**(25,893,930)**	(12,072,682)	(40,093,518)

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱27,594,082**	₱33,964,598	₱56,439,930
Bank loans	**23,428,370**	22,828,100	9,141,811
Payments of:			
Long-term debt	**(21,874,200)**	(20,988,993)	(15,182,416)
Bank loans	**(18,228,800)**	(6,608,400)	(21,885,000)
Interest	**(8,747,952)**	(8,301,873)	(5,521,272)
Dividends	**(7,761,796)**	(6,224,317)	(5,949,212)
Increase (decrease) in non-controlling interests	**1,562,422**	9,688,915	(2,623,843)
Acquisition of Parent common shares held by subsidiaries	–	(249,812)	–
Disposal of Parent common shares held by subsidiaries	–	10,695	–
Net cash provided by (used in) financing activities	**(4,027,874)**	24,118,913	14,419,998
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,120,391)**	23,477,722	(1,071,839)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**209,703**	(63,713)	(54,820)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**66,961,010**	43,547,001	44,673,660
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱56,050,322**	₱66,961,010	₱43,547,001

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On April 29, 2009, the shareholders approved the amendment of SMIC's articles of incorporation for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, 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, real estate development and tourism, hotels and conventions and financial services and others.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 7, 2012.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

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 all 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 thousand, except when otherwise indicated.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations from IFRIC starting January 1, 2011, except when otherwise stated:

Amendments to Standards and Interpretations

- PAS 24 (Amendment), *Related Party Disclosures,* became effective for annual periods beginning on or after January 1, 2011.
- PAS 32 (Amendment), *Financial Instruments: Presentation*, became effective for annual periods beginning February 1, 2010.

- Philippine Interpretaion IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, became effective for annual periods beginning January 1, 2011.
- Philippine Interpretation IFIRC 19, *Extinguising Financial Liabilities with Equity Instruments*, became effective for annual periods beginning July 1, 2010.

The above standards have no impact on the Group's consolidated financial statements.

Improvements to PFRSs (Issued 2010)
An omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wordings. The adoption of the following amendments resulted in changes to accounting policies but did not have material impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations*. The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2010. The Group, however, adopted these as at January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments - Disclosures*, effective January 1, 2011, intended to simplify the disclosures provided by reducing the volume of disclosures about collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment is applicable for annual periods beginning on or after July 1, 2010.

- PAS 1, *Presentation of Financial Statements*, effective January 1, 2011, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. This has no significant impact on the Group's consolidated financial statements.

Other amendments resulting from improvements to PFRSs and interpretations to the following standard did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3*, Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)), applicable for annual periods beginning on or after July 1, 2010
- PFRS 3*, Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards), applicable for annual periods beginning on or after July 1, 2010
- PAS 27, *Consolidated and Separate Financial Statements,* applicable for annual periods beginning on or after July 1, 2010
- PAS 34, *Interim Financial Statements,* effective January 1, 2011
- Philippine Interpretation IFRIC 13*, Customer Loyalty Programmes (determining the fair value of award credits)*, effective for annual periods beginning on or after January 1, 2011

Future Changes in Accounting Policies

The following are the issued standards, interpretations, amendments and improvements to PFRS and Philippine Interpretations but are not yet effective up to the date of issuance of the Group's consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

New Standards and Interpretations

- PFRS 9, *Financial Instruments: Classification and Measurement*, PFRS 9 as issued reflects the first phase on the PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected in 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. As at December 31, 2011, the Group has decided not to early adopt PFRS 9 on its consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group is currently assessing the impact of this standard on its consolidated financial statements.

- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary.Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PFRS 12, *Disclosure of Involvement with Other Entities*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is currently assessing the impact of this standard on its consolidated financial statements.

- PFRS 13, *Fair Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact of this standard on its consolidated financial statements.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission (SEC) and the FRSC have deferred the effectivity of this interpretation until the final revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. The Group is in the process of quantifying the impact of this new interpretation on its consolidated financial statements

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, will become effective for annual periods beginning on or after January 1, 2013. IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. The Group is currently assessing the impact of this new interpretation on its consolidated financial statements.

Amendments to Standards and Interpretation

- PAS 1, *Financial Statement Presentation* (Amendment) - *Presentation of Items of Other Comprehensive Income*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's consolidated financial statements.

- PAS 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale. The Group does not expect this amendment to have an impact on its consolidated financial statements.

- PAS 19, *Employee Benefits* (Amendment), will become effective for annual periods beginning on or after January 1, 2013. Amendment includes removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently using the corridor approach in recognizing actuarial gains or losses. Upon adoption of amended PAS 19, unrecognized actuarial gains or losses will be recognized in full as part of other comprehensive income.

- PAS 27, *Separate Financial Statements* (Amendment), as revised in 2011 will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not expect this amendment to have an impact on its parent financial statements.

- PAS 28, *Investments in Associates and Joint Venture* (Amendment), as revised in 2011 will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Offsetting Financial Assets and Financial liabilities*. The amendments to PAS 32 are to be applied retrospectively for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to offset" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements.

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Enhanced Derecognition Disclosure Requirements*, will become effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Offsetting Financial Assets and Financial Liabilities,* requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities
  (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position
  (c) The net amounts presented in the statement of financial position
  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32
    ii. Amounts related to financial collateral (including cash collateral)
  (e) The net amount after deducting the amounts in (d) from the amounts in (c) above

  The amendments to PFRS 7 are to be applied retrospectively for annual periods beginning on or after January 1, 2013. The Group is in the process of assessing the impact of these amendments on its consolidated financial statements.

Basis of Consolidation

Basis of Consolidation from January 1, 2010. The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss, other comprehensive income and net assets not held by the Group and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and within equity section in the consolidated balance sheets, separately from equity attributable to owners of the Parent.

Losses from a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of Consolidation Prior to January 1, 2010. Certain of the above-mentioned policies were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Transactions with non-controlling interest without loss of control, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration transferred (received) and the proportionate share of the net assets acquired (sold) were recognized as goodwill (negative goodwill).

Losses applicable to the non-controlling interest in a consolidated subsidiary may exceed the non-controlling interest in the subsidiary's equity. The excess, and any further losses applicable to the non-controlling interest, are allocated against the controlling interest to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the controlling interest until the non-controlling interest's share of losses previously absorbed by the controlling has been recovered. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and owners of the Parent.

The Group accounts for its interest in the investee using the equity method until it loses control. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the Group ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as at the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated statements of income as gain or loss on the disposal of the subsidiary.

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

	Percentage of Ownership			
	2011		2010	
Company	**Direct**	**Indirect**	Direct	Indirect
Shopping Mall Development				
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries (see Note 5)	**22**	**41**	22	41
Retail				
SM Retail, Inc. (SM Retail) and Subsidiaries (see Note 5)	**100**	–	100	–
Prime Central, Inc. (Prime Central) and Subsidiaries	**100**	–	100	–
Rappel Holdings, Inc. (Rappel) and Subsidiaries	**100**	–	100	–
Real Estate Development and Tourism				
SM Land, Inc. (SM Land) and Subsidiaries:	**67**	–	67	–
SM Development Corporation (SMDC) and Subsidiaries	**–**	**65**	–	65
Magenta Legacy, Inc. (Magenta) (see Note 5)	**–**	**99**	–	99
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	**100**	–	100	–
SM Commercial Properties, Inc. (SMCP) and Subsidiaries	**59**	–	59	–
Intercontinental Development Corporation (ICDC)	**72**	**28**	72	28
Bellevue Properties, Inc.	**62**	–	62	–
Tagaytay Resort Development Corporation	**33**	**25**	33	25
Hotels and Conventions				
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	**100**	–	100	–
Others				
Primebridge Holdings, Inc. (Primebridge)	**80**	**20**	80	20
Asia Pacific Computer Technology Center, Inc.	**52**	–	52	–
Multi-Realty Development Corporation	**91**	–	91	–

<u>Hyperhome Corp. and Hyperfashion Corp. (subsidiaries of SM Retail)</u>
In 2011, SM Retail incorporated Hyperhome Corp. and Hyperfashion Corp. as wholly owned subsidiaries to engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail, importing, exporting insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description such as but not limited to bags and luggages, clothing line and accessories and other general merchandise on a wholesale / retail basis.

<u>SM Prime</u>
On September 3, 2009, SM Land (China) Limited (SM Land China) further completed the acquisition of 100% ownership of Alpha Star Holdings Limited (Alpha Star) from Grand China International Limited (Grand China) (see Note 5).

On October 14, 2010, SM Prime has undergone an international placement and engaged into a Placement Agreement with SM Land (Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the “Joint Bookrunners”). As stated in the Placement Agreement, SM Land shall sell its 569.6 million SM Prime common shares (the “Sale Shares”) with a par value of ₱1.00 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the "International Placement").

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

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 569.6 million SM Prime common shares. Likewise, SM Land subscribed for and SM Prime issued to SM Land the same number of new SM Prime common shares.

The placement and subscription agreements resulted in a 3% decrease in total direct and indirect ownership of the Group over SM Prime.

<u>Sanford_Marketing Corporation (Sanford), a subsidiary of SM Retail</u>
In January 2010, Supervalue, Inc. (SVI), a subsidiary of SM Retail, transferred 20 of its operating SaveMore stores to Sanford. The transfer includes assignment of SVI's rights and obligations arising from certain contracts entered into by SVI for the benefit of the transferred stores. Any related assets and liabilities arising from the transfers were taken up in Sanford's 2010 statutory financial statements. The transaction is a merely a reorganization between entities that are wholly owned and under common control and has no impact on consolidated financial statements.

<u>SM Land</u>
In June 2010, SM Land transferred 251.6 million SM Prime shares for ₱10.75 per share or for a total cost of ₱2,704.6 million to the Parent Company. The transfer resulted in an increase of 1.89% in SMIC's ownership over SM Prime, with a corresponding decrease in SM Land's ownership interest in the latter by 1.26%.

<u>SMDC</u>
In 2011 and 2010, SMDC acquired Twenty Two Forty One Properties, Inc. (TTFOPI) and Vancouver Lands, Inc. (VLI), respectively, for ₱195.6 million and ₱566.6 million, respectively, and became its wholly owned subsidiaries (see Note 16).

In January and October 2010, SMDC had a stock rights offering to eligible existing common shareholders of SMDC at the proportion of one rights share for every three existing common shares held as at record date, at an offer price of ₱3.50 and ₱6.38 per rights share, respectively.

SMIC acquired a total of 4.04 million additional SMDC shares for a total cost of ₱20.8 million. The availment of additional shares from the said offering did not result to a change in ownership interest of SMIC in SMDC.

SM Land acquired a total of 2,114.5 million additional SMDC shares for a total cost of ₱10,840.0 million, a fraction of which amounting to 32.9 million SMDC shares or a total cost of ₱115.2 million was purchased by SM Land from the unsubscribed portion of the aggregate stock rights offered by SMDC. The availment of additional shares resulted to a 0.6% increase in SM Land's interest in SMDC.

MH Holdings, Inc.
In 2010, MH Holdings (a subsidiary of SM Retail) invested ₱72.0 million or an equivalent of 60% interest in a newly incorporated company in the Philippines, Forever Agape & Glory, Inc. (Forever Agape). Consequently, Forever Agape became a subsidiary of MH Holdings.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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

Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of primary economic environment in which the Parent Company operates.

Revenue Recognition on Real Estate. Selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing of the buyer and location of the property. The completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage.

Consignment Arrangements on Retail Segment. The retail segment of the Group has entered into various consignment arrangements with suppliers. Under these arrangement, the Group bears the significant risks and rewards associated with the sale of goods. The Group concluded that it is acting as principal in the sales transaction with customers. Accordingly, sales revenue is recognized at gross amount upon actual sales to customers. The related inventory stocks supplied under these arrangement are only payable to suppliers when actually sold.

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

Rent income amounted to ₱20,472.8 million, ₱17,904.7 million and ₱15,722.1 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 15).

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

Rent expense amounted to ₱3,463.6 million, ₱3,016.0 million and ₱2,309.1 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Notes 24 and 28).

Classifying Held-to-Maturity (HTM) Investments. The classification to HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of AFS investments. The investments would therefore be remeasured at fair value and not at amortized cost.

HTM investments as at December 31, 2011 and 2010 amounted to ₱200.0 million and ₱500.0 million, respectively, with caption "Treasury bonds," included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets (see Notes 11 and 17).

Classifying Investments in Shares of Stock of Associates. The classification to associate requires significant judgment. In making this judgment, the Group evaluates whether it has significant influence over the investees. Management has determined that it has significant influence over its equity investments classified as associates. As such, these investments are accounted for using equity method in the consolidated financial statements.

The carrying value of investments in shares of stock of associates as at December 31, 2011 and 2010 amounted to ₱88,417.8 million and ₱70,860.2 million, respectively.

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

There was no impairment loss recognized on AFS investments for the years ended December 31, 2011, 2010 and 2009. The carrying values of AFS investments amounted to ₱13,935.4 million and ₱12,660.5 million as at December 31, 2011 and 2010, respectively (see Notes 9 and 12).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting period that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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

Allowance for impairment loss amounted to ₱17.1 million and ₱18.2 million as at December 31, 2011 and 2010, respectively (see Notes 10 and 11). Receivables, including advances and other receivables included under "Other current assets" account and receivable from a related party, noncurrent portion of receivables from real estate buyers and long-term notes included under "Other noncurrent assets" account, amounted to ₱36,948.6 million and ₱27,969.3 million as at December 31, 2011 and 2010, respectively (see Notes 10, 11 and 17).

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

Allowance for impairment loss amounted to ₱45.1 million as at December 31, 2011 and 2010. The carrying values of AFS investments amounted to ₱13,935.4 million and ₱12,660.5 million as at December 31, 2011 and 2010, respectively (see Notes 9 and 12).

Net Realizable Value of Merchandise Inventories, Condominium Units for Sale, Club Shares for Sale and Land and Development. The Group writes down merchandise inventories, condominium units for sale, club shares for sale and land and development to net realizable value, through the use of an allowance account, whenever the net realizable value of the assets become lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the assets are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting period to the extent that such events confirm conditions existing at reporting period.

The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

In 2011 and 2010, the Group assessed that the net realizable values of merchandise inventories, condominium units for sale, club shares for sale and land and development are higher than cost, hence, the Group did not recognize any losses on write down of the assets. The carrying values of merchandise inventories amounted to ₱13,436.5 million and ₱10,485.9 million as at December 31, 2011 and 2010, respectively (see Note 23). The carrying values of condominium units for sale included under "Other current assets" account amounted to ₱1,115.9 million and ₱1,531.5 million as at December 31, 2011 and 2010, respectively (see Note 11). The carrying values of club shares for sale included under "Other current assets" account amounted to ₱856.2 million and ₱918.8 million as at December 31, 2011 and 2010, respectively (see Note 11). The carrying values of land and development amounted to ₱23,012.5 million and ₱19,703.6 million as at December 31, 2011 and 2010, respectively (see Note 16).

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

The total carrying values of property and equipment and investment properties amounted to ₱146,368.3 million and ₱127,035.8 million as at December 31, 2011 and 2010, respectively (see Notes 14 and 15).

Impairment of Investments in Shares of Stock of Associates. Impairment review of investments in shares of stock of associates is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowance for impairment loss amounted to ₱4,317.7 million and ₱4,367.7 million as at December 31, 2011 and 2010, respectively. The carrying values of investments in shares of stock of associates amounted to ₱88,417.8 million and ₱70,860.2 million as at December 31, 2011 and 2010, respectively (see Note 13).

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment and investment properties may be impaired. Determining the value of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges.

Allowance for impairment loss amounted ₱923.3 million and ₱799.7 million as at December 31, 2011 and 2010, respectively (see Note 15). The total carrying values of property and equipment and investment properties amounted to ₱146,368.3 million and ₱127,035.8 million as at December 31, 2011 and 2010, respectively (see Notes 14 and 15).

Impairment of Goodwill, Trademarks and Brand Names with Indefinite Useful Lives. The Group's impairment test for goodwill, trademarks and brand names is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further discussed in Note 17.

The carrying values of goodwill, trademarks and brand names amounted to ₱15,354.2 million as at December 31, 2011 and 2010, respectively (see Note 17).

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names with indefinite lives.

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted to ₱15,354.2 million as at December 31, 2011 and 2010 (see Note 17).

In 2011, the Group acquired 17.9% equity interest in Atlas Consolidated Mining and Development Corporation (Atlas). The acquisition was accounted on provisional basis pending the fair value of Atlas' net assets (see Note 13).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Group's deferred tax assets was recognized.

Deferred tax assets recognized in the consolidated balance sheets as at December 31, 2011 and 2010 amounted to ₱694.6 million and ₱576.4 million, respectively, while the unrecognized deferred tax assets amounted to ₱1,595.1 million and ₱1,295.3 million as at December 31, 2011 and 2010, respectively (see Note 27).

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations.

The Group has a net cumulative unrecognized actuarial gain amounting to ₱453.7 million and ₱729.6 million as at December 31, 2011 and 2010, respectively (see Note 26). The Group's defined benefit asset amounted to ₱394.7 million and ₱302.2 million as at December 31, 2011 and 2010, respectively (see Notes 17 and 26). While the Group's defined benefit liability amounted to ₱76.5 million and ₱178.3 million as at December 31, 2011 and 2010, respectively (see Note 26).

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

The fair value of financial assets and liabilities are discussed in Note 30.

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (see Note 33).

4. **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 from acquisition date and are subject to an insignificant risk of change in value.

Time Deposits and Short-term Investments

Time deposits and short-term investments are cash placements, shown under current assets, with original maturities of more than three months but less than one year. Time deposits which will mature twelve months after the reporting period are presented under noncurrent assets.

Financial Instruments - Initial Recognition and Subsequent Measurement

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, are done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as fair value through profit or loss (FVPL), includes transaction 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, HTM investments, AFS investments and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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

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

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value 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" difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing 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 - net" account. Interest income earned on investments held for trading are recognized in "Interest income" account in the consolidated statements of income.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group's investments held for trading and derivative assets are classified as financial assets at FVPL, while the Group's derivative liabilities arising from issuance of convertible bonds and derivative financial instruments with negative fair values are also included as financial liabilities at FVPL.

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

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

The Group's cash and cash equivalents, time deposits and short-term investments (including noncurrent portion) and receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), receivable from a related party and long-term notes (included under "Other noncurrrent assets" account) are classified under this category.

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

The Group's investment in quoted Philippine government treasury bonds are classified under this category.

AFS Investments. AFS investments are nonderivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within twelve months from reporting period and as noncurrent assets if expected date of disposal is more than twelve months from reporting period.

The Group's investments in shares of stock, bonds and corporate notes, redeemable preferred shares and club shares are classified under this category. The current portion is included under "Investments held for trading and sale" account in the consolidated balance sheets.

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, long-term debt and tenants' deposits and others are classified under this category.

<u>Classification of Financial Instruments Between Liability and Equity</u>
A financial instrument is classified as liability 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.

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

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 the effective interest method.

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

Derivative Financial Instruments
The Group uses derivative financial instruments such as long-term currency swaps, foreign currency call options, interest rate swaps, foreign currency range options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments, including bifurcated embedded derivatives, 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. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a 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 as at FVPL.

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

Options arising from the Parent Company's investment in bonds and convertible bonds payable are the Group's bifurcated embedded derivatives.

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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

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

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

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

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

AFS Investments. The Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from the consolidated statements of comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in fair value after impairment are recognized directly in the consolidated statements of comprehensive income.

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

Offsetting Financial Instruments

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

Merchandise Inventories

Merchandise inventories are valued at the lower of cost and 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, Condominium Units for Sale and Club Shares for Sale

Land and development, condominium units for sale (included under “Other current assets” account in the consolidated balance sheets) and club shares for sale (included under “Other current assets” account in the consolidated balance sheets) are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. 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, 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 comprehensive income. 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 as follows:

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 included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the investor’s share of the associate’s profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Group’s interest in an investment in 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 associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

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 reporting period.

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

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

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

Investment Properties

Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties, except land, are measured at cost, 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 at cost less any impairment in value.

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

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

Land improvements	3–5 years
Land use rights	40–60 years
Buildings and improvements	10–35 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 reporting period.

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

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

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

Construction in Progress

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

Tenants' Deposits

Tenants' deposits are measured at amortized cost. Tenants' deposits refers to security deposits received from various tenants upon inception of the respective lease contracts on the Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

Business Combinations

Business Combinations from January 1, 2010. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Acquisition of Non-controlling Interests. Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

Business Combinations prior to January 1, 2010. Business combinations were accounted for using the purchase method, except for commonly controlled transactions, of which, an accounting similar to pooling of interest method is used. Business combinations under commonly controlled transactions are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. For 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 entity. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets. 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 non-controlling interest. For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is considered as "Equity adjustments from business combination" account in the equity section of the consolidated balance sheets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest do not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

The acquisition of Service Companies, were considered as business combination of companies under common control. Thus, the acquisitions were accounted for using an accounting similar to pooling of interests method.

Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statements of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those 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

- not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

Excess of the fair values of acquired identifiable assets and liabilities of subsidiaries and associates over the acquisition cost of that interest, is credited directly to income. Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

<u>Intangible Assets</u>
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 not amortized but are tested for impairment annually either individually or at the cash generating unit level. The useful life of an intangible asset is assessed as indefinite if it is expected to contribute net cash inflows indefinitely and is reviewed annually to determine whether the 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 Nonfinancial Assets
The carrying values of property and equipment, investment properties 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 loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statements of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

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. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of 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. Sales returns and sales discounts are deducted from sales to arrive at sales shown in the consolidated statements of income.

Sale of goods under consignment arrangements with suppliers is recognized as revenue upon billing, delivery and transfer of goods to customers.

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

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

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

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

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

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

Sale of Club Shares for Sale. Revenue is recognized when the significant risks and rewards of ownership of the club shares for sale have passed to the buyer, which is normally upon delivery of such.

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

Marketing Support. Revenue is recognized when the performance and provision of contractually agreed marketing tasks have been rendered and store facilities have been used. Marketing support is shown under "Others" account in the consolidated statements of income.

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.

Cost and Expenses
Cost of sales, selling, general and administrative expenses and interest expense are recognized as incurred.

Pension 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 or 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 reporting period. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Segments

The Group is organized and managed separately according to the nature of business. The five major operating businesses of the Group are shopping mall development, retail, real estate development and tourism, hotels and conventions, and financial services and others. These operating businesses are the basis upon which the Group reports its segment information presented in Note 6 to the consolidated financial statements.

Basic/Diluted Earnings Per Common Share (EPS)

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

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

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 are disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Business Combinations

Acquisition of Service Companies
In 2009, SM Retail completed the acquisition of 99% ownership of various Service Companies, which are unlisted companies incorporated in the Philippines that provides general services to the various department store companies.

The acquisition of the Service Companies was considered as business reorganization of companies under common control. Thus, the acquisition was accounted for similar to pooling of interest method.

The excess of the cost of business combination over the net carrying amounts of the assets and liabilities of ₱12.7 million is included under "Equity adjustments from business combination" account in the equity section of the consolidated balance sheets.

The total cash inflow from the acquisition of the Service Companies amounted to ₱34.0 million.

Acquisition of Magenta
SM Land acquired 100% ownership of Magenta, which is an unlisted company incorporated in the Philippines. The acquisition was considered as a business combination accounted using the purchase method in 2009.

The December 31, 2009 consolidated financial statements were not restated due to immateriality. If restated, the December 31, 2009 consolidated net income would be reduced by ₱9.7 million. The excess of the cost of business combination over the net carrying amounts of the assets and liabilities of ₱10.7 million was recognized as goodwill in 2010 (see Note 17).

Acquisition of Alpha Star
On September 3, 2009, SM Land China, completed the acquisition of Alpha Star from Grand China for ₱777.9 million (¥112.1 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land China.

Below are the details of the net cash outflow from the acquisition of Alpha Star:

Cash outflow on acquisition *(in thousands):*	
Cash paid	₱777,878
Net cash and cash equivalents of the acquired subsidiary	(154,961)
Net cash outflow	₱622,917

The acquisition of Alpha Star was considered as business reorganization of companies under common control. Thus, the acquisition was accounted for similar to pooling of interest method.

6. Segment Information

For management purposes, the Group is organized into business units based on their products and services, and has five reportable operating segments as follows: shopping mall development, retail, real estate development and tourism, hotels and conventions and financial services and others.

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

The retail segment is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise.

The real estate development and tourism segment is involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

The hotels and conventions segment engages in and carries on the business of hotel and resort and operates and maintains any and all services and facilities incident thereto.

Financial services and others segment primarily includes the Parent Company which engages in asset management and capital investments, and associates which are involved in financial services.

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

Segment assets and liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

Segment revenue includes transfers between business segments. Such transfers are eliminated in the consolidation.

Business Segment Data

	2011						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱22,041,071	₱150,472,734	₱19,269,290	₱964,228	₱7,534,479	₱–	₱200,281,802
Inter-segment	4,658,879	2,883,744	3,499,070	1,130	12,815,388	(23,858,211)	–
	₱26,699,950	₱153,356,478	₱22,768,360	₱965,358	₱20,349,867	(₱23,858,211)	₱200,281,802
Segment results:							
Income before income tax	₱12,220,391	₱8,242,661	₱10,133,163	(₱158,168)	₱9,286,422	(₱4,031,827)	₱35,692,642
Provision for income tax	(2,838,169)	(2,360,704)	(202,350)	(15,501)	(82,574)	4,480	(5,494,818)
Net income (loss)	₱9,382,222	₱5,881,957	₱9,930,813	(₱173,669)	₱9,203,848	(₱4,027,347)	₱30,197,824
Net income (loss) attributable to:							
Owners of the Parent	₱9,055,996	₱5,809,110	₱9,924,500	(₱173,448)	₱9,203,848	(₱12,595,414)	₱21,224,592
Non-controlling interests	326,226	72,847	6,313	(221)	–	8,568,067	8,973,232
Segment assets (excluding deferred tax)	₱131,376,199	₱71,926,765	₱111,560,497	₱1,135,344	₱196,580,640	(₱64,212,031)	₱448,367,414
Segment liabilities (excluding deferred tax)	₱62,951,059	₱36,123,463	₱38,861,479	₱348,154	₱118,724,932	(₱34,741,869)	₱222,267,218
Net cash flows provided by (used in):							
Operating activities	₱17,863,454	₱7,656,609	(₱6,664,084)	(₱1,275,790)	₱4,643,410	(₱3,422,186)	₱18,801,413
Investing activities	(14,946,526)	1,158,138	(5,165,755)	(260,063)	(271,559)	(6,408,165)	(25,893,930)
Financing activities	(4,359,445)	(8,154,976)	6,085,058	114,820	(7,183,829)	9,470,498	(4,027,874)
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱11,544,914	₱–	₱76,872,935	₱–	₱88,417,849
Equity in net earnings of associates	–	–	522,904	–	5,892,520	–	6,415,424
Capital expenditures	16,641,751	4,219,155	15,912,625	68,687	3,132,553	–	39,974,771
Depreciation and amortization	3,829,971	2,409,174	348,848	122,214	482,893	–	7,193,100
Provision for (reversal of) impairment losses	–	–	(1,162)	118	73,611	–	72,567

	2010						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱19,318,278	₱138,007,620	₱12,974,161	₱600,679	₱6,272,238	₱–	₱177,172,976
Inter-segment	4,273,228	3,110,643	3,043,464	–	10,338,408	(20,765,743)	–
	₱23,591,506	₱141,118,263	₱16,017,625	₱600,679	₱16,610,646	(₱20,765,743)	₱177,172,976
Segment results:							
Income before income tax	₱10,796,848	₱8,371,466	₱8,778,124	(₱111,965)	₱10,253,381	(₱7,808,852)	₱30,279,002
Provision for income tax	(2,656,715)	(2,429,969)	(217,396)	(3,663)	(104,286)	10,976	(5,401,053)
Net income (loss)	₱8,140,133	₱5,941,497	₱8,560,728	(₱115,628)	₱10,149,095	(₱7,797,876)	₱24,877,949
Net income (loss) attributable to:							
Owners of the Parent	₱7,856,348	₱5,783,035	₱8,552,486	(₱116,449)	₱10,149,095	(₱13,784,346)	₱18,440,169
Non-controlling interests	283,785	158,462	8,242	821	–	5,986,470	6,437,780
Segment assets (excluding deferred tax)	₱119,193,199	₱65,302,951	₱94,117,055	₱2,485,527	₱190,577,330	(₱64,868,623)	₱406,807,439
Segment liabilities (excluding deferred tax)	₱56,069,831	₱30,496,617	₱35,150,201	₱1,525,299	₱116,317,898	(₱34,629,696)	₱204,930,150

	2010						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Net cash flows provided by (used in):							
Operating activities	₱13,913,250	₱6,283,721	₱6,561,292	₱675,210	(₱12,548,272)	(₱3,453,710)	₱11,431,491
Investing activities	(14,382,761)	1,328,401	(10,933,360)	(889,640)	11,477,877	1,326,801	(12,072,682)
Financing activities	6,402,803	(6,512,363)	16,421,135	1,908,623	3,823,818	2,074,897	24,118,913
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱5,900,870	₱–	₱64,959,311	₱–	₱70,860,181
Equity in net earnings of associates	–	–	530,499	–	4,910,327	–	5,440,826
Capital expenditures	11,373,974	4,010,949	15,602,168	25,432	2,808,965		33,821,488
Depreciation and amortization	3,616,926	1,724,578	374,859	57,850	547,039	–	6,321,252
Provision for impairment losses	–	–	36,108	–	521,428	–	557,536

	2009						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱16,798,794	₱128,316,354	₱7,506,645	₱469,111	₱4,941,610	₱–	₱158,032,514
Inter-segment	3,824,919	1,800,424	2,059,453	–	3,374,675	(11,059,471)	–
	₱20,623,713	₱130,116,778	₱9,566,098	₱469,111	₱8,316,285	(₱11,059,471)	₱158,032,514
Segment results:							
Income before income tax	₱9,646,482	₱6,908,602	₱3,947,693	₱18,531	₱7,087,919	(₱1,724,282)	₱25,884,945
Provision for income tax	(2,369,645)	(1,791,245)	(206,176)	11	(415,542)	4,854	(4,777,743)
Net income	₱7,276,837	₱5,117,357	₱3,741,517	₱18,542	₱6,672,377	(₱1,719,428)	₱21,107,202
Net income attributable to:							
Owners of the Parent	₱7,023,350	₱4,850,361	₱3,732,656	₱17,772	₱6,672,527	(₱6,271,628)	16,025,038
Non-controlling interests	253,487	266,996	8,861	770	(150)	4,552,200	5,082,164
Segment assets (excluding deferred tax)	₱100,690,912	₱44,855,517	₱55,094,283	₱284,918	₱172,124,946	(₱32,360,154)	₱340,690,422
Segment liabilities (excluding deferred tax)	₱48,697,524	₱26,377,945	₱17,474,121	₱257,916	₱103,607,433	(₱24,842,676)	₱171,572,263
Net cash flows provided by (used in):							
Operating activities	₱12,600,419	₱9,014,763	(₱1,919,223)	₱119,586	₱6,216,442	(₱1,430,306)	₱24,601,681
Investing activities	(13,746,179)	(1,186,539)	458,569	(87,419)	(21,462,063)	(4,069,887)	(40,093,518)
Financing activities	(3,166,842)	(5,068,432)	1,281,780	–	16,024,139	5,349,353	14,419,998
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱3,326,215	₱–	₱54,520,555	₱–	₱57,846,770
Equity in net earnings of associates	–	–	359,182	–	3,549,060	–	3,908,242
Capital expenditures	10,747,953	2,694,271	4,747,802	118,437	1,206,375	–	19,514,838
Depreciation and amortization	3,381,399	1,925,280	228,142	6,629	426,694	–	5,968,144
Reversal of impairment losses	–	–	–	–	1,209,646	–	1,209,646

7. Cash and Cash Equivalents

This account consists of:

	2011	2010
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱6,384,567**	₱11,808,709
Temporary investments (see Notes 18 and 22)	**49,665,755**	55,152,301
	₱56,050,322	₱66,961,010

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 (see Note 25).

8. Time Deposits and Short-Term Investments

This account consists of:

	2011	2010
	(In Thousands)	
Time deposits:		
Pledged (see Notes 20 and 22)	**₱20,824,000**	₱7,452,800
Not pledged (see Note 22)	**16,595,172**	29,966,295
	37,419,172	37,419,095
Short-term investments (see Note 22)	**876,800**	876,800
	38,295,972	38,295,895
Less current portion	**879,410**	876,800
Noncurrent portion	**₱37,416,562**	₱37,419,095

Dollar and peso time deposits as at December 31, 2011 amounting to US$853.5 million (₱37,416.7 million) and ₱2.5 million, respectively, bear annual interest rates ranging from 3.5% to 6.5% in 2011 and 2010. As at December 31, 2011, dollar time deposits amounting to US$378.5 million (₱16,592.6 million) are due in July 2013, US$430.0 million (₱18,851.2 million) are due in September 2014, and US$45.0 million (₱1,972.9 million) are due in October 2017. Peso time deposit amounting to ₱2.5 million is due in August 2012.

A portion of the time deposits amounting to US$475.0 million and US$170.0 million, with peso equivalents of ₱20,824.0 million and ₱7,452.8 million as at December 31, 2011 and 2010, respectively, were used as collateral for loans obtained by SMIC (see Note 20).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱876.8 million as at December 31, 2011 and 2010, bear a fixed interest rate of 3.24%.

Interest income earned on time deposits and short-term investments is further discussed in Note 25.

9. Investments Held for Trading and Sale

This account consists of:

	2011	2010
	(In Thousands)	
Investments held for trading -		
Bonds (see Note 22)	**₱457,496**	₱444,676
AFS investments (see Note 12):		
Bonds and corporate notes (see Note 22)	**1,000,000**	1,000,000
Shares of stock	**482,213**	458,963
Redeemable preferred shares	**–**	104,162
	1,482,213	1,563,125
	₱1,939,709	₱2,007,801

The Group recognized a gain of ₱13.4 million and ₱5.7 million from fair value adjustments of investments held for trading for the years ended December 31, 2011, and 2010, respectively, and loss of ₱81.5 million for the year ended December 31, 2009. 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. Interest income earned on investments held for trading and sale is further discussed in Note 25.

10. Receivables

This account consists of:

	2011	2010
	(In Thousands)	
Trade:		
Real estate buyers	**₱13,798,032**	₱7,798,762
Third-party tenants	**2,623,529**	2,425,572
Related-party tenants (see Note 22)	**1,267,728**	878,452
Due from related parties (see Note 22)	**2,684,558**	3,350,787
Management fees:		
Related parties (see Note 22)	**95,892**	353,691
Third parties	**3,942**	–
Dividends	**42,015**	–
Total	**20,515,696**	14,807,264
Less allowance for impairment loss	**11,432**	12,476
	20,504,264	14,794,788
Less noncurrent portion of receivables from real estate buyers (see Note 17)	**8,739,412**	4,968,012
Current portion	**₱11,764,852**	₱9,826,776

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are 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 with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years' term.

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

- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱12,476**	₱8,926
Reversal of provision	**(1,162)**	–
Provision for the year (see Note 24)	**118**	3,550
Balance at end of year	**₱11,432**	₱12,476

Allowance for impairment loss amounting to ₱11.4 million and ₱12.5 million as at December 31, 2011 and 2010, respectively, pertains to receivables from tenants which were identified through specific assessment.

The aging analysis of past due but not impaired receivables as at December 31, 2011 and 2010 are as follows:

	2011					
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Individually Impaired**	**Total**
		31–90 Days	**91–120 Days**	**Over 120 Days**		
			(In Thousands)			
Trade:						
Real estate buyers:						
Current	**₱4,862,273**	**₱44,111**	**₱21,834**	**₱130,402**	**₱–**	**₱5,058,620**
Noncurrent	**8,739,412**	**–**	**–**	**–**	**–**	**8,739,412**
Related-party tenants	**1,267,719**	**–**	**9**	**–**	**–**	**1,267,728**
Third-party tenants	**2,606,027**	**995**	**5,075**	**–**	**11,432**	**2,623,529**
Due from related parties	**2,684,558**	**–**	**–**	**–**	**–**	**2,684,558**
Management fees						
Related parties	**95,892**	**–**	**–**	**–**	**–**	**95,892**
Third parties	**3,942**	**–**	**–**	**–**	**–**	**3,942**
Dividends	**42,015**	**–**	**–**	**–**	**–**	**42,015**
Net receivables before allowance for doubtful accounts	**₱20,301,838**	**₱45,106**	**₱26,918**	**₱130,402**	**₱11,432**	**₱20,515,696**

	2010					
	Neither Past Due nor Impaired	Past Due but not Impaired			Individually Impaired	Total
		31–90 Days	91–120 Days	Over 120 Days		
			(In Thousands)			
Trade:						
Real estate buyers:						
Current	₱2,706,606	₱36,154	₱12,283	₱75,707	₱–	₱2,830,750
Noncurrent	4,968,012	–	–	–	–	4,968,012
Related party tenants	878,452	–	–	–	–	878,452
Third-party tenants	1,913,358	309,157	190,581	–	12,476	2,425,572
Due from related parties	3,350,787	–	–	–	–	3,350,787
Management fees - Related parties	353,691	–	–	–	–	353,691
Net receivables before allowance for doubtful accounts	₱14,170,906	₱345,311	₱202,864	₱75,707	₱12,476	₱14,807,264

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

11. Other Current Assets

This account consists of:

	2011	2010
	(In Thousands)	
Prepaid taxes and other prepayments	**₱3,556,428**	₱3,517,528
Advances to contractors	**3,098,881**	619,713
Non-trade receivables	**2,902,621**	2,409,975
Receivable from banks and credit cards	**2,083,278**	1,678,126
Advances for project development (see Note 22)	**1,121,565**	1,121,653
Condominium units for sale (see Note 16)	**1,115,878**	1,531,486
Input tax	**1,019,280**	740,113
Accrued interest receivable	**966,503**	844,043
Club shares for sale	**856,208**	918,780
Supplies and uniform inventory	**474,803**	457,540
Treasury bonds (see Note 17)	**–**	300,000
	17,195,445	14,138,957
Less allowance for impairment loss	**5,705**	5,705
	₱17,189,740	₱14,133,252

- Non-trade receivables include interest-bearing advances to third parties, which are normally collectible within the next financial year.

- Receivable from banks and credit cards are noninterest-bearing and are normally collectible on a 30 to 90 day's term.

- Accrued interest receivable relates mostly to short-term time deposits that will mature within the next financial year. Interest on time deposits is collected at respective maturity dates.

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

- Club shares for sale pertain to club shares of Pico de Loro Beach and Country Club (Pico de Loro) which Costa del Hamilo Inc. (Costa), a subsidiary of Mt. Bliss, received as consideration for the parcel of land and construction costs of the beach and country club. The club shares entitle its holders to proprietary club membership in Pico de Loro's beach and country club facilities. Costa's club shares for sale had a total of 7,055 and 7,257 as at December 31, 2011 and 2010, respectively.

  On the other hand, at various dates in 2011, 2010 and 2009, Costa sold 202, 696 and 40 club shares to third parties and other affiliates for a total consideration of ₱105.0 million, ₱320.6 million and ₱15.0 million, respectively. Revenue arising from the sale of club shares amounted to ₱48.3 million, ₱127.4 million and ₱1.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

  Allowance for impairment loss amounting to ₱5.7 million as at December 31, 2011 and 2010, pertains to nontrade receivables which were identified through specific assessment. There was no additional impairment loss identified based on the collective assessments made in 2011, 2010 and 2009.

12. Available-for-Sale Investments

This account consists of investments in:

	2011	2010
	(In Thousands)	
Shares of stock:		
Listed	**₱7,031,822**	₱7,374,086
Unlisted	**102,265**	101,875
Bonds and corporate notes (see Note 22)	**6,841,109**	5,120,431
Club shares	**5,330**	5,110
Redeemable preferred shares	–	104,162
	13,980,526	12,705,664
Less allowance for impairment loss	**45,132**	45,132
	13,935,394	12,660,532
Less current portion (see Note 9)	**1,482,213**	1,563,125
Long-term portion	**₱12,453,181**	₱11,097,407

The account includes SM Prime's investment in redeemable preferred shares issued by a domestic corporation with an annual dividend rate of 8.25% in 2010 and investment in corporate notes issued by BDO Unibank, Inc. (BDO) with fixed interest rate of 6.80% in 2011 and 2010 (see Note 22). 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 outstanding investment in redeemable preferred shares as at December 31, 2010 was redeemed in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

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

Investments in bonds and corporate notes as at December 31, 2011 and 2010 include third party convertible bonds and corporate notes with fixed interest rates ranging from 2.5% to 8.25%. These investments will mature on various dates beginning on February 11, 2013 and November 3, 2017, respectively.

Investment in convertible bonds as at December 31, 2011 and 2010 have embedded derivatives which are further discussed in Note 30.

