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SEC Registration Number

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

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

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

Ma. Ruby Ll. Cano
(Contact Person)

857-0100
(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

20-IS
(Form Type)

0 4	2 7
Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

Notice of Annual Stockholders' Meeting
April 27, 2011 at 2:30 p. m.
SMX Convention Center, 2nd Floor, Function Room 1
Seashell Drive, Mall of Asia Complex, Pasay City 1300

To all Stockholders:

Please take notice that the 2011 annual stockholders' meeting of SM Investments Corporation will be held on April 27, 2011 at 2:30 p.m. at the Function Room 1, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300. The proposed agenda of the meeting is set forth below:

A G E N D A

1. Call to order
2. Certification of notice and quorum
3. Approval of minutes of annual meeting of stockholders held on April 28, 2010
4. Annual Report for the Year 2010.
5. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting
6. Election of directors for 2011 – 2012
7. Appointment of external auditors
8. Adjournment

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 28, 2011 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you are requested to accomplish the attached proxy form and return the same to the office of the Secretary at 4th Floor, SyCipLaw Law Center, 105 Paseo de Roxas, Makati City at least five (5) days before the date set for the annual meeting, as provided in the By-laws.

For your convenience in registering your attendance, please bring some form of identification, such as a passport, driver's license, or company I.D.

Makati City, March 14, 2011.

BY THE ORDER OF THE BOARD OF DIRECTORS

Emmanuel C. Paras

EMMANUEL C. PARAS
Corporate Secretary
SM INVESTMENTS CORPORATION

PROXY

The undersigned stockholder of SM Investments Corp. (the "Company") hereby appoints _________________ or in his absence, the Chairman of the meeting, *as attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 27, 2011 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Election of Directors.
   ____ Vote for all nominees listed below
   Henry Sy, Sr.
   Teresita T. Sy
   Henry T. Sy, Jr.
   Harley T. Sy
   Jose T. Sio
   Vicente S. Perez, Jr.
   Ah Doo Lim
   Joseph R. Higdon

   ____ Withhold authority for all nominees listed above

   ____ Withhold authority to vote for the nominees listed below:

   _____________ _____________
   _____________ _____________
   _____________ _____________
   _____________ _____________

2. Approval of minutes of previous annual stockholders' meeting.
   ___ Yes ___ No ____ Abstain

3. Approval of annual report.
   ___ Yes ___ No ___ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Executive Officers.
   ___ Yes ___ No ___ Abstain

5. Election of Sycip Gorres Velayo & Co. as independent auditors.
   ___ Yes ___ No ___ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ___ Yes ___ No

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE APRIL 21, 2010, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [___] Preliminary Information Statement

   [_✓_] Definitive Information Statement

2. Name of Registrant as specified in its charter:
   SM INVESTMENTS CORPORATION

3. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**

4. SEC Identification Number: **0000016342**

5. BIR Tax Identification Code: **000-169-020-000**

6. Address of principal office: **10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City** Postal Code **1300**

7. Registrant's telephone number, including area code: **(632) 857-0100**

8. Date, time and place of the meeting of security holders:
   April 27, 2011, 2:30 p.m., SMX Convention Center, 3rd Floor, Function Room No. 1, located at Seashell Drive, Mall of Asia Complex, Pasay City 1300

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **April 4, 2011**

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

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	**611,982,669**

11. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes __✓___ No _______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
    Philippine Stock Exchange

PART I

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

ITEM 1. Date, Time And Place Of Meeting Of Security Holders

(a) The annual stockholders' meeting of SM Investments Corporation (the "Company") is scheduled to be held on April 27, 2011 at 2:30 p.m. at the SMX Convention Center, 3rd Floor, Function Room No. 1 located at Seashell Drive, Mall of Asia Complex, Pasay City. The complete mailing address of the principal office of the registrant is 10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City 1300.

(b) The approximate date on which the Information Statement will be sent or given to the stockholders is on April 4, 2011.

<u>Statement that proxies are not solicited</u>

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND A PROXY.

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 28, 2011. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 611,982,669 shares. Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

(a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
(b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
(c) In case of merger or consolidation.

A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

(a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within 30 day period shall be deemed a waiver on his appraisal right;

(b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
(c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

(b) No director of the Company has informed in writing that he intends to oppose any action to be taken by the Company at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(a) Voting Securities

As of February 28, 2011, the total number of shares outstanding and entitled to vote in the stockholders' meeting is 611,982,669 shares.

(b) Record Date

The record date for purposes of determining the stockholders entitled to notice and to vote is March 28, 2011.

(c) Voting Rights

Stockholders shall be entitled to vote in person or by proxy and, unless otherwise provided by law, he shall have one vote for each share of stock entitled to vote and recorded in his name in the books of the Corporation. At all meetings of the stockholders, all elections and all questions shall be decided by the plurality of vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present, except in cases where other provision is made statute. Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by proxy if there be by proxy, and shall state the number of shares voted by him.

Provided however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 24 of the Corporation Code of the Philippines.

(d) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2011

As of February 28, 2011, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Henry Sy, Sr. (Chairman of the Board of Directors) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	87,356,959	14.27%
-do-	Felicidad T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	58,097,648	9.49%
-do-	Teresita T. Sy (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	52,661,365	8.60%
-do-	Harley T. Sy (Director and President) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	54,553,695	8.91%
-do-	Hans T. Sy (Shareholder of Issuer) No. 11 Harvard Road, Forbes Park, Makati City	Same as the Record Owner	Filipino	60,185,949	9.83%
-do-	Henry T. Sy, Jr. (Director and Vice Chairperson) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	60,178,691	9.83%
-do-	Herbert T. Sy (Shareholder of Issuer) No. 63 Cambridge Circle, Forbes Park, Makati City	Same as the Record Owner	Filipino	60,178,691	9.83%
-do-	PCD Nominee Corp. (Non-Filipino)	Various clients [1]	Foreign	128,972,666	21.07%
-do-	PCD Nominee Corp. (Filipino)	Various clients [1]	Filipino	36,870,927	6.02%

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

Security Ownership of Management as of February 28, 2011

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Henry Sy, Sr.	P 873,569,590	Filipino	14.27%
Common	Teresita T. Sy	526,613,650	Filipino	8.60%
Common	Harley T. Sy	545,536,950	Filipino	8.91%
Common	Henry T. Sy, Jr.	601,786,910	Filipino	9.83%
Common	Jose T. Sio	110	Filipino	.00%
Common	Vicente S. Perez, Jr.	110	Filipino	.00%
Common	Ah Doo Lim	1,000	Singaporean	.00%
Common	Joseph R. Higdon	1,000	American	.00%
Common	Ma. Ruby Ll. Cano	32,200	Filipino	.00%
Common	Corazon I. Morando	0	Filipino	.00%
Common	Elizabeth Anne C. Uychaco	0	Filipino	.00%
Common	Marianne M. Guerrero	0	Filipino	.00%
Common	Cecilia Reyes-Patricio	0	Filipino	.00%
Common	Emmanuel C. Paras	0	Filipino	.00%
		P 2,547,541,520		41.61%

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

(e) Change in Control

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

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

ITEM 5. Directors and Executive Officers of the Registrant

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

Office	Name	Age	Citizenship
Chairman	Henry Sy, Sr.	86	Filipino
Vice Chairman	Teresita T. Sy	60	Filipino
Vice Chairman	Henry T. Sy, Jr.	57	Filipino
Director and President	Harley T. Sy	51	Filipino
Director and Executive Vice President and CFO	Jose T. Sio	71	Filipino
Independent Director	Vicente S. Perez, Jr.	52	Filipino
Independent Director	Ah Doo Lim	61	Singaporean
Independent Director	Joseph R. Higdon	69	American
Treasurer	Grace F. Roque	60	Filipino
Senior Vice President, Corporate Legal Affairs, Compliance Officer and Asst. Corp. Sec.	Corazon I. Morando	69	Filipino

Office	Name	Age	Citizenship
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	55	Filipino
Senior Vice President - Legal	Marianne Malate-Guerrero	46	Filipino
Senior Vice President - Controllership	Ma. Ruby Ll. Cano	52	Filipino
Senior Vice President - Taxes	Cecilia Reyes-Patricio	53	Filipino
Corporate Secretary	Emmanuel C. Paras	61	Filipino

MANAGEMENT

Board of Directors

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

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

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

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

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

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

Jose T. Sio, is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, and SM Keppel Land, Inc. as well as other companies within the SM Group. Mr. Sio is also adviser to the Board of Directors of Banco de Oro Unibank, Inc. Mr. Sio holds a master's degree in Business Administration from New York

University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. (a member practice of Ernst & Young).

