COVER SHEET

16342
SEC Registration Number

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300

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

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

857-0100
(Company Telephone Number)

0 5 *Month* **1 5** *Day*
(Fiscal Year)

17-Q
(Form Type)

0 4 *Month* **2 5** *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

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 **16342**
PSE Disclosure Security Code

SM INVESTMENTS CORPORATION
(Company's Full Name)

10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-IA, Pasay City 1300
(Company's Address)

857- 0100
(Telephone Number)

December 31
(Year Ending)
(month & day)

SEC Form 17-Q
1st Quarter Report
Form Type

Amendment Designation (If applicable)

March 31, 2012
Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2012**

2. Commission Identification Number **016342** 3. BIR Tax Identification No. **169-020-000**

4. Exact name of registrant as specified in its charter **SM INVESTMENTS CORPORATION**

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

6. Industry Classification Code (SEC Use Only)

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

8. **857-0100**
   Registrant's telephone number, including area code

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

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding	Amount of Debt Outstanding
COMMON STOCK P10 PAR VALUE	**613,874,621**	**N.A.**

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

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

    Yes [**X**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [**X**] No [ ]

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
March 31, 2012 and December 31, 2011
and for the Three Months Ended March 31, 2012 and 2011

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 16, 20, 24 and 25)	**₱37,346,395**	₱56,050,322
Time deposits and short-term investments (Notes 6, 18, 20, 24 and 25)	**860,631**	879,410
Investments held for trading and sale (Notes 7, 10, 20, 24 and 25)	**2,001,488**	1,939,709
Receivables (Notes 8, 15, 20, 24 and 25)	**15,735,850**	11,764,852
Merchandise inventories - at cost (Note 21)	**13,820,682**	13,436,456
Other current assets (Notes 9, 14, 20, 24 and 25)	**16,475,567**	17,189,740
Total Current Assets	**86,240,613**	101,260,489
Noncurrent Assets		
Available-for-sale investments (Notes 10, 20, 24 and 25)	**14,444,214**	12,453,181
Investments in shares of stock of associates (Note 11)	**95,806,612**	88,417,849
Time deposits (Notes 6, 18, 20, 24 and 25)	**47,018,002**	37,416,562
Property and equipment (Note 12)	**15,258,920**	15,092,354
Investment properties (Notes 13 and 18)	**136,161,120**	131,275,911
Land and development (Note 14)	**22,875,867**	23,012,453
Intangibles (Note 15)	**15,354,200**	15,354,200
Deferred tax assets - net (Note 22)	**693,283**	694,644
Other noncurrent assets (Notes 8, 15, 20, 24 and 25)	**25,429,348**	24,084,415
Total Noncurrent Assets	**373,041,566**	347,801,569
	₱459,282,179	₱449,062,058

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 16, 20, 24 and 25)	**₱12,766,960**	₱25,747,920
Accounts payable and other current liabilities (Notes 17, 20, 24 and 25)	**35,485,103**	44,749,807
Income tax payable	**2,011,622**	1,331,046
Current portion of long-term debt (Notes 13, 18, 20, 24 and 25)	**7,008,056**	7,920,961
Dividends payable (Notes 24 and 25)	**25,393**	25,696
Total Current Liabilities	**57,297,134**	79,775,430
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13, 18, 20, 24 and 25)	**147,124,603**	128,464,019
Derivative liabilities (Notes 24 and 25)	**268,633**	237,980
Deferred tax liabilities - net (Note 22)	**4,653,184**	4,507,979
Defined benefit liability	**62,304**	76,487
Tenants' deposits and others (Notes 13, 23, 24 and 25)	**16,369,243**	13,713,302
Total Noncurrent Liabilities	**168,477,967**	146,999,767
Total Liabilities	**225,775,101**	226,775,197
Equity Attributable to Owners of the Parent		
Capital stock (Note 19)	**6,138,746**	6,121,640
Additional paid-in capital (Note 19)	**36,295,073**	35,536,615
Equity adjustments from business combination under common control	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 19)	**(263,195)**	(263,195)
Cumulative translation adjustment of a subsidiary	**376,912**	428,058
Net unrealized gain on available-for-sale investments (Notes 10 and 11)	**8,770,893**	7,008,067
Retained earnings (Note 19):		
Appropriated	**5,000,000**	5,000,000
Unappropriated	**112,209,667**	106,167,942
Total Equity Attributable to Owners of the Parent	**166,195,300**	157,666,331
Non-controlling Interests	**67,311,778**	64,620,530
Total Equity	**233,507,078**	222,286,861
	₱459,282,179	₱449,062,058

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Three months ended March 31	
	2012 (Unaudited)	2011 (Unaudited)
REVENUE		
Sales:		
Merchandise	**₱34,420,109**	₱31,021,596
Real estate and others	**6,018,690**	3,684,042
Rent (Notes 13, 20 and 23)	**5,417,723**	4,868,931
Equity in net earnings of associates (Note 11)	**1,665,275**	1,371,302
Cinema ticket sales, amusement and others	**1,003,906**	811,406
Dividend, management fees, and others (Notes 7,10, 20 and 25)	**1,152,916**	1,011,968
	49,678,619	42,769,245
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 21)	**25,608,800**	23,504,716
Real estate and others	**3,626,433**	2,010,687
Selling, general and administrative expenses	**9,833,455**	7,870,248
	39,068,688	33,385,651
OTHER INCOME (CHARGES)		
Interest expense (Notes 16, 18, 20, 24 and 25)	**(2,256,392)**	(2,102,226)
Interest income (Notes 5, 6, 7, 10, 20)	**1,176,367**	1,009,409
Gain on disposal of investments and properties (Notes 11, 12, 13 and 18)	**17,432**	510
Foreign exchange gain - net (Note 24)	**200,789**	44,397
	(861,804)	(1,047,910)
INCOME BEFORE INCOME TAX	**9,748,127**	8,335,684
PROVISION FOR INCOME TAX (Note 22)		
Current	**1,370,643**	1,099,988
Deferred	**217,310**	19,512
	1,587,953	1,119,500
NET INCOME	**₱8,160,174**	₱7,216,184
Attributable to		
Owners of the Parent (Note 26)	**₱6,041,725**	₱5,368,038
Non-controlling interests	**2,118,449**	1,848,146
	₱8,160,174	₱7,216,184
Earnings Per Common Share (Note 26)		
Basic	**₱9.85**	₱8.77

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Three months ended March 31	
	2012 (Unaudited)	2011 (Unaudited)
NET INCOME	**₱8,160,174**	₱7,216,184
OTHER COMPREHENSIVE INCOME (LOSS)		
Share in unrealized gain on available-for-sale investments of associates - net (Note 11)	**264,724**	(1,645,890)
Net unrealized gain (loss) on available-for-sale investments (Note 10)	**2,173,174**	(129,770)
Income tax relating to components of other comprehensive income	**70,745**	68,914
Cumulative translation adjustment of a subsidiary	**(65,289)**	(3,847)
	2,443,354	(1,710,593)
TOTAL COMPREHENSIVE INCOME	**₱10,603,528**	₱5,505,591
Attributable to		
Owners of the Parent	**₱7,753,404**	₱3,704,969
Non-controlling interests	**2,850,124**	1,800,622
	₱10,603,528	₱5,505,591

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 19)	Additional Paid-in Capital (Note 19)	Equity Adjustments from Business Combination Under Common Control	Cost of Parent Common Shares Held by Subsidiaries (Note 19)	Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 10 and 11)	Appropriated Retained Earnings	Unappropriated Retained Earnings (Note 19)	Total		
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
Net income for the period	–	–	–	–	–	–	–	6,041,725	6,041,725	2,118,449	8,160,174
Other comprehensive income	–	–	–	–	(51,146)	1,762,826	–	–	1,711,680	731,674	2,443,354
Total comprehensive income for the period	–	–	–	–	(51,146)	1,762,826	–	6,041,725	7,753,405	2,850,123	10,603,528
Issuance of Parent common shares	17,106	758,458	–	–	–	–	–	–	775,564	–	775,564
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	(166,109)	(166,109)
Balance at March 31, 2012	₱6,138,746	₱36,295,073	(₱2,332,796)	(₱263,195)	₱376,912	₱8,770,893	₱5,000,000	₱112,209,667	₱166,195,300	₱67,304,544	₱233,499,844
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 period	–	–	–	–	–	–	–	5,368,038	5,368,038	1,848,146	7,216,184
Other comprehensive income	–	–	–	–	(3,013)	(1,660,056)	–	–	(1,663,069)	(47,524)	(1,710,593)
Total comprehensive income for the period	–	–	–	–	(3,013)	(1,660,056)	–	5,368,038	3,704,969	1,800,622	5,505,591
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	395,506	395,506
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(3,126)	(3,126)
Balance at March 31, 2011	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)	₱286,247	₱5,138,039	₱5,000,000	₱95,843,712	₱145,248,033	₱58,467,417	₱203,715,450