The movements in net unrealized gain on AFS investments and share in unrealized gain of associates attributable to the owners of the Parent which are recognized in other comprehensive income for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱6,798,095**	₱3,816,597
Share in net unrealized gain of associates (see Note 13)	**424,835**	1,996,139
Gain (loss) due to changes in fair value of AFS investments	**(184,016)**	1,466,702
Transferred to consolidated statements of income	**(30,847)**	(481,343)
Balance at end of year	**₱7,008,067**	₱6,798,095

Gain on disposal of AFS investments recognized 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 amounted to ₱30.8 million for the year ended December 31, 2011 and ₱481.3 million for the year ended December 31, 2010 and none for the year ended December 31, 2009. The amounts are exclusive of the share of the non-controlling interests.

13. Investments in Shares of Stock of Associates

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

	2011	2010
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱54,114,191**	₱46,827,926
Additions	**12,590,225**	7,310,303
Disposals	**(288,210)**	(24,038)
Balance at end of year	**66,416,206**	54,114,191
Accumulated equity in net earnings:		
Balance at beginning of year	**21,113,648**	15,006,502
Equity in net earnings	**6,415,424**	5,440,826
Share in net unrealized gain on AFS investments of associates	**440,127**	2,065,101
Dividends received	**(1,583,351)**	(1,355,614)
Accumulated equity in net earnings of investments sold	**(66,500)**	(43,167)
Balance at end of year	**26,319,348**	21,113,648
	92,735,554	75,227,839
Allowance for impairment loss:		
Balance at beginning of year	**4,367,658**	3,987,658
Recovery	**(445,000)**	–
Additions (see Note 24)	**395,047**	380,000
Balance at end of year	**4,317,705**	4,367,658
	₱88,417,849	₱70,860,181

The Group recognized its share in in the net gain on AFS investments of the associates amounting to ₱440.1 million, ₱2,065.1 million and ₱1,603.2 million, inclusive of the share of the non-controlling interests amounting to ₱15.3 million, ₱69.0 million and ₱64.8 million for the years ended December 31, 2011, 2010 and 2009, respectively, in the consolidated statements of comprehensive income. The allowance for impairment loss pertaining to investments in BDO and Highlands Prime, Inc. (HPI) amounted to ₱4,317.7 million and ₱4,367.6 million as at December 31, 2011 and 2010, respectively.

The major associates of the Group are as follows:

	Effective Percentage of Ownership		
Company	**2011**	2010	Principal Activities
BDO	**46**	41	Financial services
China Banking Corporation (China Bank)	**21**	21	Financial services
Atlas	**18**	–	Mining
Belle Corp. (Belle)	**26**	13	Real estate development and tourism
HPI	**27**	31	Real estate development and tourism
Summerhills Home Development Corporation (SHDC)	**21**	–	Real estate development and tourism
Sodexo Motivation Solutions Philippines, Inc.	**40**	40	Retail

Atlas
On July 25, 2011, SMIC acquired 316.2 million common shares of Atlas for US$142.2 million (₱5,996.6 million) for 17.9% equity interest. SMIC has three representations in the BOD of Atlas as at December 31, 2011 and is participating in operational decisions. Based on these facts and circumstances, management determined that the Group has significant influence in Atlas and therefore has accounted it as investment in associate using equity method in the consolidated financial statements. The acquisition of Atlas was accounted on provisional basis, pending the information on the fair value of Atlas' net assets.

Belle
In 2010, the Group obtained 17.53% additional ownership in Belle for a total consideration of ₱1,598.3 million. The acquisition resulted in Belle becoming an associate of the Group at 24.77% and 13.24% gross and effective ownership, respectively, as at December 31, 2010.

In April 2011, the Group, increased its ownership interest in Belle, an associate, by 20.78% and 12.58% gross and effective ownership, respectively, via share swap wherein the entire outstanding shares of Premium Leisure Amusement, Inc. (a subsidiary) was exchanged for certain number of common shares of Belle valued at ₱1.95 per share (shares swap). The transaction resulted to a net gain on share swap amounting to ₱2,604.2 million, net of the eliminated portion of the gain pertaining to the retained interest of the Group in Belle.

BDO
In 2010, SMIC and an affiliate entered into a deed of assignment whereby the affiliate cedes, transfers, conveys and assigns to the Company, all commercial rights of the affiliate's investment in BDO amounting to ₱5,712.0 million.

At various dates in 2010, SMIC disposed a total of 5.3 million BDO common shares, which is equivalent to 0.2% of the total outstanding common stock of BDO at an average price of ₱28.63 a share or for a total cost of ₱151.8 million.

In April 2010, Primebridge and Multi Realty Development Corporation disposed a total of 21.5 million BDO common shares, which is equivalent to 0.8% of the total outstanding common stock of BDO at an average price of ₱22.65 a share or for a total cost of ₱486.2 million.

HPI
In 2011, the Group disposed of 134.8 million shares of HPI for a total cost of ₱288.2 miliion. The disposal resulted in a gain of ₱1.0 million, which is included under "Gain on disposal of investments and properties" account in the consolidated statements of income.

China Bank
At various dates in 2010, SMDC disposed a total of 0.09 million China Bank shares, which is equivalent to 0.08% of the total outstanding common stock of China Bank, at an average price of ₱340.8 a share or for a total cost ₱31.1 million.

On October 18, 2009, SM Land sold 0.5 million China Bank shares with total carrying value amounting to ₱18.9 million for ₱182.5 million. The gain on sale of investments in shares of stock of associates amounted to ₱163.6 million, which is included under "Gain on disposal of investments and properties" account in the consolidated statements of income.

SHDC
In 2011, SMDC obtained 49% and 21% gross and effective ownership, respectively, in SHDC for a total consideration of ₱20.1 million. Consequently, SHDC became an associate of the Group.

The condensed financial information of significant associates is shown below:

	2011	2010
	(In Millions)	
BDO:		
Total resources	**₱1,097,349**	₱1,009,869
Total liabilities	**1,000,387**	912,137
Interest income	**50,467**	49,930
Interest expense	**16,688**	15,772
Net income	**10,588**	8,881
China Bank:		
Total resources	**262,213**	257,379
Total liabilities	**222,924**	221,926
Interest income	**12,677**	13,213
Interest expense	**4,125**	4,580
Net income	**5,009**	5,004
HPI:		
Total assets	**4,661**	5,019
Total liabilities	**1,937**	2,260
Revenue from real estate sales	**331**	427
Cost of real estate sold	**164**	230
Net income	**(35)**	8
Belle:		
Total assets	**22,644**	10,528
Total liabilities	**6,568**	4,350
Revenue	**697**	1,263
Cost of real estate and club shares sold	**236**	509
Net income	**200**	478
Atlas:		
Total assets	**46,923**	17,644
Total liabilities	**19,933**	11,881
Revenue	**12,128**	8,851
Cost of sales	**7,759**	6,815
Net income	**17,223**	(431)

As at December 31, the fair values of investments in associates which are listed in the PSE are as follows:

	2011	2010
	(In Thousands)	
BDO	**₱80,928,951**	₱81,262,407
China Bank	**10,594,301**	10,536,720
HPI	**1,036,979**	1,852,723
Belle	**24,670,664**	7,235,586
Atlas	**5,325,521**	–

14. **Property and Equipment**

The movements in this account are as follows:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)					
Cost										
Balance as at December 31, 2009	₱2,947,124	₱4,621,211	₱5,808,040	₱2,965,366	₱2,238,267	₱2,024,494	₱1,960,229	₱780,305	₱201,224	₱23,546,260
Additions	–	62,715	1,090,663	360,809	784,465	667,928	817,095	30,169	589,641	4,403,485
Reclassifications	(1,892)	(140,961)	293,750	(35,386)	61,889	(88,121)	(132,640)	(182,360)	(85,092)	(310,813)
Disposals/retirements	–	(8,673)	(553,728)	(37,513)	(34,383)	(179,800)	(15,492)	(1,734)	(6,105)	(837,428)
Balance as at December 31, 2010	2,945,232	4,534,292	6,638,725	3,253,276	3,050,238	2,424,501	2,629,192	626,380	699,668	26,801,504
Additions	26,970	118,732	784,783	635,960	620,339	507,700	1,188,675	258,957	648,946	4,791,062
Reclassifications	1,893	2,549	(615,945)	317,809	(186,048)	(120,348)	(61,331)	(3,365)	(383,445)	(1,048,231)
Disposals/retirements	–	(1)	(86,520)	(74,484)	(27,304)	(10,407)	(43)	(301,378)	–	(500,137)
Balance as at December 31, 2011	**₱2,974,095**	**₱4,655,572**	**₱6,721,043**	**₱4,132,561**	**₱3,457,225**	**₱2,801,446**	**₱3,756,493**	**₱580,594**	**₱965,169**	**₱30,044,198**
Accumulated Depreciation and Amortization										
Balance as at December 31, 2009	₱–	₱2,228,413	₱4,314,171	₱2,165,384	₱1,094,763	₱1,443,974	₱995,060	₱311,289	₱–	₱12,553,054
Depreciation and amortization	–	70,420	695,655	317,717	344,960	230,439	327,429	(9,309)	–	1,977,311
Reclassifications	–	(36,304)	59,002	(62,059)	(120,503)	(155,487)	(148,442)	2,522	–	(461,271)
Disposals/retirements	–	–	(523,959)	(26,979)	(18,658)	(64,217)	(1,643)	(673)	–	(636,129)
Balance as at December 31, 2010	–	2,262,529	4,544,869	2,394,063	1,300,562	1,454,709	1,172,404	303,829	–	13,432,965
Depreciation and amortization		246,322	713,596	418,680	427,925	296,607	533,033	47,467	–	2,683,630
Reclassifications	–	(582)	(598,186)	(31,281)	(106,226)	(115,046)	(88,726)	(2,934)	–	(942,981)
Disposals/retirements	–	–	(85,128)	(41,815)	(26,695)	(1,306)	–	(66,826)	–	(221,770)
Balance as at December 31, 2011	**₱–**	**₱2,508,269**	**₱4,575,151**	**₱2,739,647**	**₱1,595,566**	**₱1,634,964**	**₱1,616,711**	**₱281,536**	**₱–**	**₱14,951,844**
Net Book Value										
As at December 31, 2011	**₱2,974,095**	**₱2,147,303**	**₱2,145,892**	**₱1,392,914**	**₱1,861,659**	**₱1,166,482**	**₱2,139,782**	**₱299,058**	**₱965,169**	**₱15,092,354**
As at December 31, 2010	2,945,232	2,271,763	2,093,856	859,213	1,749,676	969,792	1,456,788	322,551	699,668	13,368,539

15. **Investment Properties**

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2009	₱22,525,576	₱75,104,829	₱14,719,772	₱12,234,767	₱124,584,944
Additions	3,298,010	1,668,232	386,442	10,074,185	15,426,869
Reclassifications	1,664,379	8,137,652	891,509	(9,389,933)	1,303,607
Translation adjustment	(55,991)	(125,666)	(23,734)	(90,113)	(295,504)
Disposals	(129,476)	–	–	–	(129,476)
Balance as at December 31, 2010	27,302,498	84,785,047	15,973,989	12,828,906	140,890,440
Additions	2,606,363	2,762,132	932,825	14,839,591	21,140,911
Reclassifications	508,106	6,742,227	549,958	(7,138,201)	662,090
Translation adjustment	153,159	387,953	64,394	186,433	791,939
Disposals	–	(6,113)	–	(48,474)	(54,587)
Balance as at December 31, 2011	**₱30,570,126**	**₱94,671,246**	**₱17,521,166**	**₱20,668,255**	**₱163,430,793**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as at December 31, 2009	₱727,742	₱15,177,894	₱6,989,448	₱–	₱22,895,084
Depreciation and amortization	338,854	2,870,901	1,134,186	–	4,343,941
Reclassifications	59,557	43,377	(91,001)	–	11,933
Translation adjustment	(2,917)	(16,590)	(8,255)	–	(27,762)
Balance as at December 31, 2010	1,123,236	18,075,582	8,024,378	–	27,223,196
Depreciation and amortization	46,470	3,186,275	1,276,725	–	4,509,470
Reclassifications	–	217,003	–	–	217,003
Impairment loss	–	–	–	123,564	123,564
Translation adjustment	7,731	51,228	22,690	–	81,649
Balance as at December 31, 2011	**₱1,177,437**	**₱21,530,088**	**₱9,323,793**	**₱123,564**	**₱32,154,882**
Net Book Value					
As at December 31, 2011	**₱29,392,689**	**₱73,141,158**	**₱8,197,373**	**₱20,544,691**	**₱131,275,911**
As at December 31, 2010	26,179,262	66,709,465	7,949,611	12,828,906	113,667,244

The movements in allowance for impairment loss on land and improvements and land use rights are as follows:

	2011	2010
	(In Thousands)	
Beginning balance	**₱799,708**	₱799,708
Provision for the year (see Note 24)	**123,564**	–
Ending balance	**₱923,272**	₱799,708

The fair values of investment properties as at December 31, 2011 were determined by independent appraisers based on various appraisal reports made in 2011 and 2010, which amounted to ₱291,671.9 million. The fair value, which is based on market data approach, represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

Included under "Land" account are the 212,119 square meters and 223,474 square meters of real estate properties with a carrying value of ₱474.0 million and ₱475.0 million as at December 31, 2011 and 2010, respectively, and a fair value of ₱13,531.0 million as at August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make Enterprises Limited and Affluent Capital Enterprises Limited (Oriental Land) with Grand China and Oriental Land Development Limited on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱638.0 million and ₱623.0 million as at December 31, 2011 and 2010, respectively, and a fair value of ₱16,879.0 million as at August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱20,472.8 million, ₱17,904.7 million and ₱15,722.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱12,277.5 million, ₱11,271.4 million and ₱9,745.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Construction in progress account includes shopping mall complex under construction of SM Prime. In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin. In 2010, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Taguig, SM Masinag, SM Suzhou, SM Chongqing and SM Tianjin.

Shopping mall complex under construction includes cost of land amounting to ₱1,575.0 million and ₱1,966.4 million as at December 31, 2011 and 2010, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱39,240.0 million and ₱27,509.0 million as at December 31, 2011 and 2010, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as at December 31, 2011 and 2010 are valued at ₱10,268.0 million and ₱5,745.0 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱54.3 million and ₱600.2 million in 2011 and 2010, respectively. Capitalization rates used were 5.71% and 6.87% in 2011 and 2010, respectively.

16. Land and Development and Condominium Units for Sale

Land and development, which amounted to ₱23,012.5 million and ₱19,703.6 million as at December 31, 2011 and 2010, respectively, include land and cost of the condominium projects.

Condominium units for sale amounting to ₱1,115.9 million and ₱1,531.5 million as at December 31, 2011 and 2010, respectively, pertain to completed projects of SMDC, Costa and ICDC. The amounts were included under "Other current assets" account in the consolidated balance sheets (see Note 11).

The condominium units for sale and land and development are stated at cost as at December 31, 2011 and 2010.

Borrowing costs capitalized by the Group to land and development account amounted to ₱411.7 million and ₱336.4 million in 2011 and 2010, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.7% to 7.5% in 2011 and 6.7% to 7.2% in 2010. Interest expense charged to operations amounted to ₱488.3 million in 2011 and ₱311.3 million in 2010.

SMDC
Land and development costs attributable to SMDC pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱30,587.9 million and ₱5,518.0 million as at December 31, 2011 and 2010, respectively.

SMDC has also acquired several parcels of land for future development with aggregate carrying value of ₱4,368.2 million and ₱8,759.5 million as at December 31, 2011 and 2010, respectively.

In 2011, SMDC acquired TTFOPI for ₱195.6 million and became a wholly owned subsidiary. The purchase of TTFOPI was accounted for as an acquisition of asset. TTFOPI owns a parcel of land which is currently being developed into a commercial/residential condominium project.

In 2010, SMDC acquired VLI for ₱566.6 million and became its wholly owned subsidiary. The purchase of VLI was accounted for as an acquisition of asset. VLI owns a parcel of land which will be developed into a commercial/residential condominium project.

In 2009, the SMDC acquired Landfactors Incorporated (Landfactors) for ₱300.0 million and became its wholly owned subsidiary. The purchase of Landfactors was accounted for as an acquisition of asset. Landfactors owns a parcel of land which is currently being developed into a commercial/residential condominium project.

On June 30, 2004, SMDC entered into a Joint Venture Agreement with Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS. As at December 31, 2011, the development of the said project has not yet started.

Costa
Costa's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As at December 31, 2010, Costa completed the construction of two condominium projects and the beach and country club. Total estimated cost to complete the on-going projects amounted to ₱283.8 million and ₱711.5 million as at December 31, 2011 and 2010, respectively.

In April 2010, the construction of Pico de Loro by Costa was completed but the ownership of the risk and rewards of the beach and country club was transferred to Pico de Loro in June 2010. The total actual cost of beach and country club, in exchange for a total of 4,000 club shares amounted to ₱1,128.2 million as at December 31, 2010.

17. **Intangibles and Other Noncurrent Assets**

Intangibles
This account consists of:

	2011	2010
	(In Thousands)	
Goodwill	**₱9,229,438**	₱9,229,438
Trademarks and brand names	**6,124,762**	6,124,762
	₱15,354,200	₱15,354,200

Goodwill is allocated to SM Prime, SM Land, Pilipinas Makro, Inc. (PMI), SVI and Super Shopping Market, Inc. (SSMI).

Other Noncurrent Assets
This account consists of:

	2011	2010
	(In Thousands)	
Receivable from a related party and escrow fund (see Note 22)	**₱8,195,691**	₱8,618,215
Receivables from real estate buyers (see Note 10)	**8,739,412**	4,968,012
Deposits and advance rentals	**5,030,882**	4,780,450
Derivative assets (see Notes 29 and 30)	**159,461**	1,253,129
Long-term notes (see Note 22)	**506,724**	506,724
Defined benefit asset (see Note 26)	**394,713**	302,215
Treasury bonds	**200,000**	200,000
Others	**857,532**	416,891
	₱24,084,415	₱21,045,636

The movements in goodwill are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱9,321,057**	₱9,310,388
Additions (see Note 5)	**–**	10,669
Balance at end of year	**9,321,057**	9,321,057
Less accumulated impairment loss	**91,619**	91,619
Net book value	**₱9,229,438**	₱9,229,438

The recoverable amount of goodwill, trademarks and brand names have been determined using the cash flow projections based on the financial budgets approved by senior management covering a three-year period. The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 7.15% to 8.93% and 9.19% to 12.61% as at December 31, 2011 and 2010, respectively. The discount rates were determined based on the yield of ten-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. Management assessed that no reasonable possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2011 and 2010 to materially exceed its recoverable amount.

In 2009, various cash advances were provided to a related party for payment of interest, purchase of shares and other operating requirements totaling to ₱6,000.0 million, which bears a fixed interest of 7.0%, payable semi-annually and will mature in 2013 (see Note 22).

Escrow fund amounting to ₱2,193.2 million and ₱2,650.7 million as at December 31, 2011 and 2010, respectively, pertains mainly to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration.

Deposits and advance rentals substantially pertain 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.

Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.50% as at December 31, 2011 and 2010. The ₱200.0 million will mature on November 21, 2017, ₱88.6 million will mature on May 29, 2018 and the remaining ₱218.1 million will mature on March 20, 2019.

Treasury bonds pertain to quoted Philippine government treasury bonds classified as held-to-maturity investment which bear fixed interest rates ranging from 8.5% to 9.0% and payable quarterly. The ₱200.0 million will mature on July 31, 2013 while the remaining ₱300.0 million matured on July 31, 2011 (see Note 11).

"Other noncurrent assets-others" account mostly pertain to depreciable input value-added tax.

18. Bank Loans

This account consists of:

	2011	2010
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱3,857,920**	₱14,028,800
Peso-denominated loans	**15,500,000**	3,970,000
Subsidiaries -		
Peso-denominated loans	**6,390,000**	2,410,000
	₱25,747,920	₱20,408,800

The U.S. dollar-denominated loans amounting to US$88 million (₱3,857.9 million) and US$320.0 million (₱14,028.8 million) as at December 31, 2011 and 2010, respectively, bear interest at 3-month London Inter-Bank Offered Rate (LIBOR) plus margin. The peso-denominated loans bear annual interest rates ranging from 3.60% to 4.26% and 2.50% to 3.80% in 2011 and 2010, respectively. These loans have maturities of less than one year (see Note 22).

A portion of these loans is collateralized by temporary investments and shares of stocks in accordance with the regulations of the Bangko Sentral ng Pilipinas (BSP). The carrying values of the collaterals approximate the amounts of the loans.