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

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

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

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

Period of Directorship

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

Executive Officers

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

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

Elizabeth Anne C. Uychaco, is Senior Vice President, Corporate Services of SMIC. She is also a Director of Belle Corporation. She was formerly Senior Vice President and Chief Marketing Officer of Philippine American Life Insurance Company. Prior to that, she was Vice President of Globe Telecom, Inc. and was responsible for sales and distribution. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor's of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

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

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

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

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

Period of Officership

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

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

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

(b) Significant Employees

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

Directorships in Other Reporting Companies

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

Name of Corporation	Position
Henry Sy, Sr.	
SM Prime Holdings Inc…………………...	Chairman
SM Development Corporation……………	Chairman
Highlands Prime, Inc……………………...	Chairman
Banco De Oro Unibank Inc……………….	Chairman Emeritus
China Banking Corporation………..……..	Honorary Chairman
Teresita T. Sy	
Banco de Oro Unibank Inc.………………	Chairman
SM Prime Holdings, Inc…………………..	Adviser to the Board
Henry T. Sy, Jr.	
SM Development Corporation…………...	Vice Chairman/CEO
Highlands Prime, Inc……………………...	Vice Chairman - President
SM Prime Holdings, Inc…………………..	Director
Banco de Oro Unibank Inc………………	Director
Pico de Loro Beach and Country Club Inc.	Chairman
National Grid Corporation......................	President
Harley T. Sy	
China Banking Corporation……………….	Director
SM Development Corporation……………	Member, Executive Committee
Jose T. Sio	
China Banking Corporation……………….	Director
Banco de Oro Unibank Inc……………….	Adviser to the Board
Belle Corporation............…………………	Director
Vicente S. Perez, Jr.	
Nido Petroleum Limited…………………	Independent Director
Singapore Technologies Telemedia Pte Ltd	Independent Director

Name of Corporation	Position
Ah Doo Lim	
Sembcorp Marine Ltd……………………	Director
GP Industries Ltd……………………….	Director
EDB Investments Pte Ltd…………………	Director
ARA-CWT Trust Management (Cache) Ltd...	Director
U Mobile Sdn Bhd…………………..........	Director
PST Management Pte Ltd…………………	Director
Joseph R. Higdon	
International Container Terminal Services………………………………	Independent Director
Coca-Cola Bottling Company……………	Director of the Advisory Board
Elizabeth Anne C. Uychaco	
Belle Corporation ……………………	Director

The members of the Audit and Risk Management Committee are:

Vicente S. Perez Jr.	- Chairman
Henry T. Sy Jr.	- Member
Jose T. Sio	- Member
Corazon I. Morando	- Member
Serafin U. Salvador	- Member

The members of the Compensation or Renumeration Committee are:

Teresita T. Sy	- Chairman
Jose T. Sio	- Member
Vicente S. Perez, Jr.	- Member

The members of the Nomination Committee are:

Henry T. Sy, Jr.	- Chairman
Ah Doo Lim	- Member
Corazon I. Morando	- Member

The Nomination Committee created by the Board under its Corporate Governance Manual nominated the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Henry Sy, Sr.
Teresita T. Sy
Henry T. Sy, Jr.
Harley T. Sy
Jose T. Sio
Vicente S. Perez, Jr.
Ah Doo Lim
Joseph R. Higdon

Atty. Corazon I. Morando nominated to the Board, for inclusion in the Final List of Candidates for Independent Director, the following stockholders:

Vicente S. Perez, Jr.
Ah Doo Lim
Joseph R. Higdon

Atty. Corazon I. Morando, Mr. Vicente S. Perez, Jr., Mr. Ah Doo Lim and Mr. Joseph Higdon are not related either by consanguinity or affinity, nor has any other professional / business dealings with each other.

The Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director. The same provision has been incorporated in the Amended By-Laws of the Company.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The same set of directors will be nominated in the coming regular annual stockholders' meeting.

The following will be nominated as officers at the Organizational meeting of the Board of Directors:

Office	**Name**
Chairman	Henry Sy, Sr.
Vice Chairperson	Teresita T. Sy
Vice Chairperson	Henry T. Sy, Jr.
Director and President	Harley T. Sy
Director and Executive Vice President & CFO	Jose T. Sio
Treasurer and Senior Vice President	Grace F. Roque
Senior Vice President – Corporate Services	Elizabeth Anne C. Uychaco
Senior Vice President, Corporate Legal Affairs, Compliance Officer and Asst. Corp. Sec.	Corazon I. Morando
Senior Vice President – Legal	Marianne Malate-Guerrero
Senior Vice President – Controllership	Ma. Ruby Ll. Cano
Senior Vice President – Taxes	Cecilia Reyes-Patricio
Corporate Secretary	Emmanuel C. Paras

(c) Family Relationships

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

(d) Certain Relationships and Related Transactions

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

(e) Involvement in Legal Proceedings

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

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

ITEM 6. Compensation of Directors and Executive Officers

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

Name and Position

1. Harley T. Sy
   President
2. Jose T. Sio
   Executive Vice President & CFO
3. Grace F. Roque
   Treasurer and Senior Vice President
4. Atty. Corazon I. Morando
   Senior Vice President -Corporate Legal
   Affairs Compliance Officer and
   Asst. Corp. Secretary
5. Elizabeth Anne C. Uychaco
   Senior Vice President – Corporate Services
6. Atty. Marianne M. Guerrero
   Senior Vice President – Legal
7. Ma. Ruby Ll. Cano
   Senior Vice President – Controllership
8. Cecilia Reyes-Patricio
   Senior Vice President –Taxes

Summary Compensation Table

	Year	Salary	Bonus	Other Annual Compensation
President and 7 Most	2011 (estimate)	58,581,000	9,764,000	2,441,000
Highly Compensated	2010	50,940,000	8,490,000	2,123,000
Executive Officers	2009	41,196,000	6,866,000	1,716,500
All other officers and	2011 (estimate)	95,507,000	15,918,000	3,979,000
Directors as a group	2010	83,050,000	13,842,000	3,460,000
unnamed	2009	53,646,000	8,941,000	2,235,250

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

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

ITEM 7. Independent Public Accountants, External Audit Fees and Services

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

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) (Rotation of External Auditors), the Company engaged Mr. Ramon D. Dizon of SGV & Co. for the examination of the Company's financial statements from 2008 to 2010. Previously, the Company engaged Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2006 to 2007 and 2001 to 2005, respectively.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor were P1,200,000 and P1,100,000 for 2010 and 2009, respectively. The audit fees for 2011 is estimated to be at P1,200,000. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, and assistance in the preparation of annual income tax returns. Also, in 2010 and 2009, SGV rendered other professional services relating to the bond issuances of SMIC. The professional fees amounted to P9.0 million and P11.0 million in 2010 and 2009, respectively. There were no other professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from other entities other than the external auditor.

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

ITEM 8. Compensation Plans

There are no existing or planned stock options.

C. ISSUANCE AND EXCHANGE OF SECURITIES

ITEM 9. Authorization or Issuance of Securities Other than for Exchange

Not applicable.

ITEM 10. Modification or Exchange of Securities

Not applicable.

ITEM 11. Financial and Other Information

Not applicable.

ITEM 12. Mergers, Consolidations, Acquisitions and Similar Matters

Not applicable.

ITEM 13. Acquisition or Disposition of Property

The Company and its subsidiaries purchased and sold parcels of land in the normal course of their business.

ITEM 14. Restatement of Accounts

Not applicable.

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

The following are to be submitted for approval during the stockholders' meeting:

(a) Minutes of the meeting of stockholders held on April 28, 2010.

The following was the agenda of the said meeting.

- Call to order.
- Certification of notice and quorum.
- Approval of minutes of the special meeting of stockholders held on April 29, 2009.
- Presentation of the President's Report.
- General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
- Election of directors for 2010 – 2011 (including Independent Directors).
- Appointment of external auditors.
- Adjournment.

(b) General ratification of the acts of the Board of Directors and the management from the date of the last special stockholders' meeting up to the date of this meeting.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:

I. Issuance of US$400 million Fixed Rate Bond (please see Note 20 (Long-term Debt) of the Notes to the Consolidated Financial Statements);
II. Appointments of bank signatories and amendments thereof.

There are no other matters that would require approval of the stockholders.

ITEM 16. Matters Not Required To Be Submitted

Not applicable.

ITEM 17. Amendment of Charter, By-Laws or Other Documents

Not applicable.

ITEM 18. Other Proposed Action

The following are to be presented for approval during the stockholders' meeting:

(a) Election of directors for 2011 – 2012; and
(b) Appointment of external auditors.

ITEM 19. Voting Procedures

a. Election of Directors

As stated in Section 3 of Article IV of the Company's By-Laws, "At each meeting of the stockholders for the election of directors, at which a quorum is present, the persons receiving the highest number of votes of the stockholders present in person or by proxy and entitled to vote shall be the directors."

Section 24 of The Corporation Code of the Philippines states that "At all elections of directors or trustees, there must be present, either in person or by representative authorized to act by written proxy, the owners of a majority of the outstanding capital stock… entitled to vote".

b. Appointment of External Auditors

As stated in Section 3 of Article VII of the Company's By-Laws, "Auditors shall be designated by the Board of Directors prior to the close of the business in each fiscal year, who shall audit and examine the books of account of the Corporation, and shall certify to the Board of Directors and the shareholders the annual balances of said books which shall be prepared at the close of the said year under the direction of the Treasurer. No director or officer of the corporation, and no firm or corporation of which such officer and director is a member, shall be eligible to discharge the duties of Auditor. The compensation of the auditor shall be fixed by the Board of Directors." The stockholders representing the majority of the subscribed capital stock approves the appointment of external auditors.

Methods by which votes will be counted

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote of any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him.

The external auditor of the Company, SGV & Co., will validate the ballots when voting is done by secret ballot. Likewise, SGV & Co. will count the number of hands raised when voting by show of hands is done.

PART III

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasay City on March 25, 2011.

By: **SM INVESTMENTS CORPORATION**

JOSE T. SIO
Executive Vice President and
Chief Financial Officer

MANAGEMENT REPORT

A.i Consolidated Audited Financial Statements

The Company's consolidated financial statements for the year ended December 31, 2010 are incorporated herein by reference.

A.ii Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

A.iii Management's Discussion and Analysis or Plan of Operation

Calendar Year Ended December 31, 2010 and 2009

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2010	12 / 31 / 2009	% Change
Revenue	**P 179.3**	**P 160.0**	**12.1%**
Cost and Expenses	146.2	131.8	11.0%
Income from Operations	**P 33.1**	**P 28.3**	**17.2%**
Other Income (Charges)	(2.9)	(2.4)	20.1%
Provision for Income Tax	5.4	4.8	13.1%
Minority Interest	6.4	5.1	26.7%
Net Income Attributable to Equity Holders of the Parent	**P 18.4**	**P 16.0**	**15.1%**

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

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

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
1	SM City Tarlac	SM City Tarlac	North Harbour*
2	SM City San Pablo	SM City San Pablo	Adriatico
3	SM City Calamba	SM City Calamba	Cubao*
4	SM City Novaliches	SM City Novaliches	Jaro, Iloilo*
5	-	Megamall Extension	Jalandoni, Batangas*

	SM Department Stores	*SM Supermarkets / SaveMore Stores*	*SM Hypermarkets*
6	-	Southmall Extension	Mabalacat, Pampanga*
7	-	Savemore West Kamias	-
8	-	Savemore Mendez	-
9	-	Savemore Legazpi	-
10	-	Savemore Baliwag	-
11	-	Savemore Pasong Tamo	-
12	-	Savemore Amang Rodriguez	-
13	-	Savemore Bacolod East	-
14	-	Savemore Malabon	-
15	-	Savemore Cagayan De Oro	-
16	-	Savemore Zapote	-
17	-	Savemore Cartimar	-
18	-	Savemore Berkeley	-
19	-	Savemore Isabela	-
20	-	Savemore Angeles	-

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

Excluding the full year sales of Makro, the retail sales growth would be 12.5%. The sales contribution of SM Department Stores, SM Supermarkets and SM Hypermarkets (including Makro) are 42.7%, 35.2%, and 22.1%, respectively in 2010 and 42.8%, 33.7%, and 23.5%, respectively in 2009.

Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.7%, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.3%.

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

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

The other ongoing projects of SMDC are the following: Chateau Elysee, a mid-rise condominium project in Parañaque City; Berkeley Residences in Katipunan Road, Quezon City; Grass Residences beside SM City North Edsa; Sea Residences near the Mall of Asia Complex in Pasay

City; and Field Residences in Sucat, Parañaque. Both Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City, and Lindenwood Residences, a residential subdivision in Muntinlupa City, are 100% complete. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

SM Prime Holdings, Inc. (SM Prime), the country's leading shopping mall developer and operator which currently owns 40 malls in the Philippines and three malls in China posted a 13.2% increase in rental revenue. This is largely due to rentals from new SM Supermalls. Towards the end of 2008, three malls were opened, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, as well as expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. In 2010, the SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were also opened. The new malls and expansions added 904,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 6.0%.

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

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

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

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

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

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

Total cost and expenses went up by 11.0% to P146.2 billion for the year ended December 31, 2010 compared to 2009 primarily brought about by increase in costs associated with mall expansions and new malls, department stores, supermarkets, savemore and hypermarkets.

Other charges of P2.9 billion in 2010 increased from last year's other charges of P2.4 billion mainly due to the additional interest expense on loans availed and bonds issued in 2010 (refer to Note 20 of the consolidated financial statements).

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

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

Financial Position
(amounts in billion pesos)

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

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

Total current assets increased by 17.9% to P104.3 billion as of December 31, 2010 from P88.5 billion as of last year mainly due to increase in cash and cash equivalents, receivables, merchandise and club shares inventories, net of the decline in current time deposits as result of the availment by the bondholders of US$246.3 million of the early redemption option in March 2010 and sale of certain investments held for trading and sale.

Total consolidated noncurrent assets amounted to P303.1 billion as of December 31, 2010, a growth of 19.7% from P253.2 billion as of December 31, 2009 mainly due to increase in investment properties and fixed assets arising from new mall constructions and expansions, real estate developments and purchase of commercial lots, additional investments in shares of stocks of associates and bonds, and increase in noncurrent time deposits (mainly from the US$186.3 million bonds issued in 2010), non-current receivable from real estate buyers and escrow fund for SMDC projects.

Total consolidated current liabilities increased by 53.1% to P62.4 billion as of December 31, 2010 mainly due to availment of bank loans and increase in accounts payable. See note 18 to the audited consolidated financial statements for further discussion regarding bank loans.

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

Total Stockholders' equity amounted to P197.8 billion as of December 31, 2010, while total Equity attributable to equity holders of the parent amounted to P141.5 billion. See Note 21 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

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

Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2010 and 2009:

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

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

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

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

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

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

1. Current Ratio — Current Assets / Current Liabilities

2. Debt – Equity Ratio

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

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

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

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

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

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

7. EBITDA — Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

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

By the end of 2011, SM Prime will have 43 malls in the Philippines, of which 16 are in Metro Manila, and the others are spread out nationwide, and four malls in China. The 47 malls will have an estimated combined GFA of 5.7 million sqm. by the end of 2011.

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

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

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

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

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

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

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

Calendar Year Ended December 31, 2009 and 2008

Results of Operation
(amounts in billion pesos)

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

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

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

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

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

Excluding the full year sales of Makro, the retail sales growth would be 11.3%. The sales contribution of SM Department Stores, SM Supermarkets and SM Hypermarkets (including Makro) are 42.8%, 33.7%, and 23.5%, respectively in 2009 and 42.4%, 33.2%, and 24.4%, respectively in 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position
(amounts in billion pesos)

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

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

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

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

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

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

Total Stockholders' equity amounted to P165.7 billion as of December 31, 2009, while total Equity attributable to equity holders of the parent amounted to P124.8 billion. See Note 21 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

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

Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2009 and 2008:

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

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

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

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

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

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

1.	Current Ratio	<u>Current Assets</u> Current Liabilities
2.	Debt – Equity Ratio	
a.	Gross Basis	<u>Total Interest Bearing Debt less Pledged time deposits</u> Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt less Pledged time deposits
b.	Net Basis	<u>Total Interest Bearing Debt less cash and cash equivalents, time deposits, investment in bonds held for trading and available for sale</u> 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	<u>Net Income Attributable to Equity Holders of the Parent</u> Average Equity Attributable to Equity Holders of the Parent
4.	Net Income to Revenue	<u>Net Income Attributable to Equity Holders of the Parent</u> Total Revenue
5.	Revenue Growth	<u>Total Revenues (Current Period)</u> - 1 Total Revenues (Prior Period)
6.	Net Income Growth	<u>Net Income Attributable to Equity Holders of the Parent (Current Period)</u> - 1 Net Income Attributable to Equity Holders of the Parent (Prior Period)
7.	EBITDA	Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

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

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

Calendar Year Ended December 31, 2008 and 2007

Results of Operation
(amounts in billion pesos)

Accounts	**12 / 31 / 2008**	**12 / 31 / 2007 (Restated)**	**% Change**
Revenue	**P 147.5**	**P 123.9**	**19.1%**
Cost and Expenses	125.8	102.4	22.9%
Income from Operations	**P 21.7**	**P 21.5**	**0.7%**
Other Income (Charges)	1.4	(0.7)	294.1%
Provision for Income Tax	5.7	4.4	28.8%
Minority Interest	3.4	4.3	-21.0%
Net Income	**P 14.0**	**P 12.1**	**15.6%**

Consolidated revenues grew by 19.1% to P147.5 billion, as against last year's P123.9 billion. Income from operations stood at P21.7 billion, increasing by 0.7% from last year's P21.5 billion. Operating income margin and Net profit margin is at 14.7% and 9.5%, respectively. Net income for the year ended December 31, 2008 increased by 15.6% to P14.0 billion compared to P12.1 billion of the same period last year.

Retail Sales accounts for the largest part of the revenue, comprising 78% of the total revenues for the year. Consolidated Retail sales expanded by 16.9% to P114.8 billion for the year ended December 31, 2008 due mainly to the following:

(1) consolidation of Pilipinas Makro, Inc. (Makro) in SMIC starting October 2007 and;
(2) opening of the following new stores in 2008:

	SM Department Stores	***SM Supermarkets***	***SM Hypermarkets***
1	SM City Marikina	Savers Square, Pasay	SM City Rosales
2	SM City Baliwag	Park Mall, Cebu	SM City Baliwag
3	-	SM City Marikina	-
4	-	Savemore Nagtahan	-
5	-	Savemore Tanay	-
6	-	Savemore North Edsa 2	-
7	-	SM Cubao	-

Excluding the full year sales of Makro in 2008 and last quarter sales in 2007, the retail sales growth would be 9.8%. The sales contribution of SM Department Stores, SM Supermarkets and SM Hypermarkets (including Makro) are 42.4%, 33.1%, and 24.4%, respectively in 2008 and 46.4%, 34.8% and 18.8%, respectively in 2007.

As of December 31, 2008, SM Investments' retail subsidiaries have 33 branches of SM Department stores, 37 branches of SM Supermarkets, and 13 branches of SM Hypermarkets and 14 Makro outlets.

Real estate sales for the year ended December 31, 2008, derived mainly from condominium projects of SMDC, surged by 90.8% to P3,853.5 million. SMDC currently has five on-going projects. Chateau Elysee is a six-cluster, six-storey French-Mediterranean inspired residential development near SM City Bicutan in Parañaque and is now in its fifth cluster which is 5% complete. Mezza Residences is a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City which is 95% complete with two of its towers due for turnover to homebuyers this March. Berkeley is a 35-storey condominium building along Katipunan Road across Miriam College which is 22% complete. Grass Residences is a three-tower condominium near SM North EDSA in Quezon City which is 24% complete with its phase one. Lindenwood Residences is a residential subdivision in Muntinlupa City which is 99% complete. In 2008, SMDC broke ground for two more condominium projects, the Sea Residences near the Mall of Asia Complex in Pasay City and Field Residences in Sucat, Parañaque City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

SM Prime Holdings, Inc. (SM Prime), the country's leading shopping mall developer and operator which currently owns 33 malls in the Philippines and three malls in China posted a 15% increase in rental revenue. This is largely due to rentals from new SM Supermalls opened in 2007, namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. In addition, three malls were also expanded in 2007, namely, SM City Pampanga, SM City Cebu and Mall of Asia. Towards the end of 2008, three malls were opened, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. The new malls and expansions added 705,000 square meters to total gross floor area. Currently, the new malls have an average occupancy level of 93%. Same store rental growth is at 5%.

The three malls in China contributed P0.8 billion in 2008 and P0.6 billion in 2007, or 6% and 5%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these three malls in China increased by 35% in 2008 compared to the same period in 2007. The average occupancy rate for the three malls is at 88% in 2008 and 81% in 2007.

For the year 2008, cinema ticket sales and amusement revenues were flat due to fewer movies shown and lack of blockbuster movies compared to 2007. In addition, there were also more Filipino movies shown in 2007 compared to 2008.

Equity in net earnings of associates decreased by 58% to P1.6 billion in 2008 from P3.9 billion in 2007, primarily due to the decrease in the net income of Banco de Oro Unibank, Inc. and China Banking Corporation after making provisions for trading and investments in 2008.