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three months ended March 31	
	2012	2011
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱9,748,127**	**₱8,335,684**
Adjustments for:		
Interest expense	**2,256,392**	**2,102,225**
Depreciation and amortization (Notes 12 and 13)	**1,903,425**	**1,703,276**
Equity in net earnings of associates (Note 11)	**(1,665,275)**	**(1,371,302)**
Interest income	**(1,176,367)**	**(1,009,409)**
Gain on disposal of investments and properties (Notes 11, 12 and 13)	**(17,432)**	**(30,903)**
Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 7, 10 and 25)	**(105,258)**	**46,938**
Dividend income	**(288,011)**	**(259,209)**
Unrealized foreign exchange gain	**(74,292)**	**(31,853)**
Income before working capital changes	**10,581,309**	**9,485,447**
Decrease (increase) in:		
Land and development	**(2,619,542)**	**(2,763,099)**
Merchandise inventories	**(384,227)**	**(17,294)**
Receivables	**(2,872,390)**	**(3,507,653)**
Other current assets	**459,013**	**(860,336)**
Increase (decrease) in:		
Accounts payable and other current liabilities	**(10,006,234)**	**(6,450,655)**
Tenants' deposits and others	**2,628,825**	**349,771**
Defined benefit liability	**(14,183)**	**(730)**
Net cash used in operations	**(2,227,429)**	**(3,764,549)**
Income tax paid	**(691,415)**	**(460,169)**
Net cash used in operating activities	**(2,918,844)**	**(4,224,718)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Investments in shares of stock of associates	**72,655**	**–**
Property and equipment	**890**	**17,755**
Investment properties	**–**	**30,394**
Available-for-sale investments	**18,755**	**199**
Additions to:		
Investment properties (Note 13)	**(5,426,580)**	**(4,324,200)**
Investments in shares of stock of associates	**(5,493,857)**	**–**
Property and equipment (Note 12)	**(873,479)**	**(1,118,623)**
Available-for-sale investments	**–**	**(155,482)**
Decrease (increase) in:		
Other noncurrent assets	**372,357**	**(535,643)**
Time deposits and short-term investments	**(10,313,651)**	**8,982**
Interest received	**1,432,057**	**1,344,796**
Dividends received (Note 11)	**129,070**	**338,293**
Net cash used in investing activities	**(20,081,783)**	**(4,393,529)**

(Forward)

	Three months ended March 31	
	2012	2011
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Long-term debt	**₱21,016,250**	₱11,204,750
Bank loans	**–**	325,000
Payments of:		
Long-term debt	**(1,606,132)**	(10,096,236)
Bank loans	**(12,900,000)**	(16,798,800)
Interest	**(2,109,919)**	(2,009,799)
Dividends	**(303)**	(3,688)
Increase (decrease) in non-controlling interests	**(166,109)**	395,506
Net cash provided by (used in) financing activities	**4,233,787**	(16,983,267)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(18,766,840)**	(25,601,514)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**62,913**	(23,430)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**56,050,322**	66,961,010
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱37,346,395**	₱41,336,066

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines 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).

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 March 31, 2012, 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			
	March 31, 2012		December 31, 2011	
Company	**Direct**	**Indirect**	Direct	Indirect
Shopping Mall Development				
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	**22**	**41**	22	41
Retail				
SM Retail, Inc. (SM Retail) and Subsidiaries	**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)	**–**	**99**	–	99
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	**100**	**–**	100	–
SM Commercial Properties, Inc. (SMCP)	**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) .

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.

Sanford Marketing Corporation (Sanford), a subsidiary of SM Retail
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.

SM Land
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%.

SMDC
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 14).

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. 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.

Classification of Financial Instruments Between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; 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.

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

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

- the rights to receive cash flows from the asset have expired;
- the 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.

<u>Impairment of Financial Assets</u>
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.

<u>Goodwill</u>
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.

Intangible Assets

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

Trademarks and brand names with indefinite useful lives are 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.

<u>Business Segments</u>
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.

<u>Basic/Diluted Earnings Per Common Share (EPS)</u>
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.

4. 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

March 31, 2012

	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱5,783,580	₱35,059,119	₱6,681,381	₱301,750	₱1852,789	₱–	₱49,678,619
Inter-segment	1,244,279	564,265	653,800	–	766,736	(3,229,080)	–
	₱7,027,859	₱35,623,384	₱7,335,181	₱301,750	₱2,619,525	(₱3,229,080)	₱49,678,619
Segment results:							
Income before income tax	₱3,338,904	₱1,708,983	₱1,939,918	(₱27,325)	₱601,271	₱2,186,376	₱9,748,127
Provision for income tax	(806,186)	(512,548)	(46,491)	(1,841)	(221,940)	1,053	(1,587,953)
Net income (loss)	₱2,532,718	₱1,196,435	₱1,893,427	(₱29,166)	₱379,331	₱2,187,429	₱8,160,174
Net income (loss) attributable to:							
Owners of the Parent	₱2,433,869	₱1,184,948	₱1,892,886	(₱30,687)	₱379,331	₱181,378	₱6,041,725
Non-controlling interests	98,848	11,486	543	1,521	–	2,006,051	2,118,449
Segment assets (excluding deferred tax)	₱144,320,853	₱66,063,106	₱117,223,324	₱1,112,249	₱193,955,888	(₱64,086,524)	₱458,588,896
Segment liabilities (excluding deferred tax)	₱73,443,281	₱29,526,122	₱38,869,562	₱351,652	₱114,274,003	(₱35,342,701)	₱221,121,919
Other information:							
Investments in shares of stock of associates	₱–	₱100,000	₱11,673,212	₱–	₱84,033,400	₱–	₱95,806,612
Equity in net earnings of associates	–	–	131,929	–	1,533,346	–	1,665,275
Capital expenditures	4,647,820	837,823	2,810,843	7,564	615,551	–	8,919,601
Depreciation and amortization	965,468	675,167	87,759	31,731	143,300	–	1,903,425

March 31, 2011

	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱5,021,845	₱31,645,908	₱4,102,710	₱208,476	₱1,790,306	₱–	₱42,769,245
Inter-segment	1,022,090	472,673	188,169	58	1,533,107	(3,216,097)	–
	₱6,043,935	₱32,118,581	₱4,290,879	₱208,534	₱3,323,413	(₱3,216,097)	₱42,769,245
Segment results:							
Income before income tax	₱2,849,321	₱1,377,950	₱1,237,836	(₱51,813)	₱990,180	₱1,932,210	₱8,335,684
Provision for income tax	(649,439)	(379,848)	(22,020)	(1,621)	(67,785)	1,213	(1,119,500)
Net income (loss)	₱2,199,882	₱998,102	₱1,215,816	(₱53,434)	₱922,395	₱1,933,423	₱7,216,184
Net income (loss) attributable to:							
Owners of the Parent	₱2,119,067	₱996,145	₱1,214,628	(₱54,060)	₱922,902	₱169,356	₱5,368,038
Non-controlling interests	80,815	1,957	1,188	626	(507)	1,764,067	1,848,146
Segment assets (excluding deferred tax)	₱122,256,108	₱58,709,333	₱100,292,690	₱2,837,617	₱172,051,907	(₱68,355,482)	₱387,792,173
Segment liabilities (excluding deferred tax)	₱57,214,897	₱22,926,132	₱35,284,058	₱1,929,491	₱97,437,846	(₱34,726,110)	₱180,066,314
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱5,888,442	₱–	₱64,618,067	₱–	₱70,506,509
Equity in net earnings of associates	–	–	98,196	–	1,273,106	–	1,371,302
Capital expenditures	2,964,096	934,905	3,108,174	17,519	1,181,228	–	8,205,922
Depreciation and amortization	926,243	562,176	78,679	26,238	109,940	–	1,703,276

5. Cash and Cash Equivalents

This account consists of:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Cash on hand and in banks (see Note 20)	**₱6,139,340**	₱6,384,567
Temporary investments (see Notes 16 and 20)	**31,207,055**	49,665,755
	₱37,346,395	₱56,050,322

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

6. Time Deposits and Short-Term Investments

This account consists of:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Time deposits:		
Pledged (see Notes 18 and 20)	**₱20,387,000**	₱20,824,000
Not pledged (see Note 20)	**26,633,633**	16,595,172
	47,020,633	37,419,172
Short-term investments (see Note 20)	**858,000**	876,800
	47,878,633	38,295,972
Less current portion	**860,631**	879,410
Noncurrent portion	**₱ 47,018,002**	₱37,416,562

Dollar and peso time deposits as at March 31, 2012 amounting to US$1,095.5 million (₱47,018.0 million) and ₱2.6 million, respectively, bear annual interest rates ranging from 3.1% to 6.5% in 2012. As at March 31, 2012, dollar time deposits amounting to US$378.5 million (₱16,244.4 million) are due in July 2013, US$430.0 million (₱18,455.6 million) are due in September 2014, US$45 million (₱1,931.4 million) are due in October 2017 and US$242 million (₱10,386.6 million) are due in February 2017. Peso time deposit amounting to ₱2.6 million is due in August 2012.

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. 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, with peso equivalents of ₱20,387.0 million and ₱20,824.0 million as at March 31, 2012 and December 31, 2011, respectively, were used as collateral for loans obtained by SMIC (see Note 18).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱858.0 million and ₱876.8 million as at March 31, 2012 and December 31, 2011, respectively, bear a fixed interest rate of 3.24%.

7. Investments Held for Trading and Sale

This account consists of investments in shares of stocks and redeemable preferred shares totaling ₱550.2 million as of March 31, 2012 and ₱482.2 million as at December 31, 2011, and investments in bonds and corporate notes amounting to ₱1,451.3 million as at March 31, 2012 and ₱1,457.5 million as at December 31, 2011.

The Group recognized a loss of ₱1.4 million and a gain of ₱2.3 million from fair value adjustments of investments held for trading for the quarter ended March 31, 2012 and 2011, respectively. The amounts are included under “Dividends, management fees, and others” account in the consolidated statements of income.

8. Receivables

This account consists of receivable from tenants and real estate buyers (net of noncurrent portion), due from related parties, management fees, and dividends.