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2011	2010
	(In Thousands)	
Trade	**₱28,027,967**	₱24,623,436
Payable arising from acquisition of land	**3,116,058**	3,674,262
Due to related parties (see Note 22)	**2,734,415**	1,967,940
Accrued expenses (see Note 22)	**2,624,025**	1,427,317
Nontrade	**2,078,768**	2,264,026
Gift checks redeemable and others	**1,814,257**	1,935,065
Accrued interest (see Note 22)	**1,702,660**	1,689,155
Payable to government agencies	**1,426,230**	1,458,125
Subscriptions payable	**1,101,205**	–
Derivative liabilities (see Note 30)	**124,222**	–
	₱44,749,807	₱39,039,326

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled on a 30 to 60 days' term.
- Payable arising from acquisition of land, nontrade payables, accrued interest and others are expected to be settled within the next financial year.
- The terms and conditions relating to due to related parties are further discussed in Note 22.
- Gift checks are redeemable at face value.
- Payable to government agencies mainly consists of output tax which are normally settled within the next financial year.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.

In September 2011, the Group exercised its 1:6 stock rights entitlement with Belle Corporation for 734.1 million shares at ₱3 per share. The availment did not affect the Group's direct ownership with Belle which remained at 46%. The unpaid subscription amounted to ₱1,101.2 million as at December 31, 2011.

20. **Long-term Debt**

This account consists of:

	2011			2010		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
			(In Thousands)			
Parent Company						
U.S. dollar-denominated:						
Fixed rate bonds	**₱43,990,263**	**(₱357,171)**	**₱43,633,092**	₱45,453,484	(₱473,682)	₱44,979,802
Convertible bonds	**979,645**	**(8,256)**	**971,389**	993,374	(3,062)	990,312
Peso-denominated:						
Seven-year and ten-year corporate notes	**5,000,000**	**(42,578)**	**4,957,422**	–	–	–
Five-year fixed rate notes	**6,700,000**	**(49,708)**	**6,650,292**	–	–	–
Five-year and seven-year retail bonds	**9,400,000**	**(47,422)**	**9,352,578**	9,400,000	(73,859)	9,326,141
Bank loans collateralized with time deposits	**8,950,000**	**(15,070)**	**8,934,930**	9,000,000	(24,335)	8,975,665
Preferred shares	**200,000**	**(131)**	**199,869**	3,500,000	(9,256)	3,490,744
Other bank loans	**9,548,500**	**(17,921)**	**9,530,579**	12,549,000	(28,079)	12,520,921
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	**6,356,800**	**(255,267)**	**6,101,533**	–	–	–
Three-year term loans	–	–	–	3,945,600	(48,325)	3,897,275
Three-year club loan	–	–	–	1,753,600	(40,462)	1,713,138
Two-year, three-year and five-year bilateral loans	**1,096,000**	**(11,071)**	**1,084,929**	1,096,000	(16,193)	1,079,807
Other bank loans	**3,068,800**	**(38,021)**	**3,030,779**	3,068,800	(49,746)	3,019,054
China yuan-renminbi denominated:						
Three-year loan	**1,299,441**	–	**1,299,441**	–	–	–
Five-year loan	**2,599,819**	–	**2,599,819**	2,614,348	–	2,614,348
Eight-year loan	**277,388**	–	**277,388**	763,071	–	763,071
Peso-denominated:						
Three-year and five-year fixed rate notes	**10,000,000**	**(55,774)**	**9,944,226**	10,000,000	(75,510)	9,924,490
Five-year, seven-year and ten-year corporate notes	**6,930,000**	**(45,829)**	**6,884,171**	5,000,000	–	5,000,000
Five-year and ten-year corporate notes	**4,289,350**	**(24,457)**	**4,264,893**	4,295,200	(41,020)	4,254,180
Five-year floating rate notes	**5,000,000**	**(37,587)**	**4,962,413**	2,994,000	(8,562)	2,985,438
Five-year, seven-year and ten-year fixed rate notes	**1,997,030**	**(11,355)**	**1,985,675**	2,988,020	(18,152)	2,969,868
Five-year bilateral loans	**546,875**	**(2,584)**	**544,291**	109,375	(458)	108,917
Other bank loans	**9,203,500**	**(28,229)**	**9,175,271**	11,800,000	(45,840)	11,754,160
	137,433,411	**(1,048,431)**	**136,384,980**	131,323,872	(956,541)	130,367,331
Less current portion	**7,935,231**	**14,270**	**7,920,961**	1,767,203	(442)	1,766,761
Noncurrent portion	**₱129,498,180**	**(₱1,034,161)**	**₱128,464,019**	₱129,556,669	(₱956,099)	₱128,600,570

Parent Company

Fixed Rate Bonds

On October 13, 2010, SMIC issued US$400 million bonds (₱16,600.0 million) which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱7,856.2 million) additional bonds, and US$82.9 million (₱3,372.9 million) and US$130.8 million (₱5,370.9 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due 2013 and US$500.0 million 6.0% bonds due 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e., the difference between the present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

On September 22, 2009, SMIC issued US$500.0 million bonds, with peso equivalent of ₱16,622.2 million as at December 31, 2011 and 2010, which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱10,768.1 million and ₱12,023.7 million as at December 31, 2011 and 2010, respectively, 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 at the option of the relevant holder beginning July 18, 2011 at the principal amount.

Convertible Bonds
On March 19, 2007, SMIC issued at face zero coupon US$300.0 million Convertible Bonds (the Bonds) (financial liability component amounted to ₱979.6 million and ₱993.4 million as at December 31, 2011 and 2010, respectively), with a yield to maturity of 3.5% due on March 20, 2012 at 118%. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 30.

The conversion option entitles the holder to convert its outstanding bonds for 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. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2011 and 2010, the bondholders of US$1.7 million (₱82.2 million) and US$9.0 million (₱435.1 million) bonds, respectively, opted to convert their holdings into 181,364 and 959,631 of SMIC's shares (see Note 21). The conversion resulted to a gain of ₱11.3 million and ₱84.8 million in 2011 and 2010, respectively, shown under "Gain on disposal of investments and properties" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon conversion amounted to US$0.3 million (₱11.0 million) and US$2.3 million (₱97.8 million) in 2011 and 2010, respectively (see Notes 19 and 30).

The put option entitles the bondholders to require the Parent Company to redeem all or some of its Bonds on March 19, 2010 (put date) at 110.97%. A total of US$246.3 million (₱11,253.5 million) bonds were redeemed, which resulted in a gain of ₱844.6 million shown under "Gain on disposal of investments and properties" account in the 2010 consolidated statements of income. The fair value of the related derivative liability derecognized upon early redemption amounted US$35.2 million (₱1,609.7 million) (see Note 30).

Lastly, the call option gives right to the Parent Company to redeem the remaining Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US Dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio.

Seven-year and Ten-year Corporate Notes
On September 26, 2011, SMIC issued fixed rate corporate notes comprised of seven-year or Series A Notes and ten-year or Series B Notes due on September 26, 2018 and September 26, 2021, respectively. The total issuance amounted to ₱916.0 million and ₱4,084.0 million for the Series A and Series B Notes, respectively.

The series A Notes have a term of seven years from the issue date, with a fixed interest rate equivalent to 5.75% per annum payable semi-annually in arrears starting March 26, 2012. The Seies B Notes have a term of ten years from the issue date, with a fixed interest rate equivalent to 6.625% per annum payable semi-annually in arrears starting March 26, 2012.

The Series A and B Notes have principal repayment of 0.1% of the principal amount in annual installments that will commence on the twelfth (12th) month from the issue date, with the last installment payment to be made on maturity date.

<u>Five-year Fixed Rate Notes</u>
On February 7, 2011, SMIC issued corporate notes amounting to ₱6,700.0 million, which bear a fixed interest rate of 6.17% per annum, payable semi-annually in arrears. The corporate notes will mature on February 8, 2016. The notes have principal repayment of ₱1.0 million that will commence on the twelfth month from the issue date, with the last installment payment to be made on maturity date.

<u>Five-year and Seven-year Retail Bonds</u>
On June 25, 2009, SMIC issued fixed rate bonds, which comprised of 5-year or Series A Bonds and 7-year or Series B Bonds due on June 26, 2014 and June 15, 2016, respectively. The total issuance amounted to ₱8,400.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

The Series A Bonds have a term of five years and one day from the issue date, with a fixed interest rate equivalent to 8.25% per annum payable semi-annually in arrears starting December 26, 2009. The Series B Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 9.10% per annum payable semi-annually in arrears starting December 25, 2009.

<u>Bank Loans Collateralized with Time Deposits</u>
On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The loans are based on a three-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus an agreed margin. Both loans are payable quarterly in arrears.

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest based on a three-month PDST-F rate plus an agreed margin, payable quarterly in arrears. On October 12, 2011, SMIC paid ₱50.0 million of this loan.

These loans are collateralized by a portion of SMIC's time deposits amounting to US$475.0 million and US$170.0 million with peso equivalents of ₱20,824.0 million and ₱7,452.8 million as at December 31, 2011 and 2010, respectively (see Note 8).

<u>Preferred Shares</u>
On August 6, 2007, SMIC issued Series 1 and Series 2 of non-convertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. Each share has a par value of ₱10.0 a share and an offer price of ₱10,000 a share.

The Series 1 preferred shares carry a fixed dividend rate of 7.51% 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 an agreed margin. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

The preferred shares are mandatorily 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. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million.

Other Peso Bank Loans
This account includes the following:

	2011	2010
	(In Thousands)	
Ten-year term loans	**₱2,050,000**	₱2,050,000
Seven-year term loans	**4,498,500**	6,499,000
Five-year term loans	**3,000,000**	4,000,000
	₱9,548,500	₱12,549,000

- In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear fixed interest rates of 6.85% and 6.71% per annum, respectively. Outstanding balances of these loans as at December 31, 2011 and 2010 amounted to ₱1,550.0 million.

- In April 2008, SMIC obtained seven-year and ten-year term loans amounting to ₱500.0 million each, which bear fixed interest rates of 8.56% and 8.79% per annum, respectively. The seven-year term loan is subject to payment of ₱0.5 million which is due annually after issue date up to the 6th year. The remaining balance is due upon maturity. Outstanding balances of the seven-year and ten-year term loans amounted to ₱498.5 million and ₱500.0 million as at December 31, 2011, respectively and ₱499.0 million and ₱500.0 million as at December 31, 2010, respectively.

- In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest rate of 7.28% per annum. Outstanding balance as at December 31, 2011 and 2010 amounted to ₱1,000.0 million.

- The seven-year term loans also include ₱2,000.0 million and ₱1,000.0 million fixed rate loans with interest rates of 6.90% and 6.91%, respectively. It likewise includes ₱2,000.0 million floating rate loan with interest based on 3-month PDST-F plus an agreed margin. The loans will mature in October and November 2014. On January 31, 2011, SMIC prepaid the ₱2,000.0 million fixed rate loan. Outstanding balance as at December 31, 2011 and 2010 amounted to ₱3,000.0 million and ₱5,000.0 million, respectively.

- In February 2009, SMIC obtained a five-year term loan amounting to ₱3,000.0 million which bears a floating interest rate based on a 6-month PDST-F plus margin. Outstanding balance as at December 31, 2011 and 2010 amounted to ₱3,000.0 million.

- The five-year term loans obtained in 2006 amounting to ₱600.0 million and ₱400.0 million bear fixed interest rates of 7.58% and 6.65% per annum and matured in October and November 2011, respectively.

Subsidiaries

U.S. Dollar-denominated Five-year Term Loans
This represents a US$145 million unsecured loans out of a US$270 million facility obtained by SM Prime as at December 31, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US$125.0 million was fully drawn on January 12, 2012.

US Dollar-denominated Three-year Term Loans
The US$90.0 million unsecured loans were obtained by SM Prime in April and May 2009. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 23, 2012. The loan was prepaid on May 16, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32.0 million.

US Dollar-denominated Three-year Bilateral Loans
The US$40.0 million (₱1,753.6 million) three-year bilateral unsecured loans were obtained by SM Prime on July 13, 2010 and October 15, 2009. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on January 14, 2013 and October 15, 2012, respectively. The US$20 million (₱876.8 million) loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2.0 million. The remaining US$20.0 million loan was prepaid on January 13, 2012.

US Dollar-denominated Three-year Club Loan
The US$40.0 million (₱1,753.6 million) unsecured loans were drawn by SM Prime on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012. A portion of the loans amounting to US$20.0 million was prepaid on May 9, 2011 and the balance of US$20.0 million was prepaid on July 28, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32.0 million.

US Dollar-denominated Five-year Bilateral Loans
The US$20.0 million (₱856.0 million) and US$30.0 million (₱1,315.2 million) five-year bilateral unsecured loans were obtained by SM Prime on April 15, 2011 and November 30, 2010, respectively. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on November 30, 2015.

US Dollar-denominated Two-year, Three-year and Five -year Bilateral Loans
The US$75.0 million unsecured loans were obtained by SM Prime in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. SM Prime prepaid the US$30.0 million (₱1,386.0 million) and the US$20.0 million (₱950.4 million) unsecured loans on November 30, 2010 and June 1, 2009, with original maturity dates of November 28, 2011 and November 19, 2010, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱6.1 million and ₱4.0 million in 2010 and 2009, respectively. The remaining balance of US$25.0 million will mature on November 20, 2013.

China Yuan Renminbi-denominated Three-year Loan
This represents a three-year loan obtained by SM Prime on March 28, 2011 amounting to ¥250.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥187.4 million (₱1,299.4 million) was made as at December 31, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears an interest rate of 6.66% in 2011.

China Yuan Renminbi-denominated Five-year Loan
This represents a five-year loan obtained by SM Prime on August 26, 2009 amounting to ¥350.0 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.21% in 2011 and 5.18% in 2010 (see Note 30).

China Yuan Renminbi-denominated Five-year Loan
This represents a five-year loan obtained by SM Prime on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥0.9 million (₱6.2 million) and ¥60.0 million (₱398.1 million) was made in 2011 and 2010, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.20% in 2011 and 5.60% in 2010 (see Note 30).

China Yuan Renminbi-denominated Eight-year Loan
This represents an eight-year loan obtained by SM Prime on December 28, 2005 amounting to ¥155.0 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.35% and 5.35% in 2011 and 2010, respectively (see Note 30).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 15).

Philippine Peso-denominated Three-year and Five-year Fixed Rate Notes
This represents a three-year and five-year fixed rate notes issued by SMDC on June 1, 2010 amounting to ₱2,000.0 million and ₱8,000.0 million, respectively. The three-year and five-year fixed rate notes bear fixed interest rates of 6.8% and 7.7%, respectively, and will mature on June 1, 2013 and June 2, 2015, respectively. SMDC has an option to prepay the notes subject to a fixed prepayment penalty. The prepaid amount shall include the outstanding principal obligation, any accrued interest on the notes and the prepayment penalty.

Philippine Peso-denominated Five-year, Seven-year and Ten-year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes obtained by SM Prime amounting to ₱3,000.0 million, ₱1,134.0 million, ₱52.5 million and ₱813.5 million, respectively, out of ₱7,000.0 million facility obtained on December 20, 2010. The remaining ₱2,000.0 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 30).

Philippine Peso-denominated Five-year and Ten-year Corporate Notes
This represents a five-year floating and fixed rate notes and ten-year fixed rate note obtained by SM Prime on April 14, 2009 amounting to ₱200.0 million, ₱3,700.0 million and ₱1,100.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively (see Note 30).

Philippine Peso-denominated Five-year Floating Rate Notes
This represents a five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000.0 million and ₱1,000.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 30).

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 by SM Prime on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000.0 million

was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4.0 million (see Note 30).

Philippine Peso-denominated Five-year Bilateral Loan
This represents a five-year term loan obtained by a subsidiary of SM Prime on October 24, 2011 amounting to ₱500.0 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 30).

Philippine Peso-denominated Five-year Bilateral Loan
This represents a five-year term loan obtained by a subsidiary of SM Prime on September 28, 2007 and November 6, 2007 amounting to ₱250.0 million to finance the construction of a project called "San Miguel by the Bay." The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 30).

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 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan amounting to ₱1,000.0 million and ₱3,000.0 million was prepaid on December 20, 2010 and March 18, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱6.0 million in 2011 and ₱3.0 million in 2010.

Other Bank Loans - Subsidiaries
This account includes the following:

	2011	2010
	(In Thousands)	
Ten-year term loan	**₱1,200,000**	₱1,200,000
Five-year term loans	**8,003,500**	9,020,000
Four-year term loan	–	750,000
Three-year term loan	–	830,000
	₱9,203,500	₱11,800,000

- On August 16, 2006, SM Prime obtained a ten-year bullet fixed rate loan amounting to ₱1,200.0 million which bears a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 30).

- The following five-year term loans were obtained by various subsidiaries:

Year Obtained	Maturity	Subsidiary	**2011**	2010	Interest Rate (see Note 30)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱2,000.0	PDST-F plus an agreed margin
		SM Prime	**990.0**	1,000.0	Agreed fixed rate less PDST-F
		SM Land	**225.0**	225.0	Fixed rate of 8.0% to 8.15%
		Costa	**120.0**	120.0	Fixed rate of 8.0% to 8.27%
		SM Land	**75.0**	75.0	PDST-F plus an agreed margin
2009	2014	SM Prime	**3,000.0**	3,000.0	PDST-F plus an agreed margin
		SM Land	**1,393.5**	1,400.0	Fixed rate of 7.87% to 8.25%
		SM Land	**200.0**	200.0	PDST-F plus an agreed margin
2008	2013	SM Prime	–	1,000.0	Fixed rate of 7.18%
			₱8,003.5	₱9,020.0	

SM Prime prepaid on March 3, 2011 a five year bullet loan amounting to ₱1,000.0 million which will mature on March 3, 2011. The related balance of unamortized debt issue cost charged to expense amounted to ₱3.0 million in 2011.

- On April 15, 2009, SM Prime obtained a four-year bullet loan amounting to ₱750.0 million which will mature on April 15, 2013. The loan bears an interest rate based on Philippine Interbank Reference (PHIREF) rate plus margin. The loan was prepaid on October 17, 2011. The related balance of unamortized debt issuance cost charged to expense amounted to ₱3.0 million in 2011 (see Note 30).

- On October 16, 2009, SM Prime obtained a three-year bullet loan amounting to ₱830.0 million and will mature on October 16, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on April 13, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱2.0 million.

The repricing frequencies of floating rate loans range from three to six months.

<u>Debt Issue Cost</u>
The movements in unamortized debt issue cost in 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱956,541**	₱827,000
Additions	**483,475**	432,296
Amortization (see Note 25)	**(391,585)**	(302,755)
Balance at end of year	**₱1,048,431**	₱956,541

<u>Repayment Schedule</u>
The repayments of long-term debt are scheduled as follows:

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2012	₱7,935,231	(₱14,270)	₱7,920,961
2013	15,421,525	(129,011)	15,292,514
2014	41,948,601	(251,082)	41,697,519
2015	25,221,601	(94,954)	25,126,647
2016	20,567,460	(332,101)	20,235,359
2017	16,662,438	(169,123)	16,493,315
2018	3,772,723	(16,482)	3,756,241
2019	1,112,219	(5,475)	1,106,744
2020	744,369	(1,411)	742,958
2021	4,047,244	(34,522)	4,012,722
	₱137,433,411	(₱1,048,431)	₱136,384,980

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 at December 31, 2011 and 2010, the Group is in compliance with the terms of its loan covenants.

21. **Equity**

Capital Stock
As at December 31, 2011 and 2010, SMIC's authorized capital stock is composed of 690,000,000 common shares and 10,000,000 redeemable preferred shares with a par value of ₱10.0 a share. The redeemable preferred shares are accounted for as a liabitlity (see Note 20). SMIC's issued and subscribed common shares are 612,164,033 and 611,982,669 as at December 31, 2011 and 2010, respectively.

At various dates in 2011 and 2010, 181,364 common shares and 959,631 common shares, respectively, were issued as a result of conversion of SMIC's convertible bonds (see Note 20). The excess of conversion price over par value totaling ₱80.4 million and ₱425.5 million, respectively, are presented as "Additional paid-in capital" account in the consolidated balance sheets.

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 2005		105,000,000	250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007		25,023,038	10
October 4, 2010		340,858	453
November 3, 2010		309,387	453
November 25, 2010		309,386	453
Augist 17, 2011		10,668	453
September 26, 2011		170,696	453

The Parent Company declared stock dividends in 2007. The total number of shareholders of the Parent Company is 1,304 and 1,328 as at December 31, 2011 and 2010, respectively.

Additional Paid-in Capital
The movements in "Additional paid-in capital" account in the consolidated balance sheets are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱35,456,200**	₱35,030,709
Adjustments from additional issuance of shares	**80,415**	425,491
Balance at end of year	**₱35,536,615**	₱35,456,200

Cost of Parent Common Shares Held by Subsidiaries
Certain subsidiaries hold common shares of the Parent Company. This is presented as "Cost of Parent 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 equity.