Dividend income decreased to P0.8 billion for the year 2008 compared to P1.0 billion in 2007 mainly due to the early redemption of Ayala preferred shares in the second half of 2007 and the sale of 339.3 million San Miguel shares in October 2008.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives increased significantly to P6.6 billion in 2008 from P0.5 billion in 2007 primarily due to the P7.2 billion gain from the sale of 339.3 million shares of San Miguel Corporation, net of the provision for the decline in mark-to-market valuation of investment securities.

Total cost and expenses rose by 22.9% to P125.8 billion for the year ended December 31, 2008 compared to 2007 primarily brought about by the full year effect of Makro operations in 2008 and only three months operations in 2007, increase in costs associated with the new malls, department stores, supermarkets and hypermarkets, and general asset provisions amounting to P5.6 billion in 2008. Excluding the impact of Makro and general asset provisions, cost of sales and operating expenses would increase by 10.2% and 16.2%, respectively.

Other income increased to P1.4 billion in 2008 from Other charges of P0.7 billion in 2007 mainly due to the increase in interest income (please refer to Note 12 and 26 of the consolidated financial statements).

Provision for income tax increased by 28.8% to P5.7 billion for the year 2008 from P4.4 billion in 2007 due to the increase in taxable income.

Minority interest decreased to P3.4 billion in 2008 from P4.3 billion in 2007 due to the decrease in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2008	12 / 31 / 2007	% Change
Current assets	P 83.2	P 71.3	16.7%
Noncurrent assets	209.2	178.4	17.3%
Total assets	**P 292.4**	**P 249.7**	**17.1%**
Current liabilities	P 58.4	P 45.4	28.7%
Noncurrent Liabilities	84.2	58.6	43.6%
Total Liabilities	**P 142.6**	**P 104.0**	**37.1%**
Stockholders' Equity	**P 149.8**	**P 145.7**	**2.8%**
Total Liabilities and Stockholders' Equity	**P 292.4**	**P 249.7**	**17.1%**

On the Balance Sheet side, consolidated total assets as of December 31, 2008 amounted to P292.4 billion, higher by 17.1% from 249.7 billion in previous year. On the other hand, consolidated total liabilities grew by 37.1% to P142.6 billion in 2008 from P104.0 billion in previous year.

Total current assets increased by 16.7% to P83.2 billion as of December 31, 2008 from P71.3 billion as of last year mainly due to the sale of 339.3 million San Miguel shares which increased the cash and cash equivalents and decreased the investments in shares for trading and sale, plus the increase in receivables – trade, banks, credit cards, nontrade and related parties.

Total consolidated noncurrent assets amounted to P209.2 billion as of December 31, 2008, a growth of 17.3% from P178.4 billion as of December 31, 2007 mainly due to the proceeds from the US$350 million 6.75% Bonds issued in July 2008 which was invested in time deposit and due to the increase in the mall construction and real estate developments, net of the decline in market value of investments in shares of listed companies and of decrease in investment in shares of stocks of associates brought about by the decline in banks' profits in 2008 compared with 2007.

Total consolidated current liabilities increased by 28.7% to P58.4 billion as of December 31, 2008 mainly due to the bank loan availments of both the parent company and its subsidiaries, increase in the current portion of long-term debt and accounts payable. The decrease in notes payable is due to the payment of the Group's obligation for the Equitable PCI Bank tender offer.

Total Noncurrent Liabilities increased to P84.2 billion, mainly due to the issuance of the US$350 million 6.75% Bonds in July 2008 and other long-term loan availments of both the parent company and SM Prime. The details of these transactions are further discussed in Note 20 to the audited consolidated financial statements.

Total Stockholders' equity amounted to P149.8 billion as of December 31, 2008, while total Equity attributable to equity holders of the parent amounted to P112.6 billion. See Note 22 to the audited consolidated financial statements for further discussion regarding the stockholders' equity.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

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

Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2008 and 2007:

Accounts	12 / 31/ 2008	12 / 31/ 2007
Current Ratio	1.42 : 1.00	1.57 : 1.00
Debt-equity Ratios:		
On Gross Basis	47% : 53%	32% : 68%
On Net Basis	20% : 80%	20% : 80%
Return on Equity	12.9%	11.7%
Net Income to Revenue	9.5%	9.8%
Revenue Growth	19.1%	39.1%
Net Income Growth	15.6%	15.1%
EBITDA	P28.1B	P25.5B

The current ratio slightly dropped to 1.42:1.00 in 2008 from 1.57:1.00 in 2007 due to the additional bank loans availed in 2008.

The debt-equity ratio on gross basis increased to 47%:53% in 2008 from 32%:68% in 2007 mainly due to the additional bank loans and long-term debt availments in 2008. On a net basis, the debt-equity ratio remains steady at 20%:80%.

In terms of profitability, the return on equity improved to 12.9% in 2008 compared to 11.7% in 2007 due to the 14% increase in net income attributable to equity holders of the parent in 2008 compared to 2007. Net income to Revenue slightly dropped to 9.5% in 2008 compared to 9.8% in 2007 due to the increase in cost and expenses in 2008 over 2007. Revenue growth in 2008 decreased to 19.1%

compared to 39.1% in 2008 due to the inclusion of the full-operations of SM Supermarkets and SM Hypermarkets in 2007, which were acquired only in June 2006. Net income grew by 15.6% in 2008 due to the growth in merchandise and real estate sales, gain on sale of 339.3 million shares of stock of San Miguel Corporation, increase in other income, net of the increase in cost and expenses, general asset provisions and provision for income tax.

EBITDA improved to P28.1 billion in 2008 over P25.5 billion in 2007 mainly due to the growth in revenues which includes the gain on sale of 339.3 million shares of stock of San Miguel Corporation.

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 / Total Equity Attributable to Equity Holders of the Parent) + Total Interest Bearing Debt

   b. Net Basis — Total Interest Bearing Debt less cash and cash equivalents, time deposits and investment in bonds held for trading / 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

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

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

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

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

7. EBITDA — Income from operations + Depreciation & Amortization

Expansion Plans / Prospects for the Future

For 2009, SM Prime Holdings Inc. plans to open SM City Naga in Camarines Sur, SM City Rosario in Cavite, SM City Pamplona in Las Piñas, and the Sky Garden at SM City North Edsa. SM Prime is also set to expand SM City Rosales in Pangasinan. By the end of the year, SM Prime will have 36 malls nationwide and three malls in China, with an estimated GFA of 4.9 million sqm.

Retail expansion plans for 2009 include the opening of two department stores, 16 supermarkets and five hypermarkets.

In 2008, SM Development Corporation broke ground for two more condominium projects, the Sea Residences near the Mall of Asia Complex in Pasay City and Field Residences in Sucat, Paranaque City. Both these projects are seeing very strong demand from the market.

The first two condominium clusters in Pico de Loro Cove, namely the Jacana and the Myna are both 89% sold as of end January 2009. This led to the launch of two more clusters last November 2008: the Carola and Miranda, each selling 248 units. Meanwhile, the Pico de Loro beach club was formally opened last February 2009.

In 2008, the expansion of Taal Vista Hotel in Tagaytay City from just 130 rooms to 260 with an additional ballroom that can seat up to 1,000 guests was completed. The new wing is now enjoying high occupancy and is hosting a number of large scale events at the new ballroom. SM Hotels is also schedules to open Radisson Hotel Cebu, which is a 500-room five-star hotel situated beside SM City Cebu.

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

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

A.iv Brief Description of the General Nature and Scope of the Company's Business and Its Subsidiaries

SM Investments Corporation (SMIC), is the holding company of the SM Group of Companies. SMIC is engaged in five core businesses through its subsidiaries, namely: shopping mall development and management (SM Prime Holdings, Inc.), retail (SM Department Stores, SM Supermarket, SM Hypermarket and SaveMore Stores); financial services (Banco de Oro Unibank Inc. and China Banking Corporation) and real estate development and tourism (SM Land, Inc., SM Development Corporation, Costa Del Hamilo, Inc., Pico de Loro Beach and Country Club, Inc. and Highlands Prime, Inc.) and hotels and conventions (SM Hotels, SMX Convention Specialists, Hotel Specialists - Tagaytay, Cebu and Manila). SMIC was incorporated in the Philippines on 15 January 1960 with its registered office at 10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City, Philippines.

Shopping Mall Development

SM Prime Holdings, Inc. ("SM Prime"), is the country's leading shopping mall developer and operator. It currently has 40 supermalls which are strategically located nationwide with a total gross floor area of 5.0 million square meters (sqm). Likewise, SM Prime has three supermalls located in the cities of Xiamen and Jinjiang in Southern China and Chengdu in Central China with a total gross floor area (GFA) of .6 million sqm, which SM Prime acquired in late 2007. This move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer.

In 2010, SM Prime opened SM City Tarlac, SM City San Pablo, and SM City Calamba and SM City Novaliches in Quezon City. Combined, the new malls and expansions in 2010 added 289,216 sqm to SM Prime's total GFA, bringing it to 5.0 million sqm, for a 6% increase.

For 2011, SM Prime plans to open SM City Masinag in Antipolo City, Rizal; SM City San Fernando in Pampanga and SM City Olongapo in Zambales. Part of the 2011 program is for SM Prime to also expand two of its existing malls namely SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. SM Prime is also schedules to open SM Suzhou in the first half of 2011, its fourth mall in China, which is located in the province of Jiangsu. SM Suzhou will have a GFA of approximately 70,000 sqm. By the end of 2011, SM Prime will have 47 malls in the Philippines, of which 16 are in Metro Manila, and the others are spread out nationwide. The 47 malls will have an estimated combined GFA of 5.9 million sqm by the end 2011.

Retail

SM Department Stores is the leading innovator and trendsetter in the local retail merchandising scene. An institution that has become part of the lives of many Filipinos, it serves millions of customers in 40 stores with a total of 404,156.98 square meters across the country.