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 20.

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

Allowance for impairment loss amounting to ₱11.7 million and ₱11.4 million as at March 31, 2012 and December 31, 2011, respectively, pertains to receivables from tenants which were identified through specific assessment.

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

9. **Other Current Assets**

This account consists of:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Prepaid taxes and other prepayments	**₱4,250,890**	₱3,556,428
Advances to contractors	**3,298,742**	3,098,881
Non-trade receivables	**2,391,550**	2,902,621
Receivable from banks and credit cards	**1,198,866**	2,083,278
Advances for project development (see Note 20)	**1,133,137**	1,121,565
Input tax	**1,132,676**	1,019,280
Condominium units for sale (see Note 14)	**969,938**	1,115,878
Club shares for sale	**846,307**	856,208
Accrued interest receivable	**710,812**	966,503
Supplies and uniform inventory	**548,354**	474,803
	16,481,272	17,195,445
Less allowance for impairment loss	**5,705**	5,705
	₱16,475,567	₱17,189,740

- 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 6,998 and 7,055 as at March 31, 2012 and December 31, 2011, respectively.

  Allowance for impairment loss amounting to ₱5.7 million as at March 31, 2012 and December 31, 2011, pertains to nontrade receivables which were identified through specific assessment. There was no additional impairment loss identified based on the collective assessments made in 2012 and 2011.

10. Available-for-Sale Investments

This account consists of investments in shares of stocks and corporate bonds, net of allowance for impairment losses amounting to ₱45.1 million as at March 31, 2012 and December 31, 2011.

Investments in bonds and corporate notes as at March 31, 2012 and December 31, 2011 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 April 15, 2018, respectively.

Investment in convertible bonds as at March 31, 2012 and December 31, 2011 have embedded derivatives which are further discussed in Note 25.

Gain on disposal of AFS investments recognized under "Dividends, management fees, and others" account in the consolidated statements of income amounted to ₱18.8 million and ₱0.2 million for the quarter ended March 31, 2012 and 2011, respectively. The amounts are exclusive of the share of the non-controlling interests.

11. Investments in Shares of Stock of Associates

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

	March 31, 2012	December 31, 2011
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱66,416,206**	₱54,114,191
Additions	**5,593,857**	12,590,225
Disposals	**(39,032)**	(288,210)
Balance at end of period	**71,971,031**	66,416,206
Accumulated equity in net earnings:		
Balance at beginning of year	**26,319,348**	21,113,648
Equity in net earnings	**1,665,275**	6,415,424
Share in net unrealized gain on AFS investments of associates	**264,725**	440,127
Dividends received	**(79,084)**	(1,583,351)
Accumulated equity in net earnings of investments sold	**(16,978)**	(66,500)
Balance at end of period	**28,153,286**	26,319,348
	100,124,317	92,735,554
Allowance for impairment loss:		
Balance at beginning of year	**4,317,705**	4,367,658
Recovery	**–**	(445,000)
Additions	**–**	395,047
Balance at end of period	**4,317,705**	4,317,705
	₱95,806,612	₱88,417,849

The Group recognized its share in the net gain on AFS investments of the associates amounting to ₱264.7 million and ₱440.1 million, inclusive of the share of the non-controlling interests amounting to loss of ₱5.0 million and gain of ₱15.3 million, respectively, for the first quarter ended March 31, 2012 and for the year ended December 31, 2011, respectively. The unrealized gain or loss was recognized 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 as at March 31, 2012 and December 31, 2011.

The major associates of the Group are as follows:

Company	Effective Percentage of Ownership **March 31, 2012**	 December 31, 2011	Principal Activities
BDO	**46**	46	Financial services
China Banking Corporation (China Bank)	**21**	21	Financial services
Atlas	**18**	18	Mining
Belle Corp. (Belle)	**26**	26	Real estate development and tourism
HPI	**27**	27	Real estate development and tourism
Summerhills Home Development Corporation (SHDC)	**21**	21	Real estate development and tourism
Sodexo Motivation Solutions Philippines, Inc.	**40**	40	Retail
Fast Retailing Philippines, Inc.	**25**	25	Retail

<u>Atlas</u>
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.

<u>Belle</u>
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.

<u>HPI</u>
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.

<u>SHDC</u>
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.

As at March 31, 2012 and December 31, 2011, the fair values of investments in associates which are listed in the PSE are as follows:

	March 31, 2012	December 31, 2011
	(In Thousands)	
BDO	**₱90,580,310**	**₱80,928,951**
China Bank	**12,590,714**	**10,594,301**
HPI	**2,216,444**	**1,036,979**
Belle	**24,913,485**	**24,670,664**
Atlas	**5,673,387**	**5,325,521**

12. 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, 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
Additions	–	14,921	167,235	78,452	106,744	136,015	272,872	3,180	94,059	873,478
Reclassifications	(1,348)	(41)	9,225	(2,781)	10,276	15,323	94,958	1,157	(81,847)	44,922
Disposals/retirements	–	–	(139)	(41)	–	–	–	–	–	(180)
Balance as at March 31, 2012	**₱2,972,747**	**₱4,670,452**	**₱6,897,364**	**₱4,208,191**	**₱3,574,245**	**₱2,952,784**	**₱4,124,323**	**₱584,931**	**₱977,381**	**₱30,962,418**
Accumulated Depreciation and Amortization										
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
Depreciation and amortization	–	59,807	186,988	116,673	121,228	86,540	163,685	12,943	–	747,864
Reclassifications	–	441	4,099	177	497	(298)	–	(1,048)	–	3,868
Disposals/retirements	–	–	(53)	(25)	–	–	–	–	–	(78)
Balance as at March 31, 2012	**₱–**	**₱2,568,517**	**₱4,766,185**	**₱2,856,472**	**₱1,717,291**	**₱1,721,206**	**₱1,780,396**	**₱293,431**	**₱–**	**₱15,703,498**
Net Book Value										
As at March 31, 2012	**₱2,972,747**	**₱2,101,935**	**₱2,131,179**	**₱1,351,719**	**₱1,856,954**	**₱1,231,578**	**₱2,343,927**	**₱291,500**	**₱977,382**	**₱15,258,920**
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

13. 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, 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
Additions	2,345,974	1,004,470	77,884	1,998,254	5,426,582
Reclassifications	49,083	1,398,289	44,236	(560,513)	931,095
Translation adjustment	(55,838)	(213,405)	(24,994)	(77,042)	(371,279)
Balance as at March 31, 2012	**₱32,909,345**	**₱96,860,600**	**₱17,618,292**	**₱22,028,955**	**₱169,417,192**
Accumulated Depreciation, Amortization and Impairment Loss					
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
Translation adjustment	–	–	–	123,564	123,564
Balance as at December 31, 2011	1,177,437	21,530,088	9,323,793	123,564	32,154,882
Depreciation and amortization	18,818	800,591	336,154	–	1,155,563
Reclassifications	–	(12,984)	(312)	–	(13,296)
Translation adjustment	(3,573)	(26,630)	(10,874)	–	(41,077)
Balance as at March 31, 2012	**₱1,192,682**	**₱22,291,065**	**₱9,648,761**	**₱123,564**	**₱33,256,072**
Net Book Value					
As at March 31, 2012	**₱31,716,663**	**₱74,569,535**	**₱7,969,532**	**₱21,905,390**	**₱136,161,120**
As at December 31, 2011	29,392,689	73,141,158	8,197,373	20,544,691	131,275,911

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 of real estate properties with a carrying value of ₱465.0 million and ₱474.0 million as at March 31, 2012 and December 31, 2011, 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 ₱635.0 million and ₱638.0 million as at March 31, 2012 and December 31, 2011, 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 18).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱5,417.7 million and ₱4,868.9 million for the quarter ended March 31, 2012 and 2011, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱3,241.7 million and ₱2,799.1 million for the quarter ended March 31, 2012 and 2011, respectively.

Construction in progress account includes shopping mall complex under construction of SM Prime. In 2012, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin. In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Taguig, SM Masinag, SM Suzhou and SM Chongqing.

Shopping mall complex under construction includes cost of land amounting to ₱1,729.0 million and ₱1,575.0 million as at March 31, 2012 and December 31, 2011, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱42,483.0 million and ₱39,240.0 million as at March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011 are valued at ₱23,770.0 million and ₱10,268.0 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱44.0 million and ₱30.0 million for the quarters ended March 31, 2012 and 2011, respectively. Capitalization rates used were 5.72% and 5.59% in 2012 and 2011, respectively.

14. Land and Development and Condominium Units for Sale

Land and development, which amounted to ₱22,875.9 million and ₱23,012.5 million as at March 31, 2012 and December 31, 2011, respectively, include land and cost of the condominium projects.

Condominium units for sale amounting to ₱969.9 million and ₱1,115.9 million as at March 31, 2012 and December 31, 2011, 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 9).

The condominium units for sale and land and development are stated at cost as at March 31, 2012 and December 31, 2011.

Borrowing costs capitalized by the Group to land and development account amounted to ₱46.9 million and ₱411.7 million in 2012 and 2011, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 4.0% to 8.3% in 2012 and 3.7% to 7.5% in 2011. Interest expense charged to operations amounted to ₱240.5 million in 2012 and ₱488.3 million in 2011.