The cost of common shares held by subsidiaries as at December 31, 2011 and 2010 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

Retained Earnings
On April 27, 2011, the BOD approved the declaration of cash dividends of 90.4% of the par value or ₱9.04 per share for a total amount of ₱5,532.3 million in favor of stockholders on record as at May 27, 2011. This was paid on June 22, 2011.

On April 28, 2010, the BOD approved the declaration of cash dividends of 78.8% of the par value or ₱7.88 per share for a total amount of ₱4,814.9 million in favor of stockholders on record as at May 27, 2010. This was paid on June 21, 2010.

On April 29, 2009, the BOD approved the declaration of cash dividends of 68.8% of the par value or ₱6.88 per share for a total amount of ₱4,203.8 million in favor of stockholders on record as at May 29, 2009. This was paid on June 25, 2009.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱75,086.8 million and ₱63,566.9 million as at December 31, 2011 and 2010, 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.

22. Related Party Transactions

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2011, 2010 and 2009, 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-end by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Affiliate refers to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

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

Rent
The Parent Company and subsidiaries have existing lease agreements for office and commercial spaces with related companies (retail affiliates, banking group and other affiliates). Total rent income amounted to ₱2,985.5 million, ₱3,012.8 million and ₱2,775.4 million for the years ended December 31, 2011, 2010 and 2009, 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. (affiliates) for the management of the office and mall premises. Total management fees amounted to ₱779.8 million, ₱656.1 million and ₱611.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

SMIC and SM Retail also receive management fees from retail affiliates 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 ₱564.2 million, ₱695.4 million and ₱565.7 million for the years ended December 31, 2011, 2010 and 2009, respectively, included as part of "Management and service fees" account in the consolidated statements of income.

Service Fees
The Group provides manpower and other services to affiliates. Service fees earned amounted to ₱127.9 million, ₱26.6 million and ₱50.6 million in 2011, 2010 and 2009, respectively, included as part of "Management and service fees" account in the consolidated statements of income.

Dividend Income
The Group's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees. Total dividend income from these affiliates amounted to ₱222.1 million, ₱188.5 million and ₱139.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Cash Placements and Loans
The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank (Bank Associates). Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8 and 17).

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

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

The consolidated balance sheets and statements of income include the following amounts resulting from the above transactions with related parties as at December 31:

Relationship	Nature of Transactions/ Outstanding Accounts	**2011**	2010	2009
			(In Thousands)	
Bank Associates	Interest income	**₱3,125,270**	₱3,013,880	₱2,511,819
	Interest expense	**738,231**	1,161,073	673,149
	Rent income	**40,408**	27,744	30,812
	Service income	**360**	360	360
	Cash and cash equivalents (see Note 7)	**50,226,026**	61,561,555	–
	Time deposits and short-term investments (see Note 8)	**38,293,363**	38,293,363	–
	Investments held for trading (see Note 9)	**161,114**	159,750	–
	AFS investments (see Notes 9 and 12)	**1,162,545**	1,000,000	–
	Advances and other receivables (see Note 11)	**841,418**	754,064	–
	Long-term notes (see Note 17)	**506,724**	506,724	
	Payables -			
	Accrued interest (see Note 19)	**190,583**	115,581	–
	Bank loans (see Note 18)	**21,055,920**	15,062,000	–
	Current portion of long-term debt (see Note 20)	**5,949,514**	–	–
	Long-term debt - net of current portion	**9,684,492**	11,543,558	–

Relationship	Nature of Transactions/ Outstanding Accounts	**2011**	2010	2009
			(In Thousands)	
Retail affiliates and others	Rent income	**₱2,945,053**	₱2,985,019	₱2,744,458
	Management fee expense	**779,814**	656,131	611,835
	Management fee income	**564,160**	695,395	565,731
	Dividend income	**222,089**	188,472	139,744
	Service income	**127,589**	26,202	50,120
	Receivables:			
	Receivable from a related party and advances for project development (see Notes 11 and 17)	**7,121,565**	7,121,653	–
	Due from related parties (see Note 10)	**2,684,558**	3,350,787	–
	Related party tenants (see Note 10)	**1,267,728**	878,452	–
	Management fees (see Note 10)	**95,892**	353,691	–
	AFS investments (see Notes 9 and 12)	**52,650**	77,679	–
	Payables:			
	Due to related parties (see Note 19)	**2,734,415**	1,967,940	–
	Accrued expenses (see Note 19)	**74,848**	58,440	–

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2011, 2010 and 2009 consist of short-term employee benefits amounting to ₱644.3 million, ₱585.7 million and ₱541.7 million, respectively, and post-employment benefits (pension benefits) amounting to ₱99.5 million, ₱86.6 million and ₱87.4 million, respectively.

23. Cost of Sales

This account consists of:

	2011	2010	2009
		(In Thousands)	
Merchandise inventories at beginning of year	**₱10,485,903**	₱7,760,762	₱7,211,203
Purchases	**115,143,309**	106,225,486	97,029,868
Total goods available for sale	**125,629,212**	113,986,248	104,241,071
Less: Merchandise inventories at end of year	**13,436,456**	10,485,903	7,760,762
	₱112,192,756	₱103,500,345	₱96,480,309

24. Selling, General and Administrative Expenses

This account consists of:

	2011	2010	2009
		(In Thousands)	
Personnel cost (see Note 22)	**₱9,842,436**	₱8,728,907	₱7,893,583
Depreciation and amortization (see Notes 14 and 15)	**7,193,100**	6,321,252	5,968,144
Utilities	**5,346,665**	4,577,600	3,647,984
Rent (see Note 28)	**3,463,656**	3,016,022	2,309,105
Taxes and licenses	**3,212,041**	2,740,926	2,608,944
Outside services	**2,351,613**	1,974,286	1,677,606
Advertising and promotions	**1,802,823**	1,215,989	662,424
Management fees (see Note 22)	**944,098**	725,212	659,835
Repairs and maintenance	**958,955**	899,266	601,484
Supplies	**739,183**	698,628	559,127
Commission expense	**570,807**	404,679	361,603
Insurance	**357,743**	356,054	216,273
Transportation and travel	**341,716**	287,649	228,031
Entertainment, representation and amusement	**239,943**	287,665	196,239
Pension expense (see Note 26)	**234,746**	281,567	270,805
Professional fees	**199,378**	206,447	186,010
Provision for impairment loss and others (see Notes 10, 11, 12, 13 and 15)	**517,568**	557,536	–
Communications	**104,357**	92,602	101,862
Data processing	**8,825**	160,840	96,994
Others	**1,983,097**	1,963,207	1,456,761
	₱40,412,750	₱35,496,334	₱29,702,814

25. Interest Income and Interest Expense

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

	2011	2010	2009
		(In Thousands)	
Interest income on:			
Time deposits and short-term investments (see Note 8)	**₱1,921,384**	₱2,071,015	₱1,602,868
AFS investments and others (see Notes 9 and 12)	**1,227,952**	849,554	862,388
Cash in banks and temporary investments (see Note 7)	**1,083,460**	763,649	950,409
Investments held for trading (see Note 9)	**41,844**	32,234	42,401
	₱4,274,640	₱3,716,452	₱3,458,066

	2011	2010	2009
		(In Thousands)	
Interest expense on:			
Long-term debt (see Note 20)	**₱6,249,515**	₱7,177,322	₱5,579,959
Bank loans (see Note 18)	**2,288,844**	132,967	608,418
Others (see Note 30)	**297,654**	342,268	77,758
	₱8,836,013	₱7,652,557	₱6,266,135

26. **Pension Benefits**

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest appraisal valuation report is as of December 31, 2011.

The following tables summarize the components of net benefit expense recognized by SVI, CF_Mgt. Corp., and LF_Mgt. Corp. (subsidiaries of SM Retail); Manila Southcoast Development Corp. (subsidiary of Mt. Bliss); and SM Hotels, as included in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (Recognized in "Selling, General and Administrative Expenses")

	2011	2010	2009
		(In Thousands)	
Current service cost	**₱33,872**	₱60,962	₱104,959
Interest cost	**27,398**	61,573	58,568
Expected return on plan assets	**(24,820)**	(27,501)	(26,553)
Recognized actuarial loss (gain)	**(4,509)**	(1,961)	4,579
Others	**1,497**	14,305	216
Net benefit expense	**₱33,438**	₱107,378	₱141,769

Defined Benefit Liability

	2011	2010
	(In Thousands)	
Present value of obligation	**₱442,619**	₱695,108
Fair value of plan assets	**494,554**	732,189
Funded status	**(51,935)**	(37,081)
Unrecognized actuarial gain	**131,766**	219,047
Others	**(3,344)**	(3,692)
Defined benefit liability	**₱76,487**	₱178,274

Changes in the Present Value of the Defined Benefit Obligation

	2011	2010	2009
		(In Thousands)	
Defined benefit obligation at beginning of period	**₱695,108**	₱922,784	₱643,307
Reclassifications to defined benefit assets	**(352,155)**	(386,635)	(205,913)
Interest cost	**27,398**	61,573	58,568
Current service cost	**33,872**	60,962	104,959
Actuarial loss on defined benefit obligations	**47,023**	23,505	305,898
Benefits paid	**(13,696)**	(22,581)	(113,209)
Transfer from related parties	**2,778**	17,504	32,971
Defined benefit obligation acquired in business combinations	**–**	–	96,203
Other adjustments	**2,291**	17,996	–
Defined benefit obligation at end of period	**₱442,619**	₱695,108	₱922,784

Changes in the Fair Value of Plan Assets

	2011	2010	2009
		(In Thousands)	
Fair value of plan assets at beginning of period	**₱732,189**	₱731,047	₱571,629
Reclassifications to defined benefit assets	**(343,747)**	(317,680)	(262,047)
Actual contributions	**102,835**	149,592	289,637
Actuarial gain on plan assets	**10,104**	146,806	108,771
Expected return on plan assets	**24,820**	27,501	26,553
Benefits paid	**(13,696)**	(22,581)	(113,209)
Transfer from related parties	**2,778**	17,504	32,971
Plan assets acquired in business combinations	**–**	–	76,742
Other adjustments	**(20,729)**	–	–
Fair value of plan assets at end of period	**₱494,554**	₱732,189	₱731,047

Unrecognized Actuarial Gain

	2011	2010	2009
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of period	**₱219,047**	₱157,729	₱440,597
Actuarial gain (loss) on:			
Plan assets	**10,104**	146,806	108,771
Defined benefit obligation	**(47,023)**	(23,505)	(305,898)
Reclassifications to defined benefit assets	**(24,722)**	(60,022)	(72,760)
Actuarial loss arising from business combinations	**–**	–	(17,560)
Recognized actuarial loss (gain)	**(4,509)**	(1,961)	4,579
Other adjustments	**(21,131)**	–	–
Net cumulative unrecognized actuarial gain at end of period	**₱131,766**	₱219,047	₱157,729

The amounts for the current and previous four periods are as follows:

	2011	2010	2009	2008	2007
			(In Thousands)		
Present value of defined benefit obligation	**₱442,619**	₱695,108	₱922,784	₱643,307	₱1,417,341
Fair value of plan assets	**494,554**	732,189	731,047	571,629	487,469
Deficit (Surplus)	**(51,935)**	(37,081)	191,737	71,678	929,872

Certain subsidiaries have defined benefit assets as at December 31, 2011 and 2010. The following tables summarize the components of net benefit expense recognized by the Parent Company; SM Land; SM Prime; SMDC; SM Retail; Mainstream Business, Inc., Market Strategic Firm, Inc., Major Shopping Management Corporation, Metro Manila Star Asia, Meridien Business Leader, Inc., Madison Shopping Plaza, Inc., Multi Stores Corporation, Manduriao Star, Inc., Metro Manila Shopping Mecca Corp, Mercantile Stores Group, Inc., Mindanao Shopping Destination Corp., Manila Southern Associates, SM Mart, Inc., Sanford, PMI, SSMI, Accessories_Management Corp, LTBG_Management Corp., MF_Mgmt. Corp. and MCLG_Mgmt. Corp (subsidiaries of SM Retail); Costa; and Hotel Specialists (Tagaytay) Inc. and SMX Convention Specialist Corp. (subsidiaries of SM Hotels); and MRDC, as recognized in the consolidated statements of income, and the funded status and amounts as recognized in the consolidated balance sheets for the plan:

Net Benefit Expense (recognized in "Selling, General and Administrative Expenses")

	2011	2010	2009
		(In Thousands)	
Current service cost	**₱206,172**	₱150,541	₱76,995
Interest cost	**150,945**	148,216	71,001
Expected return on plan assets	**(162,260)**	(107,419)	(65,246)
Recognized actuarial loss (gain)	**10,583**	(27,508)	43,849
Effect of asset limit	**1,435**	4,409	1,863
Others	**(5,567)**	5,950	574
Net benefit expense	**₱201,308**	₱174,189	₱129,036

Defined Benefit Asset (recorded as part of "Other Noncurrent Assets", see Note 17)

	2011	2010
	(In Thousands)	
Present value of obligation	**₱2,269,976**	₱1,618,563
Fair value of plan assets	**2,994,978**	2,437,705
Funded status	**(725,002)**	(819,142)
Unrecognized actuarial gain	**321,952**	510,542
Amount not recognized due to asset limit	**12,797**	13,477
Others	**(4,460)**	(7,092)
Defined benefit asset	**(₱394,713)**	(₱302,215)

Changes in the Present Value of the Defined Benefit Obligation

	2011	2010	2009
		(In Thousands)	
Defined benefit obligation at beginning of period	**₱1,618,563**	₱926,755	₱492,166
Reclassifications from defined benefit liability	**352,155**	386,635	205,913
Current service cost	**206,172**	150,541	76,995
Interest cost	**150,945**	148,216	71,001
Actuarial loss on obligations	**140,848**	58,868	143,281
Benefits paid	**(181,173)**	(46,489)	(38,741)
Transfer to related parties	**(12,590)**	(14,063)	(42,117)
Other adjustments	**(4,944)**	8,100	18,257
Defined benefit obligation at end of period	**₱2,269,976**	₱1,618,563	₱926,755

Changes in the Fair Value of Plan Assets

	2011	2010	2009
		(In Thousands)	
Fair value of plan assets at beginning of period	**₱2,437,705**	₱1,306,847	₱743,477
Actual contributions	**337,732**	392,338	246,082
Actuarial gain on plan assets	**56,398**	373,973	62,727
Reclassifications from defined benefit liability	**343,747**	317,680	262,047
Expected return on plan assets	**162,260**	107,419	65,246
Benefits paid	**(181,173)**	(46,489)	(38,741)
Transfer to related parties	**(12,590)**	(14,063)	(42,117)
Other adjustments	**(149,101)**	–	8,126
Fair value of plan assets at end of period	**₱2,994,978**	₱2,437,705	₱1,306,847

Unrecognized Actuarial Gain

	2011	2010	2009
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of period	**₱510,542**	₱159,972	₱129,463
Actuarial gain (loss) on:			
Defined benefit obligation	**(140,848)**	(58,868)	(143,281)
Plan assets	**56,398**	373,973	62,727
Reclassifications from defined benefit liability	**24,722**	60,022	72,760
Recognized actuarial (gain) loss	**10,583**	(27,508)	43,849
Other adjustments	**(139,445)**	2,951	(5,546)
Net cumulative unrecognized actuarial gain at end of period	**₱321,952**	₱510,542	₱159,972

The amounts for the current and previous four periods follow:

	2011	2010	2009	2008	2007
			(In Thousands)		
Fair value of plan assets	**₱2,994,978**	₱2,437,705	₱1,306,847	₱743,477	₱642,662
Present value of defined benefit obligation	**2,269,976**	1,618,563	926,755	492,166	486,055
Surplus	**725,002**	819,142	380,092	251,311	156,607

The expected overall rate of return on assets is determined based on historical returns, applicable to the period over which obligation is to be settled. These are reflected in the principal assumptions below.

	2011	2010
Discount rate	**5%–7%**	6%–8%
Expected rate of return on assets	**5%–7%**	6%
Future salary increases	**10%**	10%–11%

The major categories of plan assets as a percentage of the fair value of plan assets for 2011 and 2010 consist of the following investments:

	2011	2010
Government securities	**46%**	45%
Common trust funds	**35%**	37%
Bonds	**7%**	10%
Shares of stock	**5%**	3%
Cash and cash equivalents	**5%**	3%
Others	**2%**	2%

The Group expects to contribute about ₱371.5 million to its defined benefit pension plan in 2012.

27. **Income tax**

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

	2011	2010
	(In Thousands)	
Deferred tax assets - net:		
Unamortized past service cost and defined benefit liability	**₱188,582**	₱208,929
Unrealized foreign exchange loss and others	**305,681**	204,381
Accrued leases	**105,585**	84,266
MCIT	**61,248**	50,688
Unrealized marked-to-market loss on investments	**36,708**	28,100
Deferred income on sale of real estate	**(12,823)**	–
NOLCO	**9,663**	–
	₱694,644	₱576,364
Deferred tax liabilities - net:		
Trademarks and brand names	**₱1,879,000**	₱1,837,429
Capitalized interest	**1,293,396**	1,313,177
Unrealized foreign exchange gain	**783,361**	872,549
Unrealized gross profit on sale of real estate	**366,982**	275,549
Accrued/deferred rent income	**88,842**	165,114
Unrealized marked-to-market gain on investments	**63,052**	77,735
Unamortized past service cost and defined benefit asset	**46,969**	51,496
Others	**(13,623)**	43,125
	₱4,507,979	₱4,636,174

The Group's consolidated deferred tax assets as at December 31, 2011 and 2010 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertains to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

	2011	2010
	(In Thousands)	
Net unrealized foreign exchange loss	**₱2,011,810**	₱1,656,228
Allowance for impairment losses	**1,889,215**	1,395,119
MCIT	**297,013**	144,651
Accretion on convertible bonds	**296,428**	230,391
Non-refundable advance rentals	**65,280**	86,241
Accrued expenses	**46,682**	–
Past service cost	**15,817**	–
NOLCO	**1,614**	467,458
	₱4,623,859	₱3,980,088

As at December 31, 2011, the Group's MCIT and NOLCO are as follows:

Date Paid/Incurred	Carryforward Benefit Up To	MCIT	NOLCO
		(In Thousands)	
December 31, 2009	December 31, 2012	₱21,805	₱–
December 31, 2010	December 31, 2013	133,746	1,614
December 31, 2011	December 31, 2014	141,462	–
		₱297,013	₱1,614

NOLCO and MCIT applied as deduction from taxable income and income tax due amounted to ₱465.8 million and nil in 2011, respectively, ₱173.0 million and ₱27.8 million in 2010, respectively, and ₱447.5 million and ₱21.5 million in 2009, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax is as follows:

	2011	2010	2009
Statutory income tax rate	**30%**	30%	30%
Add (deduct) income tax effects of reconciling items:			
Equity in net earnings of associates	**(5)**	(5)	(5)
Interest income subjected to final tax	**(3)**	(3)	(4)
Gain on sale of shares of stock	**(3)**	(2)	–
Dividend income exempt from tax	**(1)**	(1)	(1)
Others	**(2)**	(2)	(2)
Change in unrecognized deferred tax assets	**(1)**	1	–
Effective income tax rates	**15%**	18%	18%

28. **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.

The Parent Company's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants' deposits amounted to ₱10,104.6 million and ₱9,503.8 million as at December 31, 2011 and 2010, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at December 31 are as follows:

	2011	2010
	(In Thousands)	
Within one year	**₱661,086**	₱584,714
After one year but not more than five years	**1,752,399**	2,127,508
After five years	**202,718**	311,124
Balance at end of year	**₱2,616,203**	₱3,023,346

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

The minimum lease payables under the noncancellable operating leases of SM Prime as at December 31 are as follows:

	2011	2010
	(In Thousands)	
Within one year	**₱528,634**	₱373,895
After one year but not more than five years	**2,261,560**	1,737,603
After five years	**12,562,693**	7,814,374
Balance at end of year	**₱15,352,887**	₱9,925,872

SVI has finance leases for several computer equipment included under "Property and equipment" account. The leases provide options to SVI to purchase the computer equipment at the end of the lease terms.

SVI's obligation under finance lease ended on May 27, 2011. Total lease payments amounted to ₱3.6 million in 2011 and ₱8.6 million in 2010.

29. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has 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, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the 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 and they are summarized in the following tables. The Group's accounting policies in relation to derivatives are set out in Note 4.