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

The opening of new stores in 2009 and 2010 has allowed SM to serve more customers, while the renovations of existing stores in Cubao, Pampanga, Iloilo, and Fairview have given the chain a more upscale and contemporary look. Three department stores opened at the SM Supermalls in Naga, Rosales, and Rosario in 2009; while four opened in Tarlac, San Pablo, Calamba, and Novaliches in 2010.

A recipient of Retail Asia's prestigious **Best of the Best Award** for the past three years, the SM Department Store aims to continue to give its customers the best products, the best value for money, and the best services possible. It also aims to maintain its leadership in the marketplace, to be on the forefront of retail technology, and to grow through consumer marketing and product diversification. It will be serving more customers in 2011 with the opening of four new department stores.

SM Supermarkets, SaveMore and SM Hypermarkets currently has thirty (30) supermarkets, forty (40) savemore stores and twenty-five (25) hypermarkets.

In 2010, savemore branches in West Kamias, Mendez Cavite, Metrohub Legazpi, Baliwag Bulacan, Pasong Tamo Makati, Amang Rodriquez, Malabon, Bacolod East, Agora Cagayan de Oro, Zapote Las Piñas, Cartimar Pasay, Berkley Q.C., Ilagan Isabela, SPC Angeles and supermarkets in SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Novaliches, Megamall Ext. and Southmall Ext. were opened whereas in 2009, savemore stores in Laong Laan, Del Monte, P. Tuazon, Mezza, Amigo Cabanatuan, Broadway, Megacenter Cabanatuan, Taft, Anonas, Libertad, Novaliches, Visayas, Solano and supermarkets in Naga and Rosario Cavite were opened.

In 2010, six (6) hypermarkets were opened. These were North Harbour Manila, Adriatico, Edsa Cubao, Jaro Iloilo, Jalandoni Batangas, and Mabalacat Pampanga, whereas in 2009, six (6) hypermarkets were opened in Las Piñas, Mandaluyong, Fairview, Makati, Novaliches and Eton Q.C.

The total stores area of the SM Supermarkets, SaveMore and SM Hypermarkets is 259,780.78 sqm., 121,914.42 sqm. and 262,145.42 sqm., respectively.

For 2011, the retail group plans to open another 20 to 24 stores. Expansion plans for 2011 include the opening of six supermarkets, 13 savemore branches and five hypermarkets.

"Makro" currently has 7 stores. As discussed in the Management's Discussion and Analysis, SMIC acquired Marko in 2007, through its parent holding company, Rappel Holdings Inc. Rappel is an unlisted company engaged in the business of investing, purchasing, acquiring and owning real or personal property, including shares of stock, bonds and other forms of securities. Makro, on the other hand, is an unlisted company engaged in buying and selling of food and non-food items to registered customers at wholesale and/or retail under a warehouse club format. The total net selling area of Makro is 57,488 sqm.

<u>Financial Services</u>

Banco de Oro Unibank, Inc. (“Banco de Oro” or BDO”), Banco de Oro is a full-service universal bank that provides a complete array of industry-leading products and services to the retail and corporate markets including Lending (corporate, middle market, SME, and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management, and Remittances. Through its subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Bancassurance, Insurance Brokerage, and Stock Brokerage services. BDO has one of the largest distribution networks, with over 700 branch licenses, and more than 1,400 ATMs, nationwide. As of December 31, 2010, BDO maintained its position as the country’s largest bank in terms of total resources, loan portfolio, total deposits, and assets under management.

The Bank aims to continue building on its strong business franchise to maintain leadership positions across most business lines, as well as further strengthen its capabilities to support future growth and actively respond to strategic opportunities and market challenges. Over the long-term, the Bank aims to be the preferred bank in every market it serves and create shareholder value through superior returns. The key elements of the Bank's strategy include: Diversified and sustainable earnings stream; Operating leverage; Prudent balance sheet management; and Organic growth and mergers/acquisitions.

The China Banking Corporation (China Bank), stock symbol CHIB, is the Philippines’ first privately-owned commercial bank established in 1920. China Bank was listed on the local stock exchange in 1947 and acquired its universal banking license in 1991. It was publicly listed in 1965 and acquired its universal banking license in 1991. In 2009, China Bank was among 11 Philippine companies (one of only 2 Philippine banks) in top 100 ASEAN companies in the Stern Stewart Relative Wealth Index - which outperformed their peers of publicly-listed companies in creating wealth for shareholders for the period 2002-2008. Starting May 11, 2010, China Bank joins the 30-stock PSE index (PSEi). As a result of China Bank’s solid financial performance, Fitch Ratings once again affirmed its financial strength rating of “AA-“ on the National credit rating scale, one of the highest such ratings in the country.

China Bank’s main business include corporate and SME lending, retail loans including mortgage and auto loans, treasury and foreign exchange trading, trust and investment management, wealth management, cash management, insurance products through China Bank Insurance Brokers, Inc. & MCB Life, internet banking and mobile banking services and inward remittances through tie-ups with remittance companies and exchange houses in the Middle East, Asia and major US cities.

China Bank offers a wide range of financial products and services through 269 branches (as of year-end 2010) as of nationwide (including branches of ChinaBank Savings), and convenient and secure electronic banking channels for 24/7 banking service: *China Bank Online* (mobile and internet banking), and *China Bank TellerPhone* (phone banking).

China Bank’s expansion plans will continue for the next three (3) years as it goes full swing to reach its goal of 400 branches by 2014. The Bank will continue to invest heavily in expanding its branch and ATM networks and strengthen its technological capabilities. A major priority area to strengthen and energize the organization will be the hiring of key people and fresh talent, to support the rapid expansion of the branch network and the growth in new businesses.

Real Estate Development and Tourism

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

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

SMDC has a current portfolio of 14 residential projects, 13 of which are in Metro Manila and one in Tagaytay City in the Province of Cavite. In 2010, SMDC launched its new brand, MPlace, through the unveiling of its inaugural project, MPlace South Triangle in Panay Avenue, Quezon City.

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

HPI's assets are comprised primarily of undeveloped land in the Tagaytay Highlands and Tagaytay Midlands resort complex. HPI has completed four projects, to date - The Woodridge at Tagaytay Highlands, which is composed of 138 two and three-bedroom condominium units; Phase I of The Horizon, the first minimalist-inspired mid-rise residential condominium development in Tagaytay Midlands with six buildings and 108 four-bedroom units; Phase I of the Woodridge Place, a rustic North American mountain lodge-inspired condominium community with 71 units ranging from 170-300 square meters; and Phases I and II of The Hillside, the first residential lot development in the Highlands complex with 156 lots averaging 500 square meters and featuring a contemporary North American log cabin-themed architecture. The Woodridge, The Hillside Phase I and The Woodridge Place Phase I are fully sold.

HPI is currently completing several homes at The Woodlands Point, its most luxurious project to date, located near Fairway 15 of the Tagaytay Highlands golf course. The community will have 60 North American log cabins with floor areas ranging from 250-330 square meters, highlighted by floor-to-ceiling glass windows, Western Red Cedar and stone accents. The company is also finishing the site development of Pueblo Uno, the first phase of Pueblo Real, its Santa Fe-Mexican inspired village in Tagaytay Midlands with a total of 85 lots. HPI has launched Phase II of The Woodridge Place and Sierra Lago, the second phase of Pueblo Real this 2010. Woodridge Place Phase II is a two-tower condominium development comprising of a total of 88 residential units. Sierra Lago is a modern-Mediterranean-themed lot development with about 187 lots.

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

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

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

The initial residential clusters of Jacana and Myna were complete in January 2010 and June 2010, respectively. Target completion of the succeeding Miranda and Carola clusters are by 3rd quarter and 4th quarter of 2011, respectively. A ferry terminal at Hamilo Coast's Papaya Cove is targeted for completion and operation by April 2011. The exclusive onsite Pico Sands Hotel is targeted for completion by March 2011 as well.

Other real estate projects include the development of the Mall of Asia Complex in Pasay City. It houses the SM Mall of Asia; the SMX Convention Center, which serves as a venue for major conferences, trade exhibitions and shows in Metro Manila; the fully leased One E-Com Center, which is a ten-storey building specifically designed for the use of contact center, customer relationship management, business process outsourcing (BPO), and other specialized companies; the SM Corporate Offices; the OneEsplanade; and the San Miguel By the Bay. The group is further developing SM Mall of Asia Complex by launching the TwoE-Com Center, which is a 14-storey building with a gross floor area of approximately 100,000 square meters; and the SM Arena, which is a five-storey, first-class multipurpose venue for sporting events, concerts, entertainment shows, and other similar events.

Hotels

SM Hotels and Conventions Corp., formerly SM Hotels Corp., was incorporated in March 2008 with the primary purpose of developing & managing the various hotel and convention properties of the SM group. In 2009, Taal Vista Hotel's newly constructed east wing with 133 guest rooms, making it a total of 261 rooms, and a 1,000-seater ballroom became fully operational. SMX, located at Mall of Asia Complex with its state of the art convention and exhibition facilities, continues to host major internal and local conventions and exhibitions. In the last quarter of 2010, SM Hotels launched the 400-room Radisson Blu Hotel in Cebu, the first hotel managed by Carlson International in Asia-Pacific region to be classified under its "Blu" upscale hotel brand category. The property has been classified as a deluxe hotel category by the Department of Tourism and its facilities include an in-house spa, fitness center, business center, 800-square meter swimming pool, club lounge, 2 ballrooms and a number of smaller meeting rooms. It is strategically located beside SM City Cebu and is adjacent to the International Port Area. Come 2nd half of 2011, SM Hotels will open Pico Sands Hotel, a 154 room resort-type hotel development in Hamilo Coast in Nasugbu, Batangas, in addition to managing Pico de Loro Beach and Country Club.

A.v Company's directors and executive officers

Please refer to Item 5 of the Information Statement for the discussion on the identity of each of the Company's directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed.