15. **Intangibles and Other Noncurrent Assets**

Intangibles
This account consists of:

	March 31, 2012	December 31, 2011
	(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

Other Noncurrent Assets
This account consists of:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Receivable from a related party and escrow fund (see Note 20)	**₱9,067,779**	₱8,195,691
Receivables from real estate buyers (see Note 8)	**10,042,695**	8,739,412
Deposits and advance rentals	**4,358,366**	5,030,882
Derivative assets (see Notes 24 and 25)	**104,720**	159,461
Long-term notes (see Note 20)	**506,724**	506,724
Defined benefit asset	**372,197**	394,713
Treasury bonds	**200,000**	200,000
Others	**776,867**	857,532
	₱25,429,348	₱24,084,415

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% as at December 31, 2011. 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 2014 (see Note 20).

Escrow fund amounting to ₱3,067.8 million and ₱2,193.2 million as at March 31, 2012 and December 31, 2011, 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 7.5% to 8.5% as at March 31, 2012 and December 31, 2011. 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.

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

16. **Bank Loans**

This account consists of:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱3,776,960**	**₱3,857,920**
Peso-denominated loans	**3,000,000**	**15,500,000**
Subsidiaries -		
Peso-denominated loans	**5,990,000**	**6,390,000**
	₱12,766,960	**₱25,747,920**

The U.S. dollar-denominated loans amounting to US$88 million (₱3,777.0 million) and US$88.0 million (₱3,857.9 million) as at March 31, 2012 and December 31, 2011, 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% in 2012 and 2011, respectively. These loans have maturities of less than one year (see Note 20).

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.

17. Accounts Payable and Other Current Liabilities

This account consists of:

	2012	2011
	(In Thousands)	
Trade	**₱19,950,531**	₱28,027,967
Payable arising from acquisition of land	**3,857,593**	3,116,058
Nontrade	**3,017,525**	2,078,768
Due to related parties (see Note 20)	**2,395,795**	2,734,415
Accrued expenses (see Note 20)	**2,357,802**	2,748,247
Accrued interest (see Note 20)	**1,823,890**	1,702,660
Gift checks redeemable and others	**1,222,086**	1,690,035
Payable to government agencies	**859,881**	1,426,230
Derivative liabilities (see Note 25)	**–**	124,222
Subscriptions payable	**–**	1,101,205
	₱35,485,103	₱44,749,807

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 20.
- 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 amounting to ₱1,101.2 million as at December 31, 2011 was paid in January 2012.

18. Long-term Debt

This account consists of:

	March 31, 2012			December 31, 2011		
	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	**₱43,092,646**	**(₱324,296)**	**₱42,768,350**	₱43,990,263	(₱357,171)	₱43,633,092
Convertible bonds	**10,730,000**	**(211,994)**	**10,518,006**	979,645	(8,256)	971,389
Peso-denominated:						
Seven-year and ten-year corporate notes	**5,000,000**	**(41,389)**	**4,958,611**	5,000,000	(42,578)	4,957,422
Five-year fixed rate notes	**6,699,000**	**(46,997)**	**6,652,003**	6,700,000	(49,708)	6,650,292
Five-year and seven-year retail bonds	**9,400,000**	**(37,838)**	**9,362,162**	9,400,000	(47,422)	9,352,578
Bank loans collateralized with time deposits	**8,950,000**	**(12,661)**	**8,937,339**	8,950,000	(15,070)	8,934,930
Preferred shares	**200,000**	**(77)**	**199,923**	200,000	(131)	199,869
Other bank loans	**9,548,500**	**(16,854)**	**9,531,646**	9,548,500	(17,921)	9,530,579
Subsidiaries						
U.S. dollar-denominated:						
Five-year term loans	**11,588,400**	**(241,359)**	**11,347,041**	6,356,800	(255,267)	6,101,533
Two-year, three-year and five-year bilateral loans	**1,073,000**	**(9,304)**	**1,063,696**	1,096,000	(11,071)	1,084,929
Other bank loans	**2,146,000**	**(21,319)**	**2,124,681**	3,068,800	(38,021)	3,030,779
China yuan-renminbi denominated:						
Three-year loan	**1,276,786**	**–**	**1,276,786**	1,299,441	–	1,299,441
Five-year loan	**2,452,287**	**–**	**2,452,287**	2,599,819	–	2,599,819
Eight-year loan	**272,552**	**–**	**272,552**	277,388	–	277,388
Peso-denominated:						
Three-year and five-year fixed rate notes	**10,000,000**	**(50,840)**	**9,949,160**	10,000,000	(55,774)	9,944,226
Five-year, seven-year and ten-year corporate notes	**6,930,000**	**(43,485)**	**6,886,515**	6,930,000	(45,829)	6,884,171
Five-year, seven-year and ten-year fixed and floating rate notes	**5,000,000**	**(36,527)**	**49,963,473**	–	–	–
Five-year and ten-year corporate notes	**4,289,350**	**(25,378)**	**4,263,972**	4,289,350	(24,457)	4,264,893
Five-year floating rate notes	**4,950,000**	**(35,519)**	**4,914,481**	5,000,000	(37,587)	4,962,413
Five-year, seven-year and ten-year fixed rate notes	**1,997,030**	**(10,833)**	**1,986,197**	1,997,030	(11,355)	1,985,675
Five-year bilateral loans	**531,250**	**(2,423)**	**528,827**	546,875	(2,584)	544,291
Other bank loans	**9,201,300**	**(26,349)**	**9,174,951**	9,203,500	(28,229)	9,175,271
	155,328,101	**(1,195,442)**	**154,132,659**	137,433,411	(1,048,431)	136,384,980
Less current portion	**7,012,287**	**4,231**	**7,008,056**	7,935,231	14,270	7,920,961
Noncurrent portion	**₱148,315,814**	**(₱1,191,211)**	**₱147,124,603**	₱129,498,180	(₱1,034,161)	₱128,464,019

Parent Company

Fixed Rate Bonds

On October 13, 2010, SMIC issued US$400 million bonds (₱16,277.1 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 (₱7,691.3 million) additional bonds, and US$82.9 million (₱3,312.8 million) and US$130.8 million (₱5,273.0 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 ₱16,273.4 million and ₱16,622.2 million as at March 31, 2012 and December 31, 2011, respectively, 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 ₱10,542.1 million and ₱10,768.1 million as at March 31, 2012 and December 31, 2011, 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 ₱979.6 million as at March 31, 2012 and December 31, 2011, 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 25.

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 2012 and 2011, the bondholders of US$16.0 million (₱813.6 million) and US$1.7 million (₱82.5 million) bonds, respectively, opted to convert their holdings into 1,710,588 and 181,364 of SMIC's shares (see Note 19). The conversion resulted to a gain of ₱219.3 million and ₱11.3 million in 2012 and 2011, respectively, shown under "Dividends, management fees, and others" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon conversion amounted to US$4.2 million (₱181.50 million) and US$0.3 million (₱11.0 million) in 2012 and 2011, respectively (see Notes 17 and 25).

The remaining value of convertible bond amounting to $4.7 million (₱201.4 million) matured on March 19, 2012, resulted to a gain of ₱28.8 million, shown under "Dividend, management fees, and others" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon maturity amounted to US$.7 million (₱28.8 million) (see Notes 17 and 25).

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 to US$35.2 million (₱1,609.7 million) (see Note 25).

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.

On February 15, 2012, SMIC issued at face value 1.625% coupon US$250.0 million (₱10,730.0 million) Convertible Bonds (the Bonds), with a yield to maturity of 2.875% due on February 15, 2017 at 106.67%. Interest on the Bonds is payable semi-annually in arrear every February 15 and August 15 each year.

Each bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on and after June 15, 2012 (or such earlier date on which approval in principle to list the shares on the PSE is obtained) up to the close of business on February 5, 2017 into fully paid common shares with a par value of ₱10 each at an initial conversion price of ₱781.446 per share translated into U.S. dollars at a fixed conversion rate of ₱42.711 to US$1.00.

All or some of the Bonds may be redeemed at the option of the relevant holder on February 15, 2015 at their early redemption amount, together with the accrued but unpaid interest. On or any time after February 15, 2015 and prior to the maturity date, SMIC may redeem the Bonds in whole but not in part at their early redemption amount, together with the accrued but unpaid interest, provided, however, that no such redemption may be made unless the closing price of the shares for each of the 30 consecutive trading days the last of which occurs not more than five days prior to the date upon which notice is given, was at least 130% of the applicable early redemption amount divided by the conversion ratio. SMIC may also redeem the Bonds in whole but not in part at their early redemption amount, together with the accrued but unpaid interest, if at any time the aggregate principal amount is less than 10% of the aggregate principal amount originally issued.

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 (12^{th}) month from the issue date, with the last installment payment to be made on maturity date.

Five-year Fixed Rate Notes
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.

Five-year and Seven-year Retail Bonds
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 25, 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.

Bank Loans Collateralized with Time Deposits
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 with peso equivalents of ₱20,387.0 million and ₱20,824.0 million as at March 31, 2012 and December 31, 2011, respectively (see Note 6).

Preferred Shares
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 6, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million.

Other Peso Bank Loans
This account includes the following:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Ten-year term loans	**₱2,050,000**	₱2,050,000
Seven-year term loans	**4,498,500**	4,498,500
Five-year term loans	**3,000,000**	3,000,000
	₱9,548,500	₱9,548,500

- 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 March 31, 2012 and December 31, 2011 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 March 31, 2012 and December 31, 2011.

- 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 March 31, 2012 and December 31, 2011 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 March 31, 2012 and December 31, 2011 amounted to ₱3,000.0 million.

- 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 March 31, 2012 and December 31, 2011 amounted to ₱3,000.0 million.