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2011 and 2010:

	2011							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
	(In Thousands)							
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$378,649	₱16,599,952	(₱160,739)	₱16,439,213
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	379,156	–	–	16,622,199	(146,602)	16,475,597
Interest rate	–	–	6.00%	–	–			
US$350 million fixed rate bonds	–	245,623	–	–	–	10,768,112	(49,831)	10,718,281
Interest rate	–	6.75%	–	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱990	₱2,000,990	₱990	₱9,194,060	₱800,000	11,997,030	(67,129)	11,929,901
Interest rate	9.60%	6.76%	9.60%	7.73%-9.60%	9.85%			
Five-year and seven-year retail bonds	–	–	8,400,000	1,000,000	–	9,400,000	(47,421)	9,352,579
Interest rate	–	–	8.25%	9.10%	–			
Five-year fixed rate notes	–	–	–	6,700,000	–	6,700,000	(49,708)	6,650,292
Interest rate	–	–	–	6.16%	–			
Five-year and ten-year corporate notes	5,550	–	5,550	2,978,850	1,100,000	4,089,950	(23,804)	4,066,146
Interest rate	8.4%	–	8.4%	8.4%	10.11%			
Seven-year and ten-year corporate notes	–	–	–	–	5,000,000	5,000,000	(42,578)	4,957,422
Interest rate	–	–	–	–	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	20,000	1,105,960	814,040	1,980,000	(16,074)	1,963,926
Interest rate	5.79%-6.65%	–	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%			
Other bank loans	500	500	–	4,236,000	3,250,000	7,487,000	(19,660)	7,467,340
Interest rate	8.57%	8.57%	–	7%-8.57%	6.71%-9.75%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$145,000	$–	6,356,800	(255,267)	6,101,533
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi loans	¥40,000	¥–	¥501,382	¥60,900	¥–	4,176,648	–	4,176,648
Interest rate	5.32%-6.65%	–	5.32%-6.65%	5.32%-6.65%	–			
US$ bilateral loans	$–	$–	$25,000	$–	$–	1,096,000	(11,071)	1,084,929
Interest rate	–	–	LIBOR+margin %	–	–			
US$300 million convertible bonds	23,446	–	–	–	–	979,645	(8,256)	971,389
Interest rate	6.65%	–	–	–	–			

(Forward)

	2011							
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost**	**Carrying Amount**
				(In Thousands)				
Other bank loans	$–	$20,000	$–	$50,000	$–	₱3,068,800	(₱38,021)	₱3,030,779
Interest rate	–	LIBOR+margin %	–	LIBOR+margin %	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱5,950,000	₱–	₱–	₱3,000,000	₱–	8,950,000	(15,070)	8,934,930
Interest rate	PDST-F+margin%	–	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	4,800,000	–	4,950,000	(29,755)	4,920,245
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year floating rate loan	50,000	–	50,000	100,000	4,800,000	5,000,000	(37,587)	4,962,413
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Redeemable preferred shares - Series 2	200,000	–	–	–	–	200,000	(131)	199,869
Interest rate	PDST-F+margin%	–	–	–	–			
Corporate notes	300	–	300	198,800	–	199,400	(653)	198,747
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year bilateral loans	46,875	–	–	–	500,000	546,875	(2,584)	544,291
Interest rate	PDST-F+margin%	–	–	–	PDST-F+margin%			
Other bank loans	10,000	–	5,010,000	6,245,000	–	11,265,000	(26,490)	11,238,510
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
						₱137,433,411	(₱1,048,431)	₱136,384,980

	2010							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$383,384	₱16,807,552	(₱190,699)	₱16,616,853
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	–	379,156	–	16,622,199	(194,453)	16,427,746
Interest rate	–	–	–	6.00%	–			
US$350 million fixed rate bonds	–	–	274,264	–	–	12,023,733	(88,530)	11,935,203
Interest rate	–	–	6.75%	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱5,990	₱5,990	₱2,981,980	₱9,994,060	₱–	12,988,020	(93,662)	12,894,358
Interest rate	9.31% - 9.60%	9.31% - 9.60%	6.76% - 9.60%	7.73% - 9.85%	–			
Five-year and seven-year retail bonds	–	–	–	8,400,000	1,000,000	9,400,000	(73,859)	9,326,141
Interest rate	–	–	–	8.25%	9.10%			
Corporate Notes	5,550	5,550	–	2,984,400	1,100,000	4,095,500	(39,587)	4,055,913
Interest rate	8.40%	8.40%	–	8.40%	10.11%			
Redeemable preferred shares - Series 1	–	3,300,000	–	–	–	3,300,000	(8,920)	3,291,080
Interest rate	–	7.51%	–	–	–			

(Forward)

	2011							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
	(In Thousands)							
Five-year, seven-year and ten-year corporate notes	₱50,000	₱50,000	₱50,000	₱1,027,300	₱822,700	₱2,000,000	₱–	₱2,000,000
Interest rate	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%			
Peso loans collateralized with time deposits	–	–	–	1,500,000	–	1,500,000	(6,243)	1,493,757
Interest rate	–	–	–	7.34%	–			
Other bank loans	1,000,000	–	1,000,000	7,744,000	1,750,000	11,494,000	(33,370)	11,460,630
Interest rate	6.65% -7.58%	–	6.82%	6.90%-8.57%	6.71% - 9.75%			
Variable Rate								
Foreign Currency Loans:								
US$ three-year term loans	$–	$110,000	$–	$–	$–	4,822,400	(51,104)	4,771,296
Interest rate	–	LIBOR+spread	–	–	–			
China Yuan renminbi five-year loans	¥20,000	¥40,000	¥60,000	¥260,000	¥–	2,614,348	–	2,614,348
Interest rate	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	–			
US$ club loans	$–	$40,000	$–	$–	$–	1,753,600	(40,462)	1,713,138
Interest rate	–	LIBOR+spread	–	–	–			
US$ bilateral loans	–	–	25,000	–	–	1,096,000	(16,193)	1,079,807
Interest rate	–	–	LIBOR+spread	–	–			
US$300 million convertible bonds	–	22,659	–	–	–	993,374	(3,062)	990,312
Interest rate	–	3.50%	–	–	–			
China Yuan renminbi eight-year bilateral loans	¥75,000	¥40,000	¥–	¥–	¥–	763,071	–	763,071
Interest rate	5.35%	5.35%	–	–	–			
Other bank loans	$–	$–	$20,000	$30,000	$–	2,192,000	(46,968)	2,145,032
Interest rate	–	–	LIBOR+spread	LIBOR+spread	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱6,000,000	₱–	₱1,500,000	₱–	7,500,000	(18,092)	7,481,908
Interest rate	–	PDST-F+margin%	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	–	–	–	3,000,000	–	3,000,000	–	3,000,000
Interest rate	–	–	–	PDST-F+margin%	–			
Five-year floating rate loan	2,000	2,992,000	–	–	–	2,994,000	(8,562)	2,985,438
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Redeemable preferred shares - Series 2	–	200,000	–	–	–	200,000	(336)	199,664
Interest rate	–	PDST-F+margin%	–	–	–			
Corporate notes	–	–	–	199,700	–	199,700	(1,433)	198,267
Interest rate	–	–	–	PDST-F+margin	–			
Five-year bilateral loans	62,500	46,875	–	–	–	109,375	(458)	108,917
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Other bank loans	–	10,000	840,000	9,045,000	2,960,000	12,855,000	(40,548)	12,814,452
Interest rate	–	PDST-F+margin	PDST-F+margin	PDST-F+margin	PDST-F+margin			
						₱131,323,872	(₱956,541)	₱130,367,331

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 at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. 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 amount. These swaps economically hedge the underlying debt obligations. As at December 31, 2011 and 2010, after taking into account the effect of interest rate swaps, approximately 56% and 60%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2011	**100**	**(₱482.7)**	**(₱265.7)**
	50	**(241.3)**	**(174.2)**
	(100)	**482.7**	**112.5**
	(50)	**241.3**	**14.5**
2010	100	(467.9)	(327.5)
	50	(233.9)	(163.8)
	(100)	467.9	327.5
	(50)	233.9	163.8

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

Foreign Currency Risk

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

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2011 and 2010:

	2011	
	US$	**PhP**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**$11,636**	**₱510,101**
Time deposits and short-term investments	**24,999**	**1,095,974**
Investments held for trading	**5,175**	**226,872**
Receivables	**222,916**	**9,772,656**
Noncurrent assets:		
AFS investments	**133,237**	**5,841,108**
Time deposits	**853,480**	**37,416,563**
Derivative assets	**2,637**	**115,619**
Total foreign currency-denominated financial assets	**1,254,080**	**54,978,893**
Current liabilities:		
Bank loans	**88,000**	**3,857,920**
Accounts payable and other current liabilities	**19,024**	**834,001**
Current portion of long-term debt	**23,258**	**1,019,613**
Noncurrent liabilities:		
Long-term debt - net of current portion	**1,228,338**	**53,850,334**
Derivative liabilities	**7,262**	**318,359**
Total foreign currency-denominated financial liabilities	**1,365,882**	**59,880,227**
Net foreign currency-denominated financial liabilities	**$111,802**	**₱4,901,334**

	2010	
	US$	PhP
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$557,097	₱24,423,131
Time deposits and short-term investments	20,000	876,800
Investments held for trading	6,165	270,274
Receivables	206,718	9,062,540
Noncurrent assets:		
AFS investments	93,976	4,119,929
Time deposits	853,480	37,416,563
Derivative assets	4,492	196,951
Total foreign currency-denominated financial assets	1,741,928	76,366,188
Current liabilities:		
Bank loans	320,000	14,028,800
Accounts payable and other current liabilities	20,609	903,518
Noncurrent liabilities:		
Long-term debt - net of current portion	1,274,869	55,890,271
Derivative liabilities	6,735	295,263
Total foreign currency-denominated financial liabilities	1,622,213	71,117,852
Net foreign currency-denominated financial assets	$119,715	₱5,248,336

As at December 31, 2011 and 2010, approximately 36.4% and 46.4%, respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱242.9 million, ₱407.2 million and ₱224.0 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2011, 2010 and 2009, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments).

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax *(In Millions)*
2011	**1.50**	**₱167.7**
	1.00	**118.0**
	(1.50)	**(167.7)**
	(1.00)	**(118.0)**
2010	1.50	(179.6)
	1.00	(119.7)
	(1.50)	179.6
	(1.00)	119.7

<u>Liquidity Risk</u>
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

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 Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments-bonds and corporate notes amounting to ₱56,050.3 million, ₱879.4 million, ₱457.5 million and ₱1,000.0 million, respectively, as at December 31, 2011 and ₱66,961.0 million, ₱876.8 million, ₱444.7 million and ₱1,000.0 million, respectively, as at December 31, 2010 (see Notes 7, 8 and 9). The Group also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2011 and 2010 based on the contractual undiscounted payments:

			2011		
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱25,947,425**	**₱–**	**₱–**	**₱25,947,425**
Accounts payable and other current liabilities*	**–**	**43,323,757**	**–**	**–**	**43,323,757**
Long-term debt (including current portion)	**–**	**10,010,330**	**120,904,570**	**36,026,066**	**166,940,966**
Derivative liabilities:**					
Non-deliverable forwards	**–**	**–**	**43,842**	**–**	**43,842**
Interest rate swaps	**–**	**–**	**237,980**	**–**	**237,980**
Multiple derivatives on convertible bonds	**–**	**80,380**	**–**	**–**	**80,380**
Dividends payable	**–**	**25,696**	**–**	**–**	**25,696**
Tenants' deposits	**–**	**290,923**	**13,459,693**	**–**	**13,750,616**
	₱–	**₱79,678,511**	**₱134,646,085**	**₱36,026,066**	**₱250,350,662**

			2010		
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱20,418,853	₱–	₱–	₱20,418,853
Accounts payable and other current liabilities*	–	37,581,201	–	–	37,581,201
Long-term debt (including current portion)	–	3,691,182	137,141,508	21,395,475	162,228,165
Derivative liabilities:**					
Non-deliverable forwards	–	–	1,153,311	–	1,153,311
Interest rate swaps	–	113,820	51,097	–	164,917
Multiple derivatives on convertible bonds	–	–	126,631	–	126,631
Dividends payable	–	24,287	–	–	24,287
Tenants' deposits	–	341,749	12,059,812	42,870	12,444,431
	₱–	₱62,171,092	₱150,532,359	₱21,438,345	₱234,141,796

* *Excluding payable to government agencies of ₱1,426.2 million and ₱1,458.1 million as at December 31, 2011 and 2010, respectively, the amounts of which are not considered as financial liabilities.*
***Based on estimated future cash flows.*

Credit Risk
The Group trades only with recognized, creditworthy related and 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 a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. 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 related and third parties, there is no requirement for collateral.

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2011 and 2010, the 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.

<u>Credit Quality of Financial Assets</u>
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

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

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

As at December 31, 2011 and 2010, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

		2011	
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱54,991,002**	**₱–**	**₱54,991,002**
Time deposits and short-term investments (including noncurrent portion)	**38,295,972**	–	**38,295,972**
Investments held for trading - Bonds	**457,496**	–	**457,496**
AFS investments	**13,930,761**	**4,633**	**13,935,394**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**16,428,092**	**3,873,746**	**20,301,838**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**8,816,370**	–	**8,816,370**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**6,000,000**	–	**6,000,000**

(Forward)

	2011		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	**₱200,000**	**₱–**	**₱200,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**506,724**	**–**	**506,724**
Derivative assets	**159,461**	**–**	**159,461**
	₱139,785,878	**₱3,878,379**	**₱143,664,257**

	2010		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱66,077,142	₱–	₱66,077,142
Time deposits and short-term investments (including noncurrent portion)	38,295,895	–	38,295,895
Investments held for trading - Bonds	444,676	–	444,676
AFS investments	12,656,288	4,244	12,660,532
Receivables - net (including noncurrent portion of receivables from real estate buyers)	11,379,096	2,791,810	14,170,906
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	5,546,152	–	5,546,152
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,000,000	–	6,000,000
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	500,000	–	500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	506,724	–	506,724
Derivative assets	1,253,129	–	1,253,129
	₱142,659,102	₱2,796,054	₱145,455,156

Equity Price Risk

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

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

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2011 and 2010) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2011	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+17.58%**	**₱1,209.09**
	-17.58%	**(1,209.09)**

	2010	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+14.03%	₱1,184.2
	-14.03%	(1,184.2)

<u>Capital Management</u>
Capital includes equity attributable to the owners of the Parent.

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 net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50. The Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt was 28:72 and 22:78 as at December 31, 2011 and 2010, respectively, while the ratio of interest-bearing debt to total capital plus interest-bearing debt were 51:49 and 50:50 as at December 31, 2011 and 2010, respectively.

As at December 31, 2011 and 2010, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

	2011	2010
	(In Thousands)	
Bank loans	**₱25,747,920**	₱20,408,800
Current portion of long-term debt	**7,920,961**	1,766,761
Long-term debt - net of current portion and pledged time deposits	**107,640,019**	121,147,770
Less cash and cash equivalents, time deposits (net of pledged) and short-term investments, investments in held for trading bonds, AFS investments (bonds and corporate notes and redeemable preferred shares) and long-term notes included under "Other noncurrent assets" account	**(81,327,623)**	(103,980,018)
Total net interest-bearing debt (a)	**59,981,277**	39,343,313
Total equity attributable to owners of the Parent	**157,666,331**	141,543,064
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱217,647,608**	₱180,886,377
Gearing ratio (a/b)	**28%**	22%

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

	2011	2010
	(In Thousands)	
Bank loans	**₱25,747,920**	₱20,408,800
Current portion of long-term debt	**7,920,961**	1,766,761
Long-term debt - net of current portion and pledged time deposits	**107,640,019**	121,147,770
Total interest-bearing debt (a)	**141,308,900**	143,323,331
Total equity attributable to owners of the Parent	**157,666,331**	141,543,064
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱298,975,231**	₱284,866,395
Gearing ratio (a/b)	**47%**	50%

30. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31, 2011 and 2010:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading - Bonds	**₱457,496**	**₱457,496**	₱444,676	₱444,676
Derivative assets	**159,461**	**159,461**	1,253,129	1,253,129
	616,957	**616,957**	1,697,805	1,697,805
Loans and receivables:				
Cash and cash equivalents	**56,050,322**	**56,050,322**	66,961,010	66,961,010
Time deposits and short-term investments (including noncurrent portion)	**38,295,972**	**42,325,254**	38,295,895	43,063,118
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**20,504,264**	**19,517,334**	14,794,788	14,111,749
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets)	**8,816,370**	**8,816,370**	5,546,152	5,546,152
Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheets)	**6,000,000**	**6,292,484**	6,000,000	6,400,621
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets)	**506,724**	**523,977**	506,724	574,530
	130,173,652	**133,525,741**	132,104,569	136,657,180
Held-to-Maturity - Treasury bonds (included under “Other current assets and other noncurrent assets” account in the consolidated balance sheets)	**200,000**	**200,750**	500,000	519,454
AFS Investments:				
Shares of stock	**7,088,955**	**7,088,955**	7,430,829	7,430,829
Bonds and corporate notes	**6,841,109**	**6,841,109**	5,120,431	5,120,431
Redeemable preferred shares	**–**	**–**	104,162	104,162
Club shares	**5,330**	**5,330**	5,110	5,110
	13,935,394	**13,935,394**	12,660,532	12,660,532
	₱144,926,003	**₱148,278,842**	₱146,962,906	₱151,534,971
Financial Liabilities				
Financial Liabilities at FVPL - Derivative liabilities	**₱237,980**	**₱237,980**	₱1,351,441	₱1,351,441
Other Financial Liabilities:				
Bank loans	**25,747,920**	**25,747,920**	20,408,800	20,408,800
Accounts payable and other current liabilities*	**43,323,577**	**43,323,577**	37,581,201	37,581,201
Long-term debt (including current portion and net of unamortized debt issue cost)	**136,384,980**	**150,553,342**	130,367,331	142,521,216
Dividends payable	**25,696**	**25,696**	24,287	24,287
Tenants’ deposits and others	**13,713,302**	**13,718,285**	12,375,013	12,352,285
	219,195,475	**233,368,820**	200,756,632	212,887,789
	₱219,433,455	**₱233,606,800**	₱202,108,073	₱214,239,230

* *Excluding payable to government agencies of ₱1,426.2 million and ₱1,458.1 million as at December 31, 2011 and 2010, respectively, the amounts of which are not considered financial liabilities.*

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

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

Cash and Cash Equivalents. The carrying amounts reported in the consolidated balance sheets approximate its fair value, due to its short-term nature.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 1.13% to 1.65% and 1.10% to 2.80% as at December 31, 2011 and 2010, respectively.

Receivables and Advances and Other Receivables included under "*Other current assets*" *account.* The carrying values of short-term receivables approximate their fair values due to their short-term maturities. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of Group's accounts receivable. Average discount rates used is 6.70% and 9.00% as at December 31, 2011 and December 31, 2010, respectively.

Receivable from a Related Party and Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of receivable from a related party and long-term notes are based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 2.21% to 5.41% aand 1.79% to 2.50% as at December 31, 2011 and 2010, respectively. Discount rates used for long-term notes range from 2.21% to 5.41% and 1.29% to 5.68% as at December 31, 2011 and 2010, respectively.

Held-to-Maturity Investments. The fair value is based on quoted market prices of the investments ranging from 100.85% to 108.21% and 103.75% to 104.10% as at December 31, 2011 and 2010, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used is 4.24% and 3.31% to 4.33% as at December 31, 2011 and 2010, respectively. For unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.60% to 6.48% and 1.31% to 5.43% as at December 31, 2011 and 2010, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.98% to 2.70% and 1.94% to 3.55% as at December 31, 2011 and 2010, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.97% to 3.67% and 2.31% to 9.19% as at December 31, 2011 and 2010, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the Parent Company's convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3 and redeemable preferred shares categorized as AFS investments under Level 2;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables shows the Group's financial instruments carried at fair value as at December 31:

		2011	
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	**₱457,496**	**₱–**	**₱–**
Derivative assets	**–**	**159,461**	**–**
	457,496	**159,461**	**–**
AFS investments:			
Shares of stocks	**7,031,822**	**–**	**–**
Bonds and corporate notes	**6,841,109**	**–**	**–**
Club shares	**5,330**	**–**	**–**
	13,878,261	**–**	**–**
	₱14,335,757	**₱159,461**	**₱–**
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱281,822**	**₱80,380**

		2010	
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	₱444,676	₱–	₱–
Derivative assets	–	1,253,129	–
	444,676	1,253,129	–
AFS investments:			
Shares of stocks	7,374,086	–	–
Bonds and corporate notes	5,120,431	–	–
Redeemable preferred shares	–	104,162	–
Club shares	5,110	–	–
	12,499,627	104,162	–
	₱12,944,303	₱1,357,291	₱–
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	₱–	₱1,224,810	₱126,631

During the years ended December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instrument classified under Level 3 pertains to the derivative liability arising from the options in the Parent Company's convertible bonds. This was classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values.