A.vi Market Price, Shareholder and Dividend Information

Market Information

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

	2010				2009			
Stock Prices		High		Low		High		Low
1st Quarter	₱	370.0	₱	317.5	₱	209.0	₱	179.0
2nd Quarter		420.0		397.5		335.0		195.0
3rd Quarter		570.0		435.0		342.5		300.0
4th Quarter		545.0		485.0		330.0		295.0

As of February 28, 2011, the closing price of the Company's shares of stock is ₱461/share.

Shareholder and Dividend Information

The number of shareholders of record as of February 28, 2011 was 1,324. Capital stock issued and outstanding as of February 28, 2011 was 611,982,669. As of December 31, 2010, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P63.6 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

On April 29, 2009, the Board of Directors approved the declaration of cash dividends of P6.88 per share in favor of stockholders on record as of May 30, 2009 and paid on June 25, 2009.

The top 20 stockholders as of February 28, 2011 are as follows:

	Name	No. of Shares Held	% to Total
1	PCD Nominee Corp. (Non-Filipino)	128,972,666	21.07%
2	Henry Sy, Sr.	87,356,959	14.27%
3	Hans T. Sy	60,185,949	9.83%
4	Henry T. Sy, Jr.	60,178,691	9.83%
5	Herbert T. Sy	60,178,691	9.83%
6	Teresita T. Sy	52,661,365	8.60%
7	Felicidad T. Sy	58,097,648	9.49%
8	Harley T. Sy	54,553,695	8.91%
9	PCD Nominee Corp. (Filipino)	36,870,927	6.02%
10	Henry Sy Foundation	7,000,000	1.14%
11	Sybase Equity Investments Corporation	2,120,813	0.35%
12	Felicidad Sy Foundation, Inc.	2,000,000	0.33%
13	Elizabeth T. Sy	423,330	0.07%
14	Sysmart Corporation	355,164	0.06%
15	Susana Fong	241,599	0.04%
16	Value Plus, Inc.	81,130	0.01%
17	Multi-Realty Development Corporation	45,879	0.01%
18	Alberto S. Yao	41,708	0.01%
19	Belle Corporation	26,068	0.00%
20	Hector Yap Dimacali	20,854	0.00%

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

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

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

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

(4) On August 6, 2007 and November 6, 2007, SMIC issued Series 1 and Series 2 of nonconvertible, non-participating, non-voting preferred shares amounting to P3,300.0 million and P200.0 million, respectively. The Preferred shares issued to financial and non-financial institutions are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799. The lead underwriter is ING Manila and the total underwriting fees and expenses amounted to P17 million.

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

Please refer to Note 20 of the 2010 consolidated financial statements for the details of the Company's fixed rate bonds.

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

A.vii Corporate Governance

The Company's Manual on Corporate Governance institutionalizes the principles of good governance throughout the organization. The Manual lays down the Issuer's compliance system and identifies the responsibilities of the Board of Directors and management in relation to good corporate governance. Under SMIC's Manual on Corporate Governance, compliance with the principles of good corporate governance starts with the Board of Directors. While it is the Board's primary responsibility to foster the long term success of the company and secure its sustained competitiveness consistent with its fiduciary responsibility, it should do so in the best interests of the company, its shareholders and other stakeholders.

The SMIC Board of Directors is composed of eight (8) directors, three (3) of which are independent directors. SMIC adopts the definition of independence in the Securities Regulation Code and considers an independent director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the company. The nomination and election of independent directors follow the provisions set forth by the SEC.

The Board has established three (3) committees to aid its corporate governance functions. The committees are the Compensation and Remuneration Committee, the Nomination Committee, and the Audit and Risk Management Committee. The Committees have each adopted a Charter which identifies the Committee's composition, roles and responsibilities, as drawn from the company's Manual on Corporate Governance.

SMIC continues to move forward with the development of its corporate governance culture through the review and expansion of its existing policies, the improvement of its training and orientation programs and the support and adoption of new corporate governance initiatives of the public and private sector.

There have been no deviations from SMIC's Manual on Corporate Governance since its adoption. The Company has adopted in the Manual the leading practices and principles on good corporate governance and has fully complied with all the requirements of the Manual for the year 2010.

A.viii Undertaking to provide without charge a copy of the Company's Annual Report

The Company will provide without charge a copy of the Company's Annual Report on SEC Form 17-A to its stockholders upon receipt of a written request addressed to Ms. Corazon P. Guidote, Vice President for Investor Relations at 10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City 1300.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation is responsible for all information and representations contained in the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in stockholder's equity and consolidated statements of cash flows for the years ended December 31, 2010, 2009 and 2008, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and, (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the Board of Directors and stockholders.

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

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)

SUBSCRIBED AND SWORN to before this Mar 25 2011 at Makati City, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
TERESITA T. SY-COSON	23309126	January 26, 2011	Manila
HARLEY T. SY	23309130	January 26, 2011	Manila
JOSE T. SIO	05938840	January 07, 2011	Makati

Doc. No. 59;
Page No. 11;
Book No. X;
Series of 2011.

ALVIN B. TAGUANCO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2011
PTR No.2670418 / 1-7-10 /MAKATI
IBP No.830017 / 01.04.11/ CAVITE
TIN-203-157-367

SM Investments Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2010 and 2009
and Years Ended December 31, 2010, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 and 2008 financial statements of 33 and 25 consolidated subsidiaries, respectively. The accompanying consolidated financial statements include the accounts of such consolidated subsidiaries which reflect total assets amounting to ₱33,817.7 million (9.9% of total assets) as of December 31, 2009, and net income amounting to ₱5,594.6 million (26.5% of total net income) for the year ended December 31, 2009 and net loss amounting to ₱735.9 million (- 4.2% of total net income) for the year ended December 31, 2008. We also did not audit the financial statements of two associates in 2009 and 2008, the investments in which are reflected in the accompanying financial statements using the equity method of accounting amounting to ₱48,546.3 million as of December 31, 2009. The Company's equity in the net earnings of such associates for the years ended December 31, 2009 and 2008 amounted to ₱2,989.1 million and ₱974.6 million, respectively. The financial statements of these subsidiaries and associates were audited by other auditors whose unqualified reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641521, January 3, 2011, Makati City

March 2, 2011

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 18, 22, 29 and 30)	**₱66,961,010**	₱43,547,001
Time deposits and short-term investments (Notes 8, 20, 22, 29 and 30)	**876,800**	10,361,224
Investments held for trading and sale - net (Notes 9, 12, 22, 29 and 30)	**2,007,801**	4,790,803
Receivables - net (Notes 10, 17, 22, 29 and 30)	**9,826,776**	8,791,698
Merchandise inventories - at cost (Note 23)	**10,485,903**	7,760,762
Other current assets - net (Notes 11, 16, 22, 29 and 30)	**14,133,252**	13,226,486
Total Current Assets	**104,291,542**	88,477,974
Noncurrent Assets		
Available-for-sale investments - net (Notes 12, 22, 29 and 30)	**11,097,407**	7,681,911
Investments in shares of stock of associates - net (Note 13)	**70,860,181**	57,846,770
Time deposits (Notes 8, 20, 22, 29 and 30)	**37,419,095**	32,237,225
Property and equipment - net (Notes 14 and 18)	**13,368,539**	10,993,206
Investment properties - net (Notes 15 and 20)	**113,667,244**	101,689,860
Land and development (Note 16)	**19,703,595**	12,370,434
Intangibles (Note 17)	**15,354,200**	15,343,531
Deferred tax assets (Note 27)	**576,364**	953,999
Other noncurrent assets (Notes 10, 17, 22, 26, 29 and 30)	**21,045,636**	14,049,511
Total Noncurrent Assets	**303,092,261**	253,166,447
	₱407,383,803	₱341,644,421

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 29 and 30)	**₱20,408,800**	₱4,873,294
Accounts payable and other current liabilities (Notes 19, 22, 29 and 30)	**39,039,326**	33,902,563
Income tax payable	**1,185,678**	1,067,994
Current portion of long-term debt (Notes 20, 22, 29 and 30)	**1,766,761**	920,116
Dividends payable (Notes 29 and 30)	**24,287**	22,251
Total Current Liabilities	**62,424,852**	40,786,218
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**128,600,570**	118,251,268
Derivative liabilities (Notes 29 and 30)	**1,351,441**	2,198,472
Deferred tax liabilities (Note 27)	**4,636,174**	4,346,892
Defined benefit liability (Note 26)	**178,274**	349,251
Tenants' deposits and others (Notes 15, 28, 29 and 30)	**12,375,013**	9,987,054
Total Noncurrent Liabilities	**147,141,472**	135,132,937
Equity Attributable to Equity Holders of the Parent (Note 29)		
Capital stock (Note 21)	**6,119,826**	6,110,230
Additional paid-in capital (Note 21)	**35,456,200**	35,030,710
Equity adjustments from business combination (Note 5)	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 21)	**(263,195)**	(24,078)
Cumulative translation adjustment of a subsidiary	**289,260**	344,302
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**6,798,095**	3,816,597
Retained earnings (Note 21):		
Appropriated	**5,000,000**	5,000,000
Unappropriated	**90,475,674**	76,850,367
Total Equity Attributable to Equity Holders of the Parent	**141,543,064**	124,795,332
Non-controlling Interests	**56,274,415**	40,929,934
Total Equity	**197,817,479**	165,725,266
	₱407,383,803	₱341,644,421