Subsidiaries

U.S. Dollar-denominated Five-year Term Loans
This represents a US$270 million unsecured loans obtained in 2012 and 2011 by SM Prime. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016.

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.

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 and the related unamortized debt issuance costs charged to expense amounted to ₱25.0 million.

US Dollar-denominated Five-year Bilateral Loans
The US$20.0 million (₱858.4 million) and US$30.0 million (₱1,287.6 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.

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 2012 and 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 2012 and 2011 (see Note 25).

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 million (₱408.8 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 6.21% in 2012 and 2011 (see Note 25).

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% in 2012 and 2011 (see Note 25).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 13).

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 25).

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 25).

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 25).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed and Floating Rate Notes
This represents a five-year floating, five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on January 12, 2012 amounting to ₱200.0 million, ₱1,012.0 million, ₱133.0 million, and ₱3,655.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.86%, 5.97% and 6.10% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2017, 2020 and 2022, respectively (see Note 24).

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 25).

Philippine Peso-denominated Five-year Bilateral Loan
This consists of the following:

- 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 25).

- 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 25).

Other Bank Loans - Subsidiaries
This account includes the following:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Ten-year term loan	**₱1,200,000**	₱1,200,000
Five-year term loans	**8,001,300**	8,003,500
	₱9,201,300	₱9,203,500

- 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 25).

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

Year Obtained	Maturity	Subsidiary	**March 31, 2012**	December 31, 2011	Interest Rate (see Note 25)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱2,000.0	PDST-F plus an agreed margin
		SM Prime	**990.0**	990.0	Agreed fixed rate less PDST-F
		SM Land	**224.0**	225.0	Fixed rate of 8.0% to 8.15%
		Costa	**118.8**	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**	1,393.5	Fixed rate of 7.87% to 8.25%
		SM Land	**200.0**	200.0	PDST-F plus an agreed margin
			₱8,001.3	₱8,003.5	

SM Prime prepaid on March 3, 2011 a five year bullet loan amounting to ₱1,000.0 million which will mature on March 3, 2013. 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 Reference Rate (PHIREF) 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 25).

- 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.

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2012	₱7,012,287	(₱4,231)	₱7,008,056
2013	14,100,124	(105,184)	13,994,940
2014	41,188,338	(222,271)	40,966,067
2015	25,633,120	(92,421)	25,540,699
2016	25,848,060	(308,696)	25,539,364
2017	28,271,017	(379,948)	27,891,069
2018	3,810,603	(16,219)	3,794,384
2019	1,273,789	(6,857)	1,266,932
2020	780,919	(1,434)	779,485
2021	4,083,794	(33,883)	4,049,911
2022	3,326,050	(24,298)	3,301,752
	₱155,328,101	(₱1,195,442)	₱154,132,659

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 March 31, 2012 and December 31, 2011, the Group is in compliance with the terms of its loan covenants.

19. **Equity**

Capital Stock
As at March 31, 2012 and December 31, 2011, 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 liability (see Note 18). SMIC's issued and subscribed common shares are 613,874,621 and 612,164,033 as at March 31, 2012 and December 31, 2011, respectively.

At various dates in 2012 and 2011, 1,710,588 common shares and 181,364 common shares, respectively, were issued as a result of conversion of SMIC's convertible bonds (see Note 18). The excess of conversion price over par value totaling ₱758.4 million and ₱80.4 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 1,290 and 1,304 as at March 31, 2012 and December 31, 2011, respectively.

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

	March 31, 2012	December 31, 2011
	(In Thousands)	
Balance at beginning of year	**₱35,536,615**	₱35,456,200
Adjustments from additional issuance of shares	**758,458**	80,415
Balance at end of year	**₱36,295,073**	₱35,536,615

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 March 31, 2012 and December 31, 2011 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

Retained Earnings
On April 26, 2012, the BOD approved the declaration of cash dividends of 104.0% of the par value or ₱10.4 per share for a total amount of ₱6,366.5 million in favor of stockholders on record as at May 26, 2012. This will be paid on June 21, 2012.

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.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱80,316.0 million and ₱75,086.8 million as at March 31, 2012 and December 31, 2011, 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.

20. **Related Party Transactions**

Terms and Conditions of Transactions with Related Parties
For the periods ended March 31, 2012 and December 31, 2011, 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 ₱730.3 million and ₱831.4 million for the quarters ended March 31, 2012 and 2011, 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 ₱221.4 million, ₱189.4 million for the quarters ended March 31, 2012 and 2011, 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 ₱145.0 million and ₱209.4 million for the quarters ended March 31, 2012 and 2011, respectively, included as part of "Dividends, management fees and others" account in the consolidated statements of income.

Service Fees

The Group provides manpower and other services to affiliates. Service fees earned amounted to ₱69.6 million and ₱5.5 million in 2012 and 2011, respectively, included as part of "Dividends, management fees and others" 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 ₱280.0 million and ₱222.1 million for the quarters ended March 31, 2012 and 2011, 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 5, 6 and 15).

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 16 and 18).

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 March 31, 2012 and 2011 and December 31, 2011:

Relationship	Nature of Transactions/ Outstanding Accounts	**March 31, 2012**	March 31, 2011
		(In Thousands)	
Bank Associates	Interest income	**₱912,606**	₱697,057
	Interest expense	**326,032**	116,017
	Rent income	**6,528**	11,430
	Service income	**90**	90
Retail affiliates and others	Rent income	**723,808**	803,267
	Management fee expense	**221,418**	189,412
	Management fee income	**144,959**	209,459
	Dividend income	**280,000**	222,089
	Service income	**69,559**	5,369

Relationship	Nature of Transactions/ Outstanding Accounts	**March 31, 2012**	December 31, 2011
		(In Thousands)	
Bank Associates	Cash and cash equivalents (see Note 5)	**₱32,120,690**	₱50,226,026
	Time deposits and short-term investments (see Note 6)	**47,876,002**	38,293,363
	Investments held for trading (see Note 7)	**159,717**	161,114
	AFS investments (see Notes 7 and 10)	**1,159,077**	1,162,545
	Advances and other receivables (see Note 9)	**585,000**	841,418
	Long-term notes (see Note 15)	**506,724**	506,724
	Payables -		
	Accrued interest (see Note 17)	**104,494**	190,583
	Bank loans (see Note 16)	**9,520,960**	21,055,920
	Current portion of long-term debt (see Note 18)	**5,951,198**	5,949,514
	Long-term debt - net of current portion	**9,685,501**	9,684,492
Retail affiliates and others	Receivables:		
	Receivable from a related party and advances for project development (see Notes 9 and 15)	**7,121,565**	7,121,565
	Due from related parties (see Note 8)	**2,918,438**	2,684,558
	Related party tenants (see Note 8)	**1,169,330**	1,267,728
	Management fees (see Note 8)	**109,748**	95,892
	AFS investments (see Notes 7 and 10)	**52,650**	52,650
	Payables:		
	Due to related parties (see Note 17)	**2,395,795**	2,734,415
	Accrued expenses (see Note 17)	**87,259**	74,848

21. **Cost of Sales**

This account consists of:

	March 31, 2012	March 31, 2011
	(In Thousands)	
Merchandise inventories at beginning of year	**₱13,436,456**	₱10,485,903
Purchases	**25,993,026**	23,522,010
Total goods available for sale	**39,429,482**	34,007,913
Less: Merchandise inventories at end of period	**13,820,682**	10,503,197
	₱25,608,800	₱23,504,716

22. **Income tax**

The deferred tax assets of ₱693.3 million as at March 31, 2012 and ₱694.6 million as at December 31, 2011 represent the tax effects of defined benefit liability, mark-to-market loss on investments, unrealized foreign exchange losses, unamortized past service cost, NOLCO, accrued retirement benefits, deferred income on sale of real estate and MCIT.

The deferred tax liabilities of ₱4,653.2 million as at March 31, 2012 and ₱4,508.0 million as at December 31, 2011 consist of of the tax effects of trademarks and brand names, capitalized interest, unamortized past service cost and defined benefit asset, unrealized gross profit on sale of real estate, unrealized mark-to-market gain on investments and unrealized foreign exchange gain.

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

The Group's consolidated deferred tax assets as of March 31, 2012 and December 31, 2011 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

23. **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 ₱8,267.3 million and ₱7,992.4 million as at March 31, 2012 and December 31, 2011, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as at March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Within one year	**₱716,471**	₱661,086
After one year but not more than five years	**1,956,838**	1,752,399
After five years	**1,009,474**	202,718
Balance at end of year	**₱3,682,783**	₱2,616,203

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 March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012	December 31, 2011
	(In Thousands)	
Within one year	**₱509,553**	₱528,634
After one year but not more than five years	**2,298,903**	2,261,560
After five years	**12,412,271**	12,562,693
Balance at end of year	**₱15,220,727**	₱15,352,887

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.

24. 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 3.