Shown below is the rollforward analysis of the fair value changes from these financial instruments for the year ended December 31:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**(₱126,631)**	(₱1,810,699)
Fair value of derivatives on settled contracts	**9,972**	1,736,460
Net change in fair value	**36,279**	(52,392)
Balance at end of year	**(₱80,380)**	(₱126,631)

The balance at beginning of 2010 includes positive fair value at inception of the option arising from investment in convertible bonds amounting to ₱0.9 million and negative fair value at the beginning of the year of the options arising from the Parent Company's convertible bonds amounting to ₱1,811.6 million. The fair value changes during the year were recognized 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. The options arising from investment in convertible bonds have nil values as at December 31, 2011 and 2010.

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2011	**100 bps**	**(₱2,278)**
	(100) bps	**2,294**
2010	100 bps	(12,934)
	(100) bps	13,156

<u>Derivative Financial Instruments</u>
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, foreign currency call options, non-deliverable forwards and foreign currency range options.

<u>Derivative Assets</u>

	2011	2010
	(In Thousands)	
Parent -		
Non-deliverable forwards	**₱43,842**	₱514,900
Subsidiary:		
Non-deliverable forwards	–	541,278
Interest rate swaps	**115,619**	196,951
	₱159,461	₱1,253,129

Derivative Liabilities

	2011	2010
	(In Thousands)	
Parent:		
Non-deliverable forwards	**₱43,842**	₱514,900
Options arising from convertible bonds	**80,380**	126,631
Subsidiary:		
Non-deliverable forwards	**–**	541,278
Interest rate swaps	**237,980**	168,632
	₱362,202	₱1,351,441

Derivative liabilities of the Parent Company are included under "Accounts payable and other current liabilities" account (see Note 19) while presented as derivative liabilities in the 2011 and 2010 consolidated balance sheets, respectively.

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

	2011		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
	(Amounts in Thousands)		
Floating-Fixed			
Outstanding notional amount	**\$145,000**	**\$145,000**	**\$145,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%-3.28%**	**2.91%-3.28%**	**2.91%-3.28%**
Outstanding notional amount	**\$50,000**	**\$50,000**	**\$50,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.18%-3.53%**	**3.18%-3.53%**	**3.18%-3.53%**
Outstanding notional amount	**\$25,000**	**\$25,000**	**\$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**4.10%**	**4.10%**	
Outstanding notional amount	**\$20,000**	**\$20,000**	**\$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.41%**	**3.41%**	
Fixed-Floating			
Outstanding notional amount	**₱980,000**	**₱970,000**	**₱960,000**
Receive-floating rate	**5.44%**	**5.44%**	**5.44%**
Pay-fixed rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**980,000**	**970,000**	**960,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F +margin%**	**3MPDST-F +margin%**	**3MPDST-F +margin%**

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
	(Amounts in Thousands)		
Floating-Fixed			
Outstanding notional amount	$30,000	$30,000	$30,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.53%	3.53%	3.53%
Outstanding notional amount	$40,000	$40,000	$–
Receive-floating rate	6 months	6 months	–
	LIBOR +margin%	LIBOR +margin%	–
Pay-fixed rate	3.41%	3.41%	–
Outstanding notional amount	$20,000	$20,000	$20,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR +margin%	LIBOR +margin%	LIBOR +margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	$115,000	$115,000	$25,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR +margin%	LIBOR +margin%	LIBOR +margin%
Pay-fixed rate	4.10% to 5.40%	4.10% to 5.40%	4.10%
Outstanding notional amount	₱750,000	₱750,000	₱750,000
Receive-floating rate	3 months	3 months	3 months
	PHIREF+margin%	PHIREF+margin%	PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-Floating			
Outstanding notional amount	₱1,000,000	₱1,000,000	₱1,000,000
Receive-floating rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000	₱1,000,000	₱1,000,000
Receive-floating rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%
Outstanding notional amount	₱985,000	₱980,000	₱975,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options which were accounted for as compound derivatives. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 (₱26.9 at present) per share with a fixed exchange rate of US$1.0 to ₱40.6 until January 31, 2013, subject to cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option pertains to the right of the Parent Company to require the issuer to redeem the bonds at the 115.6%, this option expired on February 11, 2011.

As at December 31, 2011 and 2010, all outstanding embedded derivatives have nil values.

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

Short equity call 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 U.S. dollar while the currency of the underlying shares 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 a 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.

As at December 31, 2011 and 2010, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱80.4 million and ₱126.6 million, respectively. Net fair value changes recognized by the Group in 2011 and 2010 amounted to positive ₱36.3 million and negative ₱51.5 million, respectively, which are reflected 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.

Cross Currency Swaps. In 2004, SM Prime entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.3 to US$1.0. Under these agreements, SM Prime effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet-term loan with semi-annual interest payments up to October 2009 (see Note 20). Fair value changes from these cross currency swaps contracts recognized in the consolidated statements of income amounted to ₱185.2 million in 2009.

Interest Rate Swaps. In 2011, SM Prime entered into US$ interest rate swap agreements with notional amount of US$145 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). As at December 31, 2011, the floating to fixed interest rate swap has negative fair value of ₱142 million.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 20). As at December 31, 2011, the floating to fixed interest rate swaps has negative fair value of ₱15 million.

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

- A US$ interest rate swap agreement with nominal amount of US$30.0 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱38.0 million and positive fair value of ₱20.0 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at December 31, 2011 and 2010, these swaps have positive fair values of ₱116.6 million and ₱87.5 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 20). As at December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱6.4 million. On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4.0 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 20). As at December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱3.2 million and ₱1.9 million, respectively.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 20). SM Prime preterminated the US$30.0 million on November 30, 2010 and the US$90.0 million on May 16, 2011. Fair value changes from the preterminated swap recognized in the consolidated statements of comprehensive income amounted to ₱6.0 million gain in 2010 and ₱9 million loss in 2011. As at December 31, 2011 and 2010, the outstanding US$25 million floating to fixed interest rate swap has negative fair values of ₱39.8 million and ₱41.1 million, respectively. As at December 31, 2010, the outstanding US$90 million floating to fixed interest rate swaps has negative fair value of ₱88.7 million.

In 2009, SM Prime entered into Philippine peso interest rate swap agreement with a notional amount of ₱750.0 million. Under these agreement, SM Prime effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 20). As at December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱30.6 million. On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Negative fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱0.87 million in 2011.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the 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 (see Note 20). As at December 31, 2010, the fixed to floating interest rate swaps have positive fair values of ₱90.3 million. On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27.0 million loss in 2011.

Foreign Currency Options. In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As at December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

In 2009, SM Prime entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38 million. Under the option contracts, at each expiry date, SM Prime compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As at December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US$1.00 and ₱49.02 to US$1.00, respectively. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2009.

Non-deliverable Forwards. In 2011, 2010 and 2009, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Parent Company and SM Prime recognized derivative asset and derivative liability amounting to ₱43.8 million and ₱1,056.2 million from the outstanding forward contracts as at December 31, 2011 and 2010, respectively.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as at December 31 are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**(₱98,312)**	(₱1,842,293)
Net change in fair value	**(295,268)**	327,386
Fair value of derivatives on settled contracts	**190,839**	1,416,595
Balance at end of year	**(₱202,741)**	(₱98,312)

In 2011, the net changes in fair value amounting to negative ₱295.3 million comprise of interest paid amounting to ₱22.0 million, which is included under "Interest expense" account in the consolidated statements of income and net marked-to-market loss on derivatives amounting to

₱273.3 million, which is included under "Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

In 2010, net changes in fair value amounting to ₱327.4 million comprise of interest paid amounting to ₱71.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱256.4 million, which is included under "Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets as follows:

	2011	2010
	(In Thousands)	
Derivative assets (see Note 17)	**₱159,461**	₱1,253,129
Derivative liabilities	**(362,202)**	(1,351,441)
Balance at end of year	**(₱202,741)**	(₱98,312)

31. **EPS Computation**

	2011	2010	2009
	(In Thousands, Except for Per Share Data)		
Net Income Attributable to Common Owners of the Parent			
Net income attributable to common owners of the Parent for basic earnings (a)	**₱21,224,592**	₱18,440,169	₱16,025,038
Effect on net income of convertible bonds, net of tax	**43,813**	–	747,104
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱21,268,405**	₱18,440,169	₱16,772,142
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period (c)	**612,038**	611,218	611,023
Dilutive effect of convertible bonds	**2,132**	–	29,552
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**614,170**	611,218	640,575
Basic EPS (a/c)	**₱34.68**	₱30.17	₱26.23
Diluted EPS (b/d)	**₱34.63**	₱30.17	₱26.18

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱30.32 in 2010.

32. **Reclassification**

The comparative information has been reclassified from the financial statements previously presented to conform to the presentation of the financial statements for the period ended December 31, 2011.

33. **Other Matters**

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

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

The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration with the Court of Appeals and on November 9, 2007, the Court of Appeals issued a resolution denying the appellees' Motion for Reconsideration. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC Makati. On December 23, 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on October 24, 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated June 21, 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court.

34. **Events After the Reporting Period**

In February 2012, the Company launched and priced its 5-year convertible bonds of US$250 million (₱10,660.0 million). The yield to maturity of the bonds is 2.875% per annum, based on 1.625% coupon and a conversion premium of 20%. The Company will use the proceeds of the offering to refinance existing debt and for general corporate purposes.

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 7, 2012. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2 (Group A),
February 4, 2010, valid until February 3, 2013
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174592, January 2, 2012, Makati City

March 7, 2012

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in Thousands, Except Shares Data)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Valued Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Temporary investments	₱–	₱49,665,755	₱–	₱1,083,461
Time deposits – current	–	879,410	–	29,136
Investments held for trading and sale:				
Bonds and Notes:				
Subordinated notes	1,000,000	1,000,000	1,000,000	67,700
Peso Bonds	215,000	230,624	230,624	41,844
Dollar Bonds	$5,000	226,872	226,872	–
Redeemable Preferred Shares -				
Aboitiz Equity Ventures	–	–	–	7,700
Shares of Stocks:				
Common shares:				
Edsa Properties Holdings, Inc.	189,550,548 shares	415,116	415,116	13,936
Republic Glass Holdings, Inc.	21,350,512 shares	42,701	42,701	4,804
Keppel Philippine Holdings, Inc.	3,555,636 shares	11,805	11,805	–
Picop Resources	40,000,000 shares	8,200	8,200	–
Export & Industry bank	7,829,000 shares	2,035	2,035	–
Benguet Corporation	88,919 shares	2,356	2,356	–
		1,939,709	1,939,709	135,984
Total Marketable Securities		₱52,484,874	₱1,939,709	₱1,248,581

(Forward)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Valued Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Available-for-Sale Investments - Noncurrent				
Shares of Stocks:				
Listed:				
Ayala Corporation	20,987,552 shares	₱6,527,129	₱6,527,129	₱111,884
Manila Electric Company	58,925 shares	16,785	16,785	198
Philippine Long Distance Telephone Company	292,611 shares	5,141	5,141	72
Philippine Bank of Communication	13,431 shares	551	551	–
Unlisted:				
Morrison Corporation	104,500 shares	10,450	–	55,100
Allfirst Equity Holdings, Inc.	95,000 shares	9,500	–	7,600
Forsyth Equity Holdings, inc.	95,000 shares	9,500	–	22,800
Tangiers Resources Corp.	95,000 shares	9,500	–	57,000
San Mateo Bros., Inc.	85,500 shares	8,550	–	53,200
HFS Corporation	50,000 shares	5,000	–	26,389
Heavenly Garden Development Corp.	25,000 shares	2,500	–	–
SM Insurance Brokers Services, Inc.	129,390 shares	150	–	–
Others		1,986	–	–
		6,606,742	6,549,606	334,243

(Forward)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Valued Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Bonds and corporate notes -				
Corporate Bonds	$133,237	₱5,841,109	₱5,841,109	₱385,789
		5,841,109	5,841,109	385,789
Club Shares:				
Cebu Golf & Country Club	1 share	2,970	2,970	–
Baguio Country Club	1 share	690	690	–
Country Club of Tagaytay Highlands	1 share	560	560	–
Mimosa Golf & Country Club, Inc.	1 share	450	450	–
Camp John Hay	2 shares	240	240	–
Subic Bay Yacht Club	1 share	150	150	–
Splendido Taal Golf Club	1 share	90	90	–
Manila Polo Club	2 shares	100	100	–
Cresta del Mar	3 shares	35	35	–
Calatagan Golf Club	1 share	30	30	–
Ridge Resort	1 share	15	15	–
		5,330	5,330	–
		12,453,181	**12,396,045**	**720,032**
Time Deposits - Noncurrent	**–**	**37,416,562**	**–**	**1,892,248**
Total Noncurrent Financial Assets		**₱49,869,743**	**₱12,396,045**	**₱2,612,280**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM/PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
Tenants							
Sanford_Marketing Corporation	₱–	₱176,855	₱157,748	₱–	₱19,107	₱–	₱19,107
Mainstream Business, Inc.	51,771	250,495	236,913	–	65,353	–	65,353
Market Strategic Firm, Inc.	31,119	221,615	189,749	–	62,985	–	62,985
Major Shopping Management Corporation	39,005	185,325	181,097	–	43,233	–	43,233
Metro Main Star Asia Corporation	41,788	152,539	161,578	–	32,749	–	32,749
Meridien Business Leader, Inc.	–	82,749	67,141	–	15,608	–	15,608
Madison Shopping Plaza, Inc.	–	203,344	149,050	–	54,294	–	54,294
Multi Stores Corporation	25,424	125,745	132,033	–	19,136	–	19,136
Mandurriao Star, Inc.	61,214	190,146	193,901	–	57,459	–	57,459
Mercantile Stores Group, Inc.	56,623	237,625	231,816	–	62,432	–	62,432
Mindanao Shopping Destination Corp.	15,465	67,166	65,985	–	16,646	–	16,646
Manila Southern Associates, Inc.	64,067	203,691	212,785	–	54,973	–	54,973
SM Mart, Inc.	–	449,558	372,067	–	77,491	–	77,491

(Forward)

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
Supervalue, Inc.	₱208,544	₱1,332,677	₱1,507,166	₱–	₱34,055	₱–	₱34,055
Super Shopping Market, Inc.	187,368	1,487,556	1,480,879	–	194,045	–	194,045
SM Retail, Inc.	4,432	53,797	47,010	–	11,219	–	11,219
Accessories_Management Corp.	–	2,035	1,658	–	377	–	377
CF_Mgt. Corp.	335	1,895	1,877	–	353	–	353
LF_Mgt. Corp.	332	17	–	–	349	–	349
LTBG_Mgmt. Corp.	352	1,931	1,931	–	352	–	352
MF_Mgt. Corp.	349	1,598	1,947	–	–	–	–
MCLG_Mgmt. Corp.	191	1,123	1,094	–	220	–	220
Mountain Bliss Resort and Development Corp.	–	6,044	5,018	–	1,026	–	1,026
SM Prime Holdings, Inc.	35,420	268,929	258,880	–	45,469	–	45,469
SM Hotels & Conventions Corp.	40,183	202,210	171,401	–	70,992	–	70,992
SM Investments Corporation	51,754	108,726	155,362	–	5,118	–	5,118
	₱915,736	₱6,015,391	₱5,986,086	₱–	₱945,041	₱–	₱945,041

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
Due from related parties							
Marketwatch Investments Co., Inc.	₱–	₱60,000	₱–	₱–	₱60,000	₱–	₱60,000
Sanford_Marketing Corporation	418,080	–	379,362	–	38,718	–	38,718
Mainstream Business, Inc.	33,687	–	8,943	–	24,744	–	24,744
Market Strategic Firm, Inc.	83,460	–	46,927	–	36,533	–	36,533
Major Shopping Management Corporation	20,264	–	8,632	–	11,632	–	11,632
Metro Main Star Asia Corporation	20,379	–	7,493	–	12,886	–	12,886
Meridien Business Leader, Inc.	6,611	–	693	–	5,918	–	5,918
Madison Shopping Plaza, Inc.	40,316	–	9,955	–	30,361	–	30,361
Multi Stores Corporation	12,077	–	4,532	–	7,545	–	7,545
Mandurriao Star, Inc.	20,573	11,480	–	–	32,053	–	32,053
Metro Manila Shopping Mecca Corp.	49,460	–	36,532	–	12,928	–	12,928
Mercantile Stores Group, Inc.	51,575	–	30,147	–	21,428	–	21,428
Mindanao Shopping Destination Corp.	1,618	2,906	–	–	4,524	–	4,524
Manila Southern Associates, Inc.	116,265	–	95,973	–	20,292	–	20,292
SM Mart, Inc.	264,067	–	44,060	–	220,007	–	220,007
Supervalue, Inc.	129,623	172,043	–	–	301,666	–	301,666
Super Shopping Market, Inc.	17,813	150,135	–	–	167,948	–	167,948
SM Retail, Inc.	37,090	28,185	–	–	65,275	–	65,275
Accessories_Management Corp.	10,800	–	10,638	–	162	–	162

(Forward)

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
CF_Mgt. Corp.	₱9,769	₱–	₱1,676	₱–	₱8,093	₱–	₱8,093
LF_Mgt. Corp.	7,532	–	9	–	7,523	–	7,523
LTBG_Mgmt. Corp.	21,664	–	21,608	–	56	–	56
MF_Mgt. Corp	10,084	–	186	–	9,898	–	9,898
MCLG_Mgmt. Corp.	5,191	3,349	–	–	8,540	–	8,540
Rappel Holdings, Inc	–	6,339	–	–	6,339	–	6,339
SM Development Corporation and Subsidiaries	30,796	25,595	–	–	56,391	–	56,391
SM Land, Inc, and Subsidiary	8,534,763	1,741,166	–	–	10,275,929	–	10,275,929
SM Commercial Properties, Inc.	3,109,193		828,049	–	2,281,144	–	2,281,144
Intercontinental Development Corporation	756,649	118,474	–	–	875,123	–	875,123
Mountain Bliss Resort and Development Corp.	3,256,593	294,007	–	–	3,550,600	–	3,550,600
SM Prime Holdings, Inc.	93,565	–	9,011	–	84,554	–	84,554
SM Hotels & Conventions Corp.	1,262,204	–	1,253,461	–	8,743	–	8,743
Multi Realty Development Corporation	11,838,778	–	1,671,022	–	10,167,756	–	10,167,756
Tagaytay Resort Development Corp.	–	27,250	–	–	27,250	–	27,250
Hyperhome Corp.	–	7,247	–	–	7,247	–	7,247
Hyperfashion Corp.	–	1,854	–	–	1,854	–	1,854
SM Investments Corporation	612,642	–	558,558	–	54,084	–	54,084
	₱30,883,181	₱2,650,030	₱5,027,467	₱–	₱28,505,744	₱–	₱28,505,744

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
Management Fees							
Sanford_Marketing Corporation	₱60,301	₱625,394	₱587,339	₱–	₱98,356	₱–	₱98,356
Mainstream Business, Inc.	48,589	210,729	215,983	–	43,335	–	43,335
Market Strategic Firm, Inc.	39,721	176,778	176,706	–	39,793	–	39,793
Major Shopping Management Corporation	28,492	179,370	173,759	–	34,103	–	34,103
Metro Main Star Asia Corporation	23,764	133,131	130,172	–	26,723	–	26,723
Meridien Business Leader, Inc.	65,306	67,144	108,416	–	24,034	–	24,034
Madison Shopping Plaza, Inc.	32,475	168,559	164,432	–	36,602	–	36,602
Multi Stores Corporation	15,814	110,106	106,537	–	19,383	–	19,383
Mandurriao Star, Inc.	30,930	191,440	183,309	–	39,061	–	39,061
Metro Manila Shopping Mecca Corp.	26,382	141,475	139,132	–	28,725	–	28,725
Mercantile Stores Group, Inc.	32,998	198,060	173,893	–	57,165	–	57,165
Mindanao Shopping Destination Corp.	9,364	52,208	51,092	–	10,480	–	10,480
Manila Southern Associates, Inc.	54,074	158,874	155,882	–	57,066	–	57,066
SM Mart, Inc.	72,970	449,539	433,527	–	88,982	–	88,982
Supervalue, Inc.	33,230	1,478,347	1,304,169	–	207,408	–	207,408
Super Shopping Market, Inc.	126,819	1,045,154	1,012,845	–	159,128	–	159,128
SM Commercial Properties, Inc.	8,434	–	1,572	–	6,862	–	6,862
SM Investments Corporation	63,561	38,274	3,166	–	98,669	–	98,669
	₱773,224	₱5,424,582	₱5,121,931	₱–	₱1,075,875	₱–	₱1,075,875