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2010	2009	2008
REVENUE			
Sales:			
Merchandise	**₱135,570,401**	₱123,895,504	₱114,837,529
Real estate and others	**10,896,597**	6,666,399	3,863,271
Rent (Notes 15, 22 and 28)	**17,904,661**	15,722,077	13,468,282
Equity in net earnings of associates (Note 13)	**5,440,826**	3,908,242	1,637,176
Cinema ticket sales, amusement and others	**3,722,983**	2,838,665	2,481,246
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**1,856,237**	769,691	6,601,396
Management fees (Note 22)	**695,395**	565,731	346,968
Dividend income (Note 22)	**303,518**	364,950	775,103
Others	**2,967,818**	5,322,046	3,487,581
	179,358,436	160,053,305	147,498,552
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 23)	**104,756,367**	98,501,100	92,656,491
Real estate and others	**5,995,214**	3,588,302	1,800,421
Selling, general and administrative expenses (Note 24)	**35,496,334**	29,702,814	31,356,445
	146,247,915	131,792,216	125,813,357
OTHER INCOME (CHARGES)			
Interest expense (Notes 18, 20, 22, 25 and 29)	**(7,652,557)**	(6,266,135)	(4,472,771)
Interest income (Notes 7, 8, 9, 12, 22 and 25)	**3,716,452**	3,458,066	5,808,615
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 13, 14 and 15)	**697,378**	207,971	48,761
Foreign exchange gain - net (Note 29)	**407,208**	223,954	3,018
	(2,831,519)	(2,376,144)	1,387,623
INCOME BEFORE INCOME TAX	**30,279,002**	25,884,945	23,072,818
PROVISION FOR INCOME TAX (Note 27)			
Current	**5,109,646**	4,430,076	4,727,921
Deferred	**291,407**	347,667	950,052
	5,401,053	4,777,743	5,677,973
NET INCOME	**₱24,877,949**	₱21,107,202	₱17,394,845
Attributable to			
Equity holders of the Parent (Note 31)	**₱18,440,169**	₱16,025,038	₱14,003,705
Non-controlling interests	**6,437,780**	5,082,164	3,391,140
	₱24,877,949	₱21,107,202	₱17,394,845
Earnings Per Common Share (Note 31)			
Basic	**₱30.17**	₱26.23	₱22.92
Diluted	**₱30.17**	₱26.18	₱22.92

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱24,877,949**	₱21,107,202	₱17,394,845
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax			
Share in unrealized gain (loss) on available-for-sale investments of associates - net (Note 13)	**2,065,101**	1,603,186	(3,033,682)
Net unrealized gain (loss) on available-for-sale investments (Note 12)	**1,941,882**	1,958,955	(5,993,751)
Income tax relating to components of other comprehensive income	**(375,510)**	102,079	(150,226)
Cumulative translation adjustment of a subsidiary	**(75,740)**	(91,154)	568,139
	3,555,733	3,573,066	(8,609,520)
TOTAL COMPREHENSIVE INCOME	**₱28,433,682**	₱24,680,268	₱8,785,325
Attributable to			
Equity holders of the Parent	**₱21,366,625**	₱18,922,049	₱7,264,615
Non-controlling interests	**7,067,057**	5,758,219	1,520,710
	₱28,433,682	₱24,680,268	₱8,785,325

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 Equity Holders of the Parent									Non-controlling Interests	Total Equity
	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Equity Adjustments from Business Combination (Note 5)	Cost of Parent Common Shares Held by Subsidiaries (Note 21)	Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 12 and 13)	Appropriated Retained Earnings (Note 21)	Unappropriated Retained Earnings (Note 21)	Total		
Balance at December 31, 2009	**₱6,110,230**	**₱35,030,710**	**(₱2,332,796)**	**(₱24,078)**	**₱344,302**	**₱3,816,597**	**₱5,000,000**	**₱76,850,367**	**₱124,795,332**	**₱40,929,934**	**₱165,725,266**
Net income for the year	–	–	–	–	–	–	–	**18,440,169**	**18,440,169**	**6,437,780**	**24,877,949**
Other comprehensive income	–	–	–	–	**(55,042)**	**2,981,498**	–	–	**2,926,456**	**629,277**	**3,555,733**
Total comprehensive income for the year	–	–	–	–	**(55,042)**	**2,981,498**	–	**18,440,169**	**21,366,625**	**7,067,057**	**28,433,682**
Issuance of Parent common shares	**9,596**	**425,490**	–	–	–	–	–	–	**435,086**	–	**435,086**
Acquisition of Parent common shares held by a subsidiary	–	–	–	**(249,812)**	–	–	–	–	**(249,812)**	–	**(249,812)**
Disposal of Parent common shares held by a subsidiary	–	–	–	**10,695**	–	–	–	–	**10,695**	–	**10,695**
Cash dividends - ₱7.88 a share	–	–	–	–	–	–	–	**(4,814,862)**	**(4,814,862)**	–	**(4,814,862)**
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	**9,688,915**	**9,688,915**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	**(1,411,491)**	**(1,411,491)**
Balance at December 31, 2010	**₱6,119,826**	**₱35,456,200**	**(₱2,332,796)**	**(₱263,195)**	**₱289,260**	**₱6,798,095**	**₱5,000,000**	**₱90,475,674**	**₱141,543,064**	**₱56,274,415**	**₱197,817,479**
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)	₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334
Net income for the year	–	–	–	–	–	–	–	16,025,038	16,025,038	5,082,164	21,107,202
Other comprehensive income	–	–	–	–	(70,524)	2,967,535	–	–	2,897,011	676,055	3,573,066
Total comprehensive income for the year	–	–	–	–	(70,524)	2,967,535	–	16,025,038	18,922,049	5,758,219	24,680,268
Share in equity adjustment from business combination	–	–	(21,717)	–	–	–	–	–	(21,717)	(2,694)	(24,411)
Cash dividends - ₱6.88 a share	–	–	–	–	–	–	–	(4,203,838)	(4,203,838)	–	(4,203,838)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	(2,786,981)	(2,786,981)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(1,703,106)	(1,703,106)
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)	₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266
Balance at December 31, 2007	₱6,110,230	₱35,030,710	(₱2,314,966)	(₱24,078)	(₱24,270)	₱8,027,248	₱5,000,000	₱54,630,498	₱106,435,372	₱39,213,081	₱145,648,453
Net income for the year	–	–	–	–	–	–	–	14,003,705	14,003,705	3,391,140	17,394,845
Other comprehensive loss	–	–	–	–	439,096	(7,178,186)	–	–	(6,739,090)	(1,870,430)	(8,609,520)
Total comprehensive income for the year	–	–	–	–	439,096	(7,178,186)	–	14,003,705	7,264,615	1,520,710	8,785,325
Share in equity adjustment from business combination	–	–	3,887	–	–	–	–	–	3,887	–	3,887
Cash dividends - ₱5.90 a share	–	–	–	–	–	–	–	(3,605,036)	(3,605,036)	–	(3,605,036)
Increase in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	412,182	412,182
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	(1,481,477)	(1,481,477)
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)	₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱30,279,002**	₱25,884,945	₱23,072,818
Adjustments for:			
Interest expense (Note 25)	**7,652,557**	6,266,135	4,472,771
Depreciation and amortization (Note 24)	**6,624,006**	5,968,144	5,237,660
Equity in net earnings of associates (Note 13)	**(5,440,826)**	(3,908,242)	(1,637,176)
Interest income (Note 25)	**(3,716,452)**	(3,458,066)	(5,808,615)
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**(1,856,237)**	(769,691)	(6,601,396)
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 13, 14 and 15)	**(697,378)**	(207,971)	(48,761)
Provision for (reversal of) impairment loss (Notes 10, 11, 12, 13, 15, 19 and 24)	**557,536**	(1,209,646)	5,602,193
Unrealized foreign exchange loss (gain)	**(435,321)**	(282,928)	707,849
Dividend income	**(303,518)**	(364,950)	(775,103)
Income before working capital changes	**32,663,369**	27,917,730	24,222,240
Decrease (increase) in:			
Land and development	**(13,991,134)**	(3,080,324)	(3,889,239)
Receivables	**(4,529,308)**	(773,740)	(3,539,319)
Merchandise inventories	**(2,725,140)**	(549,559)	(1,252,901)
Other current assets	**(1,374,622)**	204,343	(5,069,127)
Increase (decrease) in:			
Accounts payable and other current liabilities	**4,139,845**	3,392,912	4,633,400
Tenants' deposits and others	**2,411,126**	2,167,004	1,170,096
Defined benefit liability	**(170,977)**	(162,594)	15,818
Net cash generated from operations	**16,423,159**	29,115,772	16,290,968
Income tax paid	**(4,991,668)**	(4,514,091)	(4,934,513)
Net cash provided by operating activities	**11,431,491**	24,601,681	11,356,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments held for trading	**3,713,156**	95,030	6,301,475
Available-for-sale investments	**2,878,859**	4,014,430	28,606,521
Investments in shares of stock of associates	**1,506,807**	182,514	–
Property and equipment	**210,586**	341,554	468,950
Investment properties	**194,208**	86,087	94,038
Additions to:			
Investment properties (Note 15)	**(15,426,869)**	(13,566,283)	(12,449,658)
Property and equipment (Note 14)	**(4,403,485)**	(2,868,231)	(1,756,240)
Available-for-sale investments	**(3,384,105)**	(2,603,561)	(610,930)
Investments held for trading	**(2,491,297)**	(1,573,150)	(6,456,730)
Investments in shares of stock of associates	**(1,598,303)**	(3,242,909)	(2,322,913)
Interest received	**4,113,667**	3,114,030	5,179,811
Dividends received	**1,669,398**	990,240	3,002,052
Net cash used in acquisition of subsidiaries (Note 5)	**–**	(588,900)	–
Acquisition of non-controlling interest in a subsidiary (Note 2)	**–**	(3,384,213)	–
Decrease (increase) in:			
Other noncurrent assets	**(1,639,195)**	(1,933,100)	(4,554,627)
Time deposits and short-term investments	**2,583,891**	(19,157,056)	(14,311,478)
Net cash provided by (used in) investing activities	**(12,072,682)**	(40,093,518)	1,190,271

(Forward)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱33,964,598**	₱56,439,930	₱29,188,955
Bank loans	**22,828,100**	9,141,811	23,023,082
Payments of:			
Long-term debt	**(20,988,993)**	(15,182,416)	(4,727,968)
Interest	**(8,301,873)**	(5,521,272)	(3,470,992)
Bank loans	**(6,608,400)**	(21,885,000)	(7,687,408)
Dividends	**(6,224,317)**	(5,949,212)	(5,042,411)
Notes payable	**–**	–	(13,975,224)
Increase (decrease) in non-controlling interests	**9,688,915**	(2,623,843)	(1,293,504)
Acquisition of Parent common shares held by subsidiaries	**(249,812)**	–	–
Disposal of Parent common shares held by subsidiaries	**10,695**	–	–
Net cash provided by financing activities	**24,118,913**	14,419,998	16,014,530
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(63,713)**	(54,820)	341,983
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**23,414,009**	(1,126,659)	28,903,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**43,547,001**	44,673,660	15,770,421
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱66,961,010**	₱43,547,001	₱44,673,660

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

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

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

The accompanying consolidated financial statements were authorized for issuance by the Board of Directors (BOD) on March 2, 2011.