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 March 31, 2012 and December 31, 2011:

	March 31, 2012							
	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	$–	$–	$–	$–	$379,243	₱16,277,132	(₱151,636)	₱16,125,496
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	379,156	–	–	16,273,375	(131,436)	16,141,939
Interest rate	–	–	6.00%	–	–			
US$350 million fixed rate bonds	–	245,623	–	–	–	10,542,139	(41,224)	10,500,915
Interest rate	–	6.75%	–	–	–			
US$250 million convertible bonds	–	–	–	250,000	–	10,730,000	(211,993)	10,518,007
Interest rate	–	–	–	1.63%	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱48,990	₱2,049,980	₱1,242,060	₱9,057,400	₱4,398,600	16,797,030	(96,739)	16,700,291
Interest rate	5.86%-9.60%	5.86%-6.76%	5.86%-9.60%	5.86%-9.60%	5.86%-9.85%			
Five-year and seven-year retail bonds	–	–	8,400,000	1,000,000	–	9,400,000	(38,838)	9,361,162
Interest rate	–	–	8.25%	9.10%	–			
Five-year fixed rate notes	–	1,000	1,000	6,697,000	–	6,699,000	(46,997)	6,652,003
Interest rate	–	6.16%	6.16%	6.16%	–			
Five-year and ten-year corporate notes	5,550	5,550	2,978,850	–	1,100,000	4,089,950	(24,682)	4,065,268
Interest rate	8.4%	8.4%	8.4%	–	10.11%			
Seven-year and ten-year corporate notes	5,000	5,000	5,000	10,000	4,975,000	5,000,000	(41,389)	4,958,611
Interest rate	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	20,000	1,105,960	814,040	1,980,000	(15,404)	1,964,596
Interest rate	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%			
Other bank loans	500	500	2,394,000	3,039,800	2,050,000	7,484,800	(18,691)	7,466,109
Interest rate	8.57%	8.57%	6.91%-8.57%	8.57%	8.71%			
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$270,000	$–	11,588,400	(241,359)	11,347,041
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi loans	¥93,738	¥–	¥57,476	¥436,068	¥–	4,001,625	–	4,001,625
Interest rate	6.21%-6.65%	6.21%-6.65%	5.32%-6.65%	5.32%-6.65%	–			
US$ bilateral loans	$–	$–	$25,000	$–	$–	1,073,000	(9,304)	1,063,696
Interest rate	–	–	LIBOR+margin %	–	–			

(Forward)

	March 31, 2012							
	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	$–	$–	$–	$50,000	$–	₱2,146,000	(₱21,319)	₱2,124,681
Interest rate	–	–	–	LIBOR+margin %	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱5,950,000	₱–	₱3,000,000	₱	₱–	8,950,000	(12,661)	8,937,339
Interest rate	PDST-F+margin%	–	PDST-F+margin%	–	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	–	–	4,950,000	(28,081)	4,921,919
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Five-year floating rate loan	52,000		52,000	5,046,000	–	5,150,000	(36,980)	5,113,020
Interest rate	PDST-F+margin%		PDST-F+margin%	PDST-F+margin%	–			
Redeemable preferred shares - Series 2	200,000	–	–	–	–	200,000	(77)	199,923
Interest rate	PDST-F+margin%	–	–	–	–			
Corporate notes	300	300	198,800	–	–	199,400	(696)	198,704
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Five-year bilateral loans	31,250	–	–	500,000	–	531,250	(2,423)	528,827
Interest rate	PDST-F+margin%	–	–	PDST-F+margin%	–			
Other bank loans	10,000	10,000	8,210,000	3,035,000	–	11,265,000	(24,513)	11,240,487
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–			
						₱155,328,101	(₱1,195,442)	₱154,132,659

	December 31, 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%	–			

(Forward)

	December 31, 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 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%	–	–	–	–			
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

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 March 31, 2012 and December 31, 2011, after taking into account the effect of interest rate swaps, approximately 56% of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

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 Group's foreign currency-denominated monetary assets and liabilities amounted to ₱68,337.2 million (US$1,592.2 million) and ₱72,521.9 million (US$1,689.7 million), respectively, as at March 31, 2012 and ₱54,978.9 million (US$1,254.1 million) and ₱59,880.2 (US$1,365.9 million), respectively, as at December 31, 2011.

As at March 31, 2012 and December 31, 2011, approximately 43.1% and 36.4%, 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.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rate used were ₱42.92 to US$1.00 and ₱43.84 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of March 31, 2012 and December 31, 2011, respectively.

Liquidity Risk

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 ₱37,346.4 million, ₱860.6 million, ₱451.3 million and ₱1,000.0 million, respectively, as at March 31, 2012 and ₱56,050.3 million, ₱879.4 million, ₱457.5 million and ₱1,000.0 million, respectively, as at December 31, 2011 (see Notes 5, 6 and 7). 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 March 31, 2012 and December 31, 2011 based on the contractual undiscounted payments:

	March 31, 2012				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱12,797,900**	**₱–**	**₱–**	**₱12,797,900**
Accounts payable and other current liabilities*	**–**	**34,625,222**	**–**	**–**	**34,625,222**
Long-term debt (including current portion)	**–**	**9,475,694**	**135,650,299**	**39,824,182**	**184,950,175**
Derivative liabilities:**					
Interest rate swaps	**–**	**–**	**268,633**	**–**	**268,633**
Dividends payable	**–**	**25,393**	**–**	**–**	**25,393**
Tenants' deposits	**–**	**375,991**	**16,098,423**	**–**	**16,474,414**
	₱–	**₱57,300,200**	**₱152,017,355**	**₱36,824,182**	**₱249,141,737**

	December 31, 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

* *Excluding payable to government agencies of ₱859.9 million and ₱1,462.2 million as at March 31, 2012 and December 31, 2011, respectively, the amounts of which are not considered as financial liabilities.*
***Based on estimated future cash flows.*

<u>Credit Risk</u>
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 March 31, 2012 and December 31, 2011, 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.

Credit Quality of Financial Assets

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 March 31, 2012 and December 31, 2011, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

		March 31, 2012	
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱36,452,175**	**₱–**	**₱36,452,175**
Time deposits and short-term investments (including noncurrent portion)	**47,878,632**	**–**	**47,878,632**
Investments held for trading - Bonds	**451,295**	**–**	**451,295**
AFS investments	**15,989,664**	**4,743**	**15,994,407**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**21,769,438**	**3,799,106**	**25,568,544**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**7,594,265**	**–**	**7,594,265**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**6,000,000**	**–**	**6,000,000**

(Forward)

	March 31, 2012		
	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	**104,720**	**–**	**104,720**
	₱136,946,913	**₱3,803,849**	**₱140,750,762**

	December 31, 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
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

Equity Price Risk

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

The Group's exposure to equity price pertains to its investments in quoted equity shares which are 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. The Group has no equity risk exposure on stocks that are not traded.

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.

Capital Management
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 31:69 and 28:72 as at March 31, 2012 and December 31, 2011, respectively, while the ratio of interest-bearing debt to total capital plus interest-bearing debt were 50:50 and 51:49 as at March 31, 2012 and December 31, 2011, respectively.

As at March 31, 2012 and December 31, 2011, 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

	March 31, 2012	December 31, 2011
	(In Thousands)	
Bank loans	**₱12,766,960**	₱25,747,920
Current portion of long-term debt	**7,008,056**	7,920,961
Long-term debt - net of current portion and pledged time deposits	**147,124,603**	107,640,019
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	**(91,833,822)**	(81,327,623)
Total net interest-bearing debt (a)	**75,065,797**	59,981,277
Total equity attributable to owners of the Parent	**166,195,300**	157,666,331
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱241,261,097**	₱217,647,608
Gearing ratio (a/b)	**31%**	28%

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

	March 31, 2012	December 31, 2011
	(In Thousands)	
Bank loans	**₱12,766,960**	₱25,747,920
Current portion of long-term debt	**7,008,056**	7,920,961
Long-term debt - net of current portion and pledged time deposits	**147,124,603**	107,640,019
Total interest-bearing debt (a)	**166,899,619**	141,308,900
Total equity attributable to owners of the Parent	**166,195,300**	157,666,331
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱333,094,919**	₱298,975,231
Gearing ratio (a/b)	**50%**	47%

25. 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 March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading - Bonds	**₱451,295**	**₱451,295**	₱457,496	₱457,496
Derivative assets	**104,720**	**104,720**	159,461	159,461
	556,015	**556,015**	616,957	616,957
Loans and receivables:				
Cash and cash equivalents	**37,346,395**	**37,346,395**	56,050,322	56,050,322
Time deposits and short-term investments (including noncurrent portion)	**47,878,633**	**52,321,592**	38,295,972	42,325,254
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**25,778,545**	**25,778,546**	20,504,264	19,517,334
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheets)	**7,594,265**	**7,594,265**	8,816,370	8,816,370
Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheets)	**6,000,000**	**6,281,893**	6,000,000	6,292,484
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheets)	**506,724**	**520,237**	506,724	523,977
	125,104,562	**129,842,928**	130,173,652	133,525,741
Held-to-Maturity -				
Treasury bonds (included under “Other current assets and other noncurrent assets” account in the consolidated balance sheets)	**200,000**	**215,250**	200,000	200,750

(Forward)

	March 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS Investments:				
Shares of stock	**₱9,155,501**	**₱9,155,501**	₱7,088,955	₱7,088,955
Bonds and corporate notes	**6,833,596**	**6,833,596**	6,841,109	6,841,109
Club shares	**5,310**	**5,310**	5,330	5,330
	15,994,407	**15,994,407**	13,935,394	13,935,394
	₱141,854,984	**₱146,608,600**	₱144,926,003	₱148,278,842

Financial Liabilities				
Financial Liabilities at FVPL - Derivative liabilities	**₱–**	**₱–**	₱237,980	₱237,980
Other Financial Liabilities:				
Bank loans	**12,766,960**	**12,766,960**	25,747,920	25,747,920
Accounts payable and other current liabilities*	**34,625,222**	**34,625,222**	43,323,577	43,323,577
Long-term debt (including current portion and net of unamortized debt issue cost)	**154,132,659**	**168,926,413**	136,384,980	150,553,342
Dividends payable	**25,393**	**25,393**	25,696	25,696
Tenants' deposits and others	**16,369,243**	**16,412,110**	13,713,302	13,718,285
	217,919,477	**232,756,098**	219,195,475	233,368,820
	₱217,919,477	**₱232,756,098**	₱219,433,455	₱233,606,800

* *Excluding payable to government agencies of ₱859.9 million and ₱1,426.2 million as at March 31, 2012 and December 31, 2011 , respectively, the amounts of which are not considered financial liabilities.*

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 March 31, 2012 and December 31, 2011:

	March 31, 2012		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	**₱451,295**	**₱–**	**₱–**
Derivative assets	**–**	**104,720**	**–**
	451,295	**104,720**	**–**
AFS investments:			
Shares of stocks	**9,098,258**	**–**	**–**
Bonds and corporate notes	**6,833,596**	**–**	**–**
Club shares	**5,310**	**–**	**–**
	15,937,164	**–**	**–**
	₱16,388,459	**₱104,720**	**₱–**
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱268,633**	**₱–**

	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**	**₱–**

During the quarter ended March 31, 2012 and the year ended December 31, 2011, 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.

Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates primarily to long-term floating rate debt obligations and manage its foreign exchange risks, the Group entered into various derivative transactions such as cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

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

	March 31, 2012		
	<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%**	
Fixed-Floating			
Outstanding notional amount	**₱980,000**	**₱970,000**	**₱960,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating 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%**

	December 31, 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%

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 March 31, 2012 and December 31, 2011, 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.

The Bonds matured on March 19, 2012, therefore as at March 31, 2012 and December 31, 2011, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to nil and ₱80.4 million, respectively. Net fair value changes recognized by the Group for the quarters ended March 31, 2012 and 2011 amounted to negative ₱131.5 million and ₱3.1 million, respectively, which are reflected under "Dividends, management fees, and others" account in the consolidated statements of income.

Interest Rate Swaps. In 2011, SM Prime entered into US$ interest rate swap agreements with aggregate 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 18). As at March 31, 2012 and December 31, 2011, the floating to fixed interest rate swaps have aggregate negative fair value of ₱163.0 million and ₱142.0 million, respectively.

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 18). As at March 31, 2012 and December 31, 2011, the floating to fixed interest rate swaps have aggregate negative fair value of ₱18.0 million and ₱15.0 million, respectively.

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, 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, 2015 (see Note 18). As at March 31, 2012 and December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱45.0 million and ₱38.0 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 18). As at March 31, 2012 and December 31, 2011, these swaps have positive fair values of ₱105.0 million and ₱116.6 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 18). 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 18). As at December 31, 2011, the floating to fixed interest rate swap has a negative fair value of ₱3.2 million. On January 13, 2012, the interest rate swap was predetermined as a result of prepayment of the underlying loan. Fair value changes from the predetermined swap recognized on the consolidated statements of income amounted to ₱1.0 million loss in 2012.

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 18). 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 ₱9.0 million loss in 2011 and ₱6.0 million gain in 2010. As at March 31, 2012 and December 31, 2011, the outstanding floating to fixed interest rate swaps have negative fair values of ₱43.0 million and ₱39.8 million, respectively.

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 18). On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan.

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 18). 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.

26. EPS Computation

	March 31, 2012	March 31, 2011
	(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)	**₱6,041,725**	₱5,368,038
Weighted Average Number of Common Shares Outstanding		
Weighted average number of common shares outstanding for the period (b)	**613,209**	611,983
Basic EPS (a/b)	**₱9.85**	₱8.77

27. 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.

28. 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.

PART 1 FINANCIAL INFORMATION

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

Consolidated Results of Operations

For the Three Months Ended March 31, 2012 and 2011
(Amounts in Billions Pesos)

	Three Months Ended		
Accounts	**03 / 31 / 2012**	**03 / 31 / 2011**	**% Change**
Revenue	**P 49.7**	**P 42.7**	**16.2%**
Cost and Expenses	39.1	33.4	17.0%
Income from Operations	**P 10.6**	**P 9.3**	**13.1%**
Other Income (Charges)	(0.9)	(1.0)	(17.8%)
Provision for Income Tax	1.6	1.1	41.8%
Non-controlling Interest	2.1	1.8	14.6%
Net Income Attributable to Equity Holders of the Parent	**P 6.0**	**P 5.4**	**12.6%**

For the first quarter ended March 31, 2012, SM Investments Corporation (SMIC) posted a consolidated net income of P6.0 billion, a growth of 12.6% over P5.4 billion in the same period in 2011. Consolidated revenues grew by 16.2% to P49.7 billion, as against last year's P42.7 billion.

Income from operations increased by 13.1% to P10.6 billion compared to P9.3 billion of the same period last year. Operating income margin and Net profit margin is at 21.4% and 12.2%, respectively.

The total merchandise sales of SM Department Stores, SM Supermarkets, SaveMore, and SM Hypermarkets (Retail Group) grew by 12.2% in 2012 mainly due to the opening of the following new stores from April 01, 2011 to March 31, 2012:

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
1	SM City Masinag	SM City Masinag	Mandaue, Cebu*
2	SM City Olongapo	Mega Mall A	JMall, Mandaue, Cebu
3	-	Olongapo	Imus*
4		SaveMore Bayambang	Sucat-Lopez
5	-	SaveMore Malhacan	Marketmall
6	-	SaveMore Kauswagan*	Alabang Zapote Road*
7	-	SaveMore Araneta	East Service Road*
8		SaveMore Sta. Ana	-
9		SaveMore Apalit	-
10		SaveMore Sta. Maria	-
11		SaveMore Binan	-
12		SaveMore Tuguegarao	-

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
13	-	SaveMore Halang	-
14	-	SaveMore Shoe Ave.	-
15	-	SaveMore Balibago	-
16	-	SaveMore Canduman	-
17	-	SaveMore Maguikay	-
18	-	SaveMore Pedro Gil	-
19	-	SaveMore Iba Zambales	-
20	-	SaveMore Kanlaon	-
21	-	SaveMore Iligan	-
22	-	SaveMore A. Avenue	-
23	-	SaveMore Laoag	-
24	-	SaveMore Salitran	-
25	-	SaveMore Blumentritt	-
26	-	SaveMore LGZ Silver Screen	-
27	-	SaveMore Basak	-
28	-	SaveMore Nova Plaza	-
29	-	SaveMore Bangkal	-
30	-	SaveMore Sorsogon	-

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

Of the P34.4 billion and P31.0 billion merchandise sales for the quarter ended March 2012 and 2011, respectively, the non-food group (SM Department Stores) and food group (SM Supermarkets and Savemore and SM Hypermarkets including Makro in 2011) contributed 41.1% and 58.9%, respectively in 2012 and 39.3% and 60.7%, respectively in 2011.

As of March 31, 2012, SM Investments' retail subsidiaries have 176 stores. These consist of 42 department stores, 33 supermarkets, 69 SaveMore stores and 32 hypermarkets.

Real estate sales for the first quarter ended March 31, 2012 grew by 63.6% to P5.8 billion from P3.5 billion. These largely came from the real estate sale of SM's residential arm, SM Development Corporation (SMDC) and the condominium projects of Costa del Hamilo (Hamilo), SM's tourism vehicle, which is developing the Pico de Loro Cove project in Nasugbu Batangas. This significant increase is primarily driven by the bigger sales volumes and higher incremental completion rates of ongoing projects. The sustained strong interest of numerous homebuyers in SMDC's various residential condominium projects was matched by a fresh supply of attractive projects launched last year namely Green Residences along Taft Avenue, Shell Residences in Mall of Asia Complex, M Place @ Ortigas in Pasig, and Mezza II Residences in Sta. Mesa. For the quarter ended March 31, 2012, SMDC pre-sold 3,684 residential units, 51% more than last year's first quarter volume.

As of March 31, 2012, SMDC has a total of 17 residential projects, 15 residential projects under its SM Residences brand and two projects under its M Place brand.

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 real estate sales were provided by the sale of condominium units and club shares in Pico de Loro. Costa Del Hamilo's condominium projects at Pico de Loro, namely, Jacana and Myna condominium projects were completed in January 2010 and June 2010, respectively. The completed condominium units were turned over to the buyers starting from the construction completion date. Meanwhile, the percentage of construction completion for the Miranda and Carola condominium projects, which were launched in late 2008, are 99% and 94% respectively. The beach and country club is fully operational starting June 2010.

Rent revenue for the first quarter ended March 31, 2012, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 11.2% to P5.4 billion in 2012 from P4.9 billion in the same period last year. SM Prime is the country's leading shopping mall developer and operator which owns 42 malls in the Philippines and four malls in China. The increase in rent revenues is largely due to rentals from new SM Supermalls which opened in 2010 and 2011 namely, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches and SM City Masinag. The new malls added 380,000 square meters (sqm) to SM Prime's total gross floor area. Excluding the new malls and expansions, same store rental growth is at 8%.

The four malls in China contributed P0.6 billion in 2012 and P0.4 billion in 2011, or 11.3% and 9.3%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 35.9% for the quarter ended March 31, 2012 compared to the same period in 2011 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 96%.