Name and Designation of Debtor	Balance at beginning period	Additions	Amount collected	Amounts written off	Current	Not Current	Balance at end of period
Dividends							
Sanford_Marketing Corporation	₱40,834	₱–	₱40,834	₱–	₱–	₱–	₱–
Supervalue, Inc.	1,999,998	3,500,000	1,999,998	–	–	–	3,500,000
Super Shopping Market, Inc.	649,628	1,649,992	649,628	–	–	–	1,649,992
	₱2,690,460	₱5,149,992	₱2,690,460	₱–	₱–	₱–	₱5,149,992

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS – Other Assets
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in Thousands)

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Other changes Additions (Deductions)	Charged to Other Accounts	Ending Balance
Goodwill	₱9,229,438	₱–	₱–	₱–	₱–	₱9,229,438
Trademarks and brand names	6,124,762	–	–	–	–	6,124,762
Total	**₱15,354,200**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,354,200**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in Thousands)

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet	Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet
U.S. dollar-denominated:			
Fixed Rate bonds	₱–	₱–	₱43,633,092
Five-year term loans	–	–	6,101,533
Two-year, three-year and five-year bilateral loans	–	–	1,084,929
Convertible bonds	–	971,389	–
Other bank loans	–	–	3,030,779
China yuan renminbi-denominated	–	615,371	3,561,277
Peso-denominated:			
Seven-year and ten-year corporate notes	–	4,957	4,952,465
Five-year fixed rate notes		993	6,649,299
Three-year and five-year fixed rate notes	–	–	9,944,226
Five-year and seven-year retail bonds	–		9,352,578
Bank loans collateralized with time deposits	–	5,944,556	2,990,374
Five-year, seven-year and ten-year corporate notes	–	69,902	6,814,269
Five-year and ten-year corporate notes	–	5,812	4,259,081
Preferred shares	–	199,869	–
Five-year floating rate notes	–	49,920	4,912,493
Five-year, seven-year and ten-year fixed rate notes	–	990	1,984,685
Five-year bilateral loans	–	46,718	497,573
Other bank loans	–	10,484	18,695,366
Total	**₱–**	**₱7,920,961**	**₱128,464,019**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
FOR THE YEAR ENDED DECEMBER 31, 2011

				Number of Shares Held by		
Title of Issue	**Number of Shares Authorized**	**Number of Shares Outstanding**	**Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights**	**Affiliates**	**Directors, Officers and Principal Stockholders**	**Others**
Common Stock	690,000,000	612,164,033	2,131,677	846,559	374,524,910	236,792,564

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
COMPUTATION OF PUBLIC OWNERSHIP AS OF DECEMBER 31, 2011

	"% to total I/O shares"	Number of Shares	
Number of Shares Issued and Outstanding (I/O)			**612,164,033**
Directors:			
Henry Sy, Sr.			
Direct	4.40%	26,965,060	
Indirect	1.85%	11,317,189	
Teresita T. Sy			
Direct	7.42%	45,400,371	
Indirect	0.04%	267,989	
Henry Sy, Jr.			
Direct	7.64%	46,768,360	
Harley T. Sy			
Direct	6.64%	40,652,189	
Indirect	1.01%	6,170,444	
Jose T. Sio			
Direct	0.00%	11	
Vicente S. Perez, Jr.			
Direct	0.00%	11	
Ah Doo Lim			
Indirect	0.00%	100	
Joseph R. Higdon			
Direct	0.00%	100	
Subtotal	**29.00%**	**177,541,824**	

(Forward)

	"% to total I/O shares"	Number of Shares	
Officers -			
Ma. Ruby Ll. Cano			
Direct	0.00%	1,669	
Indirect	0.00%	1,551	
Subtotal	**0.00%**	**3,220**	
Principal Stockholders:			
Felicidad T. Sy			
Direct	3.99%	24,417,648	
Indirect	4.84%	29,639,850	
Hans T. Sy			
Direct	8.62%	52,768,360	
Indirect	0.00%	7,258	
Herbert T. Sy			
Direct	8.62%	52,768,360	
Elizabeth T. Sy			
Direct	6.10%	37,372,387	
Indirect	0.00%	6,003	
Subtotal	**32.17%**	**196,979,866**	
Affiliates:			
Multi-Realty Development Corporation	0.01%	45,879	
SM Land, Inc.	0.13%	774,612	
Belle Corporation	0.00%	26,068	
Subtotal	**0.14%**	**846,559**	
Total Shares held by Directors, Officers, Principal Stockholders and Affiliates	**61.31%**		**375,371,469**
Total Number of Shares Owned by the Public	**38.69%**		**236,792,564**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

			2011	2010
i.	Current ratio	Current assets / Current liabilities	1.27 : 1	1.67 : 1
ii.	Debt-to-equity ratio	Total interest-bearing debt less pledged time deposits / Total equity attributable to equity holders of the parent + Total interest bearing debt less pledged time deposits	51 : 49	50 : 50
	Net debt-to-equity ratio	Total interest-bearing debt less cash and cash equivalents, time deposits, investments in bonds hold for trading and available for sale / Total equity attributable to equity holders of the parent + Total interest bearing debt less cash and cash equivalents time deposits, investments in bonds hold for trading and available for sale	28 : 72	22 : 78
iii.	Asset to equity ratio	Total assets / Total equity	2.02	2.06
iv.	Interest rate coverage ratio	Earnings before interest expense, taxes and depreciation / Interest paid	5.10	4.63
v.	Return on assets	Net income attributable to equity holders of the parent / Average assets	5.0%	4.9%
	Return on equity	Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent	14.2%	13.8%

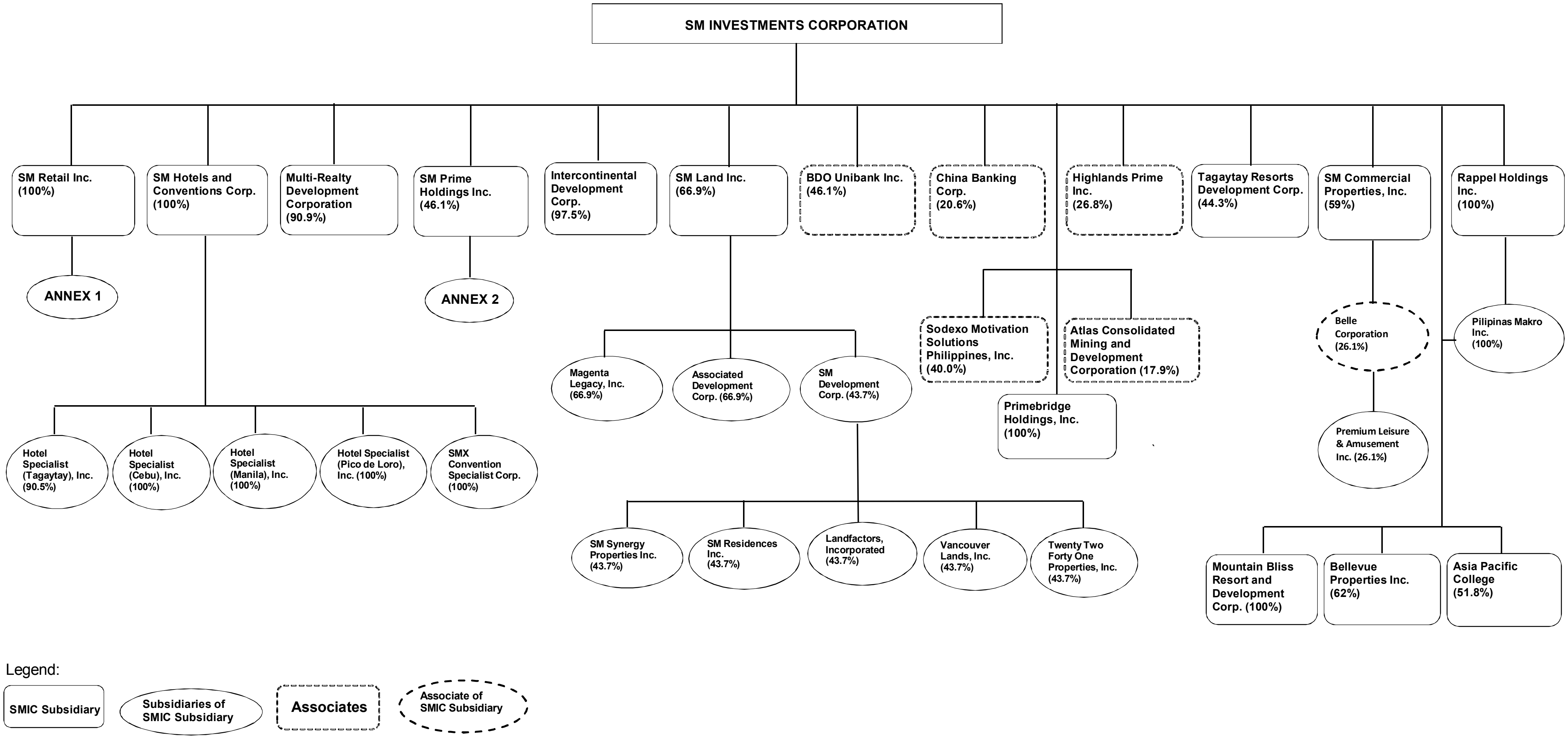
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As at December 31, 2011
(Amounts in Thousands)

SM Investments Corporation

10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-1A, Pasay City 1300

Unappropriated RE, December 31, 2010			**₱29,017,452**
Adjustments to beginning unappropriated RE:			
Less: Non-actual/unrealized income, net of tax		248,601,166	
Add: Non-actual losses		324,497,645	**75,896**
Unappropriated RE, beginning, as adjusted to available for dividend distribution			**29,093,348**
Net income during the period closed to Retained Earnings		₱9,103,137	
Less:	Non-actual/unrealized income, net of tax		
	Unrealized foreign exchange gain	122,976	
	Rental income from straight-line amortization in excess of rental payments	63,247	
	Unrealized mark to market gain on derivatives	36,279	
Subtotal		222,502	
Add:	Non-actual losses		
	Accretion of tenants' deposits, exchanged bonds and convertible bonds	164,621	
Sub-total		164,621	
Net income actually earned/realized during the period			**9,045,256**
Less:	**Cash Dividends declared during the period**		**(5,532,323)**
Total Retained Earnings, End Available for Dividend Declaration			**₱32,606,281**

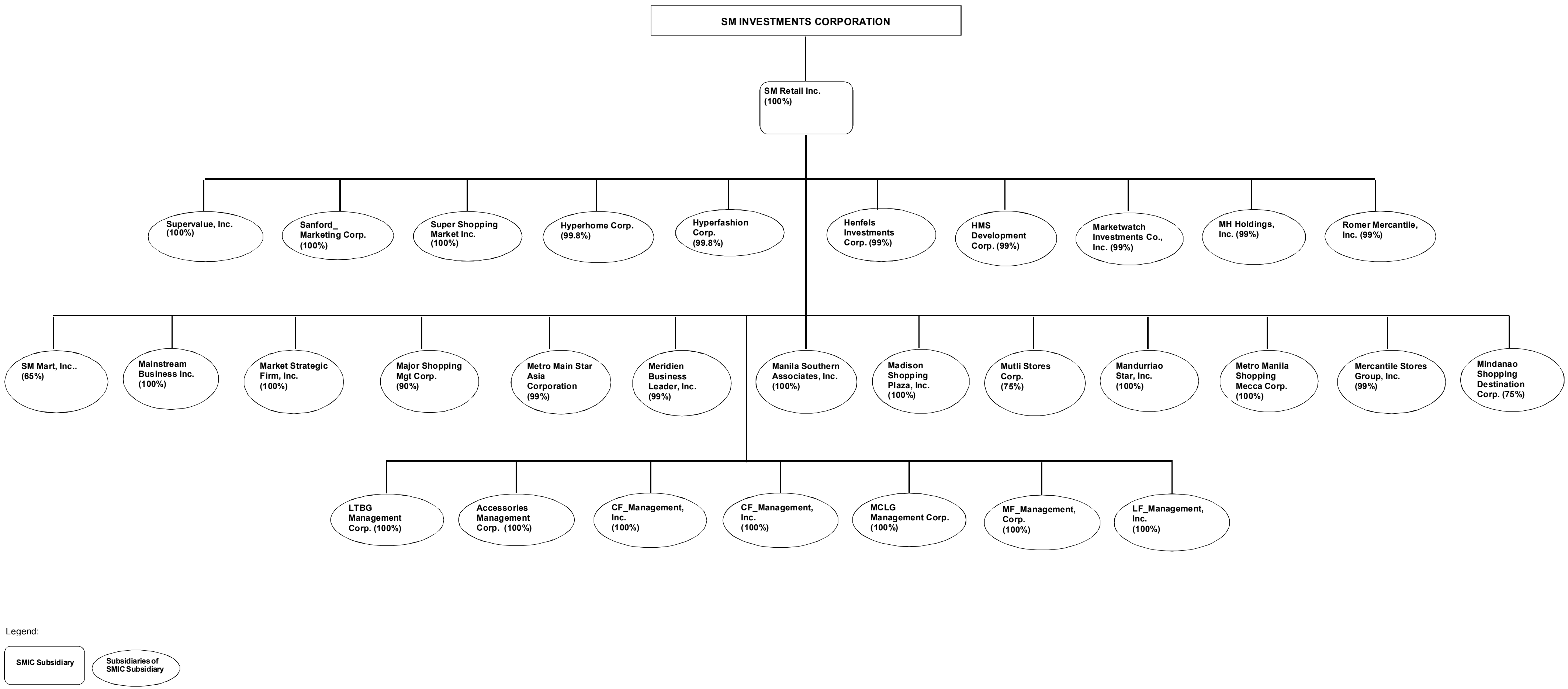
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
Corporate Structure
As of December 31, 2011



Note: % Refers to Effective Ownership

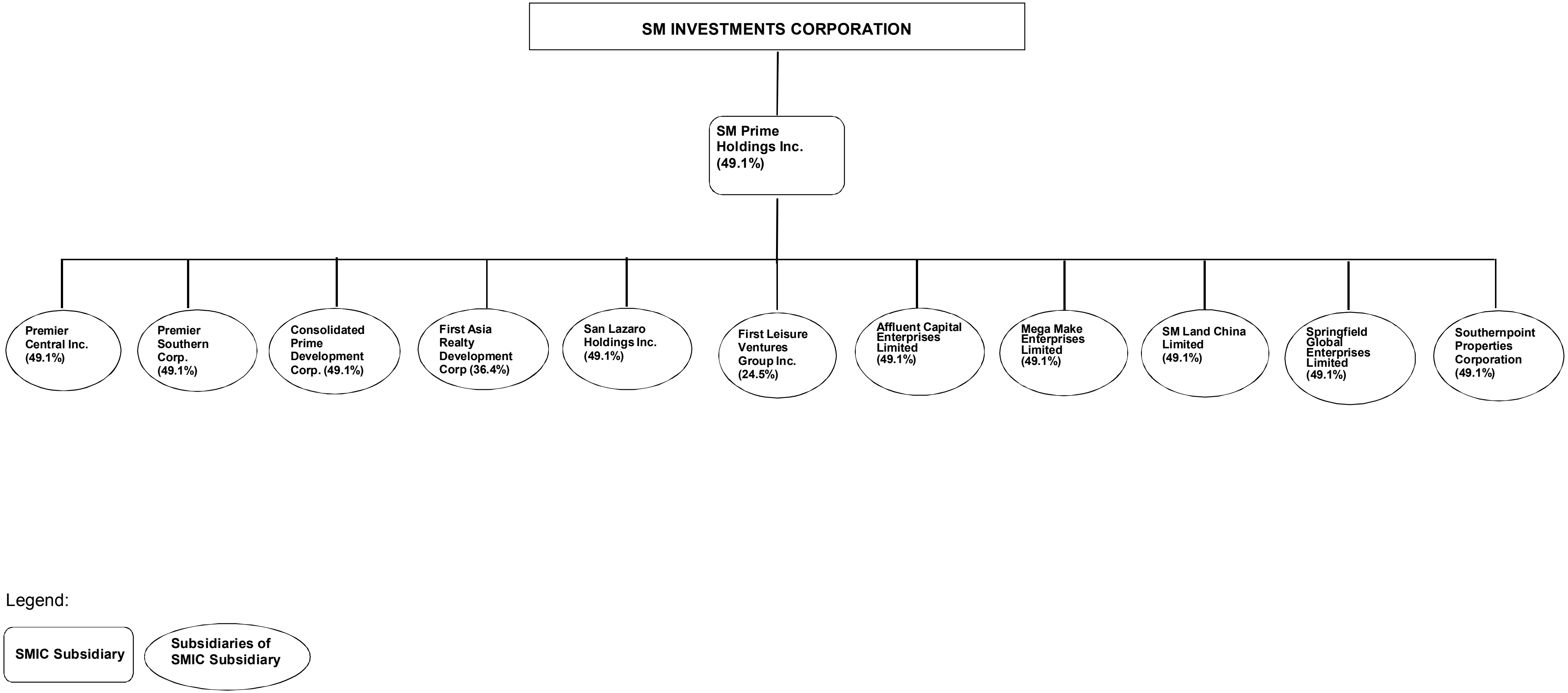
ANNEX 1

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
Corporate Structure - SM Retail, Inc.
As of December 31, 2011



Note: % Refers to Effective Ownership

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
Corporate Structure - SM Prime Holdings, Inc.
As of December 31, 2011



Note: % Refers to Effective Ownership

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED (2011)

I. List of Philippine Financial Reporting Standards (PFRSs) effective as at December 31, 2011

PFRSs	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Not applicable*
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable*
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Adopted
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Adopted
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Adopted
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted

PFRSs	Adopted/Not adopted/Not applicable
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Adopted
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under* PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Adopted
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable*
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Adopted
Philippine Interpretation IFRIC–14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable

PFRSs	Adopted/Not adopted/Not applicable
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17*, Distributions of Non-cash Assets to Owners*	Not applicable
Philippine Interpretation IFRIC–18*, Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Not applicable
Philippine Interpretation SIC–7*, Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12*, Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC–15*, Operating Leases – Incentives*	Adopted
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC–25*, Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29*, Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not applicable

** These standards have been adopted by the entity but has no significant covered transactions as of and for the years then ended December 31, 2011 and 2010.*

II. List of New and Amended Standards and Interpretations and Improvements to PFRS that became effective as at January 1, 2011

PFRSs	Adopted/Not adopted/Not applicable
New and Amended Standards and Interpretations	
PAS 24 (Amended), *Related Party Disclosures*	Adopted
PAS 32, *Financial Instruments: Presentation* (Amendment) – Classification of Rights Issues	Adopted
Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*	Not Applicable
PFRS 1, *First-time Adoption of IFRS* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	Not Applicable
Improvements to PFRS	
PFRS 1, *First-time Adoption of IFRS:* • Accounting policy changes in the year of adoption • Revaluation basis as 'deemed cost' • Use of 'deemed cost' for operations subject to rate regulation	Not Applicable
PFRS 3, *Business Combinations:* • Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. • Measurement of non-controlling interests • Un-replaced and voluntarily replaced share-based payment rewards	Adopted
PFRS 7, *Financial Instruments: Disclosures* – Clarification of disclosures	Adopted
PAS 1, *Presentation of Financial Statements* – Clarification of statement of changes in equity	Adopted
PAS 27, *Consolidated and Separate Financial Statements* – Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements	Adopted
PAS 34, *Interim Financial Reporting* – Significant events and transactions	Adopted
Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* – Fair value of award credits	Adopted
Philippine Interpretation IFRIC 19*, Extinguishing Financial Liabilities with Equity Instruments*	Not applicable

** These standards have been adopted by the entity but has no significant covered transactions as of and for the years then ended December 31, 2011 and 2010.*

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City ~~of Makati on~~ PASAY CITY ~~APR 1 2 2012~~

By:

SM INVESTMENTS CORPORATION

HARLEY T. SY
President and Director

JOSE T. SIO
Executive Vice President,
Chief Financial Officer and
Director

MA. RUBY LL. CANO
Senior Vice President - Controller

EMMANUEL C. PARAS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 1 2 2012 day of PASAY CITY affiants exhibiting to me their Residence Certificates, as follow:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
HARLEY T. SY	17339261	January 05, 2012	Manila
JOSE T. SIO	02480801	January 05, 2012	Manila
MA. RUBY LI. CANO	06445229	February 05, 2012	Quezon City
EMMANUEL C. PARAS	06996201	January 12, 2012	Makati

DOC. No. 36;
PAGE No. 9;
BOOK No. IX;
SERIES OF 2012;

ATTY. CHRISTINE DUGENIO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2012
PTR NO. 10279632 1/11/12LP
IBP NO. 878344 1/5/12 RSM
ROLL NO. 40987 TIN 15539390[illegible]