For the first quarter ended March 31, 2012 and 2011, cinema ticket sales and amusement revenues increased by P0.2 billion or 23.7% to P1.0 billion due to more blockbuster movies and roll-out cinema turnstile system which made the cinema viewing experience more convenient for customers and has led to increase in foot traffic. Amusement revenues is mainly composed of 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 21.4% to P1.7 billion in 2012 from P1.4 billion in 2011, primarily due to the increase in the net income of BDO which is attributed to the robust growth in low-cost deposits leading to a 10% increase in total deposits, 17% growth in non-interest income and 18% growth in recurring fee-based service income. BDO continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service and treasury activities.

Dividend, management fees and other revenues increased by 13.9% to P1.1 billion for the first quarter ended March 31, 2012 from P1.0 billion in the same period last year. Other revenues comprised mainly of commission from bills payment, prepaid cards, show tickets, service income, and gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives. The increase in dividends, management fees and other revenues resulted mainly from the gain recognized in 2012 for the fair value changes of the embedded derivatives related to the US$300 million convertible bonds of SMIC.

Total cost and expenses increased by 17.0% to P39.1 billion for the first quarter ended March 31, 2012 from P33.4 billion in the same period last year. Real estate cost of sales and others increased by 80.4% to P3.6 billion in 2012 from P2.0 billion in 2011 primarily brought about by increase in real estate sales. Selling, general and administrative expenses increased by 24.9% to P9.8 billion for the first quarter ended March 31, 2012 from P7.9 billion in the same period last year mainly due to the additional operating expenses associated with mall expansions and new malls, department stores, supermarkets, savemore and hypermarkets and store renovations and current real estate projects.

Net other charges of P0.9 billion for the first quarter ended March 31, 2012 decreased by P0.1 billion or 17.8% from net other charges of P1.0 billion in the same period last year mainly due to higher net interest income attributable mainly to higher average balance of temporary investments in the first quarter of 2012 compared with the same period last year and foreign exchange gains.

Provision for income tax increased by 41.8% to P1.6 billion for the first quarter ended March 31, 2012 from P1.1 billion in the same period last year due mainly to the increase in taxable income.

Non-controlling interest increased by 14.6% to P2.1 billion for the first quarter ended March 31, 2012 compared to P1.8 billion for the same period in 2011 due to increase in the net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	**03 / 31 / 2012 (Unaudited)**	**12 / 31 / 2011 (Audited)**	**% Change**
Current assets	P 86.3	P 101.3	-14.8%
Noncurrent assets	373.0	347.8	7.3%
Total assets	**P 459.3**	**P 449.1**	**2.3%**
Current liabilities	P 57.3	P 79.8	-28.2%
Noncurrent Liabilities	168.5	147.0	14.6%
Total Liabilities	**225.8**	**226.8**	**-0.4%**
Equity	**233.5**	**222.3**	**5.0%**
Total Liabilities and Equity	**P 459.3**	**P 449.1**	**2.3%**

Consolidated total assets as of March 31, 2012 amounted to P459.3 billion, an increase by 2.3% from P449.1 billion as of December 31, 2011. On the other hand, consolidated total liabilities slightly decreased by 0.4% to P225.8 billion as of March 31, 2012 from P226.8 billion as of December 31, 2011.

Consolidated current assets decreased by 14.8% to P86.3 billion as of March 31, 2012 from P101.3 billion as of December 31, 2011. Cash and cash equivalents decreased by 33.4% to P37.3 billion as of March 31, 2012 from P56.1 billion as of December 31, 2011, mainly due to payments of trade payables, bank loans, investments and capital expenditures. Other current assets decreased by 4.2% to P16.5 billion as of March 31, 2012 from P17.2 billion as of December 31, 2011. These were partially offset by the increase in receivables by 33.7% to P15.7 billion as of March 31, 2012 from P11.8 billion as of December 31, 2011 mainly due to the increase in current portion of receivable from real estate buyers and increase in merchandise inventories of the retail group by 2.9% to P13.8 billion as of March 31, 2012 from P13.4 billion as of December 31, 2011.

Consolidated noncurrent assets amounted to P373.0 billion as of March 31, 2012, a growth of 7.3% from P347.8 billion as of December 31, 2011 due mainly to increase in investment in time deposits by 25.7% to P47.0 billion as of March 31, 2012 from P37.4 billion as of December 31, 2011; increase in available-for-sale investments by 16.0% to P14.4 billion from P12.4 billion resulting from increase in the market prices of investments; increase in investment in shares of stocks by 8.4% to P95.8 billion from P88.4 billion resulting from increase in equity in banks and additional investment in certain associates; increase in other non-current assets by 5.6% to P25.4 billion from P24.1 billion arising mainly from the increase in non-current receivables from real estate buyers; and increase in investment properties by 3.7% and in property and equipment by 1.1%.

Total consolidated current liabilities decreased by 28.2% to P57.3 billion as of March 31, 2012 from P79.8 billion as of December 31, 2011. Bank loans decreased by 50.4% to P12.8 billion from P25.7 billion and accounts payable and other current liabilities decreased by 20.7% to P35.5 billion from P44.7 billion due mainly to settlement of loans and trade payables. Current portion of long-term debt decreased by 11.5% to P7.0 billion from P7.9 billion due mainly to matured loans. These were partially offset by the increase in income tax payable by 51.1% to P2.0 billion from P1.3 billion due mainly to increase in taxable income in 2012.

Total Noncurrent Liabilities increased by 14.6% to P168.5 billion as of March 31, 2012 from P147.0 billion as of December 31, 2011 due mainly to the 14.5% increase in long-term debt - net of current portion to P147.1 billion as of March 31, 2012 from P128.5 billion as of December 31, 2011 resulting from new loan availments (see note 18 to the unaudited consolidated financial statements for further discussion regarding long-term debt); and increase in tenants' deposits and others by 19.4% to P16.4 billion as of March 31, 2012 from P13.7 billion as of December 31, 2011 due mainly to new malls and new condominium projects of the real estate group.

Total equity amounted to P233.5 billion as of March 31, 2012, while total Equity attributable to equity holders of the parent amounted to P166.2 billion. Unrealized mark-to-market gain on AFS investments increased by 25.1% to P8.8 billion from P7.0 billion mainly due to the increase in the market value of AFS investments of subsidiaries and associates. Non-controlling interest increased by 4.2% to P67.3 billion from P64.6 billion mainly due to the increase in the net assets of certain subsidiaries. The 11.9% or P0.05 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. See Note 19 to the audited consolidated financial statements for further discussion regarding 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 first quarter ended March 31, 2012 and 2011 and for the year ended December 31, 2011:

Accounts	03 / 31 / 2012 (Three months)	12 / 31 / 2011 (One Year)
Current Ratio	1.51 : 1.00	1.27 : 1.00
Debt-equity Ratios:		
On Gross Basis	50% : 50%	51% : 49%
On Net Basis	31% : 69%	28% : 72%

Accounts	03 / 31 / 2012 (Three months)	03 / 31 / 2011 (Three months)
Revenue Growth	16.2%	9.7%
Net Income to Revenue	12.2%	12.6%
Net Income Growth	12.6%	12.7%
Return on Equity	14.0%	14.0%
EBITDA *(In Billions of Pesos)*	P12.5B	P11.1B

The current ratio increased to 1.51:1.00 from 1.27:1.00 mainly due to the higher decrease in current liabilities by 28.2% as compared to decrease in current assets of only 14.8%.

The debt-equity ratio on gross basis improved to 50%:50% in 2012 from 51%:49% due mainly to payment of bank loans. On net basis, the debt-equity ratio increased to 31%:69% from 28%:72% due mainly to the decrease in cash and cash equivalents arising from payment of trade payables, investments and capital expenditures.

In terms of profitability, revenue growth increased to 16.2% in 2012 from 9.8% in 2011 mainly due to higher growth of retail and real estate sales, cinema ticket sales and amusement and equity in net earnings in March 2012 as compared to same period in 2011.

Net income to revenue slightly decreased to 12.2% from 12.6% while return on equity remained at 14.0% in both periods.

EBITDA improved by P1.4 billion from P11.1 billion in March 2011 to P12.5 billion in March 2012 due mainly to the continued growth in revenues and other income.

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 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 Parent (Current Period) / Net Income Attributable to Equity Holders of Parent (Prior Period) - 1
7.	EBITDA	Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

In 2012, SM Prime is set to launch SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City San Fernando in Pampanga and SM Chongqing in China. By year-end, SM Prime will have 46 malls in the Philippines and five in China with an estimated combined gross floor area of 6.3 million square meters.

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

For the rest of 2012, SMDC will launch five more new residential condominium projects in 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 residential cluster of Miranda of Costa del Hamilo was completed in October 2011. The target completion of the Carola cluster is by June 2012. With the completion of the residential condominium clusters, plans for a new project is being finalized within the year.

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.

PART I FINANCIAL INFORMATION

Item 3. Aging of Accounts Receivable – Trade

SM Investments Corporation and Subsidiaries
Aging of Accounts Receivable - Trade
As of March 31, 2012
(Amounts in Thousands)

Receivable from Tenants		
Third-party tenants	₱	2,530,607
Related-party tenants		1,287,478
Receivables from Real Estate Buyers & others		
- net of non current portion		5,889,044
Total	₱	9,707,129

Aging:

Neither past due nor impaired	₱	9,485,436
31-90 days		63,301
91-120 days		21,302
Over 120 days		125,398
Impaired		11,692
Total	₱	9,707,129

PART II - SIGNATURE

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

Registrant: **SM INVESTMENTS CORPORATION**

Ma. Ruby Ll. Cano

Date: 05-15-12

MA. RUBY LL. CANO
Senior Vice President – Controller
Alternate Corporate Information Officer