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.

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, 2010, except when otherwise stated:

New Interpretation

- Philippine Interpretation IFRIC 17, *Distribution of Non-Cash Assets to Owners*, became effective for annual periods beginning on or after July 1, 2009.

Amendments to Standards and Interpretations

- PFRS 2, *Share-based Payment* (Amendment) - *Group Cash-settled Share-based Payment Transactions*, became effective for annual periods beginning on or after January 1, 2010.

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended), became effective for annual periods beginning on or after July 1, 2009.

- PAS 39, *Financial Instruments: Recognition and Measurement* (Amendment) - *Eligible Hedged Items*, became effective for annual periods beginning on or after July 1, 2009.

- Improvements to PFRS 2009 effective 2010

The standards that have been adopted and that are applicable or deemed to have an impact on the financial position or performance of the Group are described below:

- PFRS 3, *Business Combinations* (Revised), and PAS 27, *Consolidated and Separate Financial Statements* (Amended), became effective for annual periods beginning on or after July 1, 2009. The revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and accounting for business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future results. The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss and accounted for as equity transaction. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The revised PFRS 3 was applied prospectively while amended PAS 27 was applied retrospectively with few exceptions. The standards have no significant impact on the Group's consolidated financial statements, except for the revision of the term minority interests to non-controlling interests. The Group, however, assessed that these revised and amended standards will have an impact on its future business acquisitions and disposals.

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*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for annual periods beginning on or after January 1, 2012. This interpretation 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. As the Group's real estate development and tourism segment is engaged in this type of activity, the adoption of this interpretation will result to a change in the segment's revenue and cost recognition from percentage of completion method to completed contract method. The Group is in the process of quantifying the impact of this new interpretation on its consolidated financial statements.

- Philippine Interpretation IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*, becomes effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Amendments to Standards and Interpretation

- 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 a significant impact on its consolidated financial statements.

- PAS 24, *Related Party Disclosures* (Amendment), will become effective for annual periods beginning on or after January 1, 2011. The amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect the revision on this standard to have an impact on its financial position or performance.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*, becomes effective for annual periods beginning on or after February 1, 2010. The definition of a financial liability was amended in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group has concluded that the amendment will have no impact on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures* (Amendment) - *Transfers of Financial Assets*, will become effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The Group does not expect this amendment to have an impact on its financial position or performance.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment), will become effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the consolidated financial statements of the Group.

Improvements to PFRS 2010
The following are the improvements on the PFRS which will become effective for the financial years beginning on or after July 1, 2010 or January 1, 2011. The Group has not yet adopted these improvements and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 3 (Revised), *Business Combinations*, clarifies the following:

    a. the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010 and is to be applied retrospectively.

    b. the amendment limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either:

        i. at fair value, or

        ii. at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

    This amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied prospectively from the date the entity applies the revised PFRS 3.

    c. the amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market-based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense. The amendment is applicable to annual periods beginning on or after July 1, 2010 and is to be applied prospectively.

- PFRS 7, *Financial Instruments: Disclosures*, clarifies the following:

  a. the amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

  b. amendments to quantitative and credit risk disclosures are as follows:

     i. clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;

     ii. require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);

     iii. remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;

     iv. remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and,

     v. clarify that the additional disclosure required for financial assets obtained by taking possession of collateral.

  c. the amendment is to be applied retrospectively.

- PAS 1, *Presentation of Financial Statements,* clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is to be applied retrospectively.

- PAS 27, *Consolidated and Separate Financial Statements*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures,* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier. The amendment is applicable to annual periods beginning on or after July 1, 2010 and is to be applied retrospectively.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The amendment is to be applied retrospectively.

Basic of Consolidation

Basis of consolidation from January 1, 2010. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2010.

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 equity holders of the Parent.

Losses within 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 a 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 requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Acquisitions of non-cotrolling interest, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized as 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 except 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 equity holders 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 of 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			
	2010		2009	
Company	**Direct**	**Indirect**	Direct	Indirect
Shopping Mall Development				
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries (see Note 5)	**22**	**41**	21	45
Retail				
SM Retail Inc. (SM Retail) and Subsidiaries (see Note 5)	**100**	–	100	–
Prime Central, Inc. and Subsidiaries (Prime Central)	**100**	–	100	–
Rappel Holdings, Inc. (Rappel) and Subsidiary	**100**	–	100	–
Real Estate Development and Tourism				
SM Land, Inc. (SM Land) and Subsidiaries:	**67**	–	67	–
SM Development Corporation (SMDC) and Subsidiaries	–	**65**	–	65
Magenta Legacy, Inc. (Magenta) (see Note 5)	–	**99**	–	99
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	**100**	–	100	–
SM Commercial Properties, Inc. and Subsidiaries (SMCP)	**59**	–	99	–
Intercontinental Development Corporation (ICDC)	**72**	**28**	72	28
Bellevue Properties, Inc.	**62**	–	62	–
Tagaytay Resort Development Corporation	**25**	**33**	25	33
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	–

SM Prime

In April 2009, SMIC acquired a total of 0.3 million additional SM Prime shares at a price of ₱8.40 a share or for a total cost of ₱2.3 million and sold 1,934 shares at ₱7.20 a share or for a total cost of ₱0.014 million. The acquisition of such non-controlling interest resulted in goodwill amounting to ₱1.3 million (see Note 17).

In April 2009, SM Prime acquired 24.4 million additional First Asia Realty Development Corporation (FARDC) shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition cost of such non-controlling interest amounted to ₱3,384.0 million and resulting goodwill amounted to ₱3,073.9 million (see Note 17).

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

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

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

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

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

<u>SM Retail</u>
On December 19, 2009, SM Retail completed the acquisition of 99% ownership of Accessories_Management Corp. (AMC), LTBG_Mgmt. Corp. (LTBG), MCLG_Mgmt. Corp. (MCLG), CF_Mgt. Corp. (CFMC), LF_Mgt. Corp. (LFMC) and MF_Mgt. Corp. (MFMC), which are herein after collectively referred to as the Service Companies (see Note 5).

On December 19, 2009, the respective BOD of SM Retail and of Henfels Investments Corporation (Henfels), HMS Development Corporation (HMS), Marketwatch Investments Co., Inc. (Marketwatch), MH Holdings, Inc. (MH Holdings), Romer Mercantile, Inc. (Romer) and Sanford_Marketing Corporation (Sanford), which are herein after collectively referred to as Department Store Holding Companies, entered into an agreement whereby SM Retail acquired 99% interest of the Department Store Holding Companies over Madison Shopping Plaza, Inc. (MSP), Multi Stores Corporation (MSC), Mandurriao Star, Inc. (MSI), Metro Manila Shopping Mecca Corp. (MMSM), Manila Southern Associates, Inc. (MSA), Major Shopping Management Corporation (MSM), Metro Main Star Asia Corporation (MMSA), Meridien Business Leader, Inc. (MBLI), Mainstream Business, Inc. (MSB), Market Strategic Firm, Inc. (MSF), Mercantile Stores Group, Inc. (MSG) and Mindanao Shopping Destination Corp. (MSD), which are herein after collectively referred to as the Department Store Operating Companies, for ₱492.3 million. The acquisition has no significant impact on SMIC's effective ownership in the Department Store Operating Companies.

Sanford
On November 10, 2009, the Philippine Securities and Exchange Commission (SEC) approved the change in corporate name of Sanford Investments Corporation to Sanford_Marketing Corporation.

In January 2010, Supervalue, Inc. (SVI) 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.

Prime Central
On July 1, 2009, SMIC subscribed to 1,000 common shares of Prime Central, making it a wholly-owned subsidiary.

Rappel
In May 2009, SMIC acquired a total of 0.2 million additional Rappel shares, which is equivalent to 20% of the total outstanding common stock of Rappel. The acquisition likewise resulted in Rappel becoming a wholly-owned subsidiary of SMIC.

In July 2009, SMIC, through its subsidiary, Prime Central, purchased the remaining 40% non-controlling shares of Pilipinas Makro, Inc. (Makro), which is equivalent to 1,085.2 million shares. The acquisition resulted in Makro becoming a wholly-owned subsidiary, with SMIC and Rappel each owning 50% interests in Makro.

The acquisition of such non-controlling interest resulted in goodwill amounting to ₱285.7 million (see Note 17).

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 2009, SMDC acquired Landfactors Incorporated (Landfactors) for ₱300.0 million and became its wholly-owned subsidiary (see Note 16).

In 2009, advances amounting to ₱639.8 million were liquidated through transfer of the absolute voting rights in SM_Residences Corp. (SMRC) in favor of SMDC. Consequently, SMRC became a wholly-owned subsidiary of SMDC (see Note 11).

At various dates in 2009, SMIC acquired a total of 4.7 million additional SMDC shares, which is equivalent to 0.12% of the total outstanding common stock of SMDC, at an average price of ₱2.97 a share or for a total cost of ₱14.0 million. The acquisition of such non-controlling interest resulted in goodwill amounting to ₱3.1 million (see Note 17).

In 2010, SMDC acquired Vancouver Lands, Inc. (VLI) for ₱566.6 million and became its wholly owned subsidiary (see Note 16).

In January and October 2010, SMDC had a stock rights offering to eligible existing common shareholders of SMDC at the proportion of one rights share for every three existing common shares held as of 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.

SM Hotels
On March 29, 2010, the Philippine SEC approved the change in corporate name of SM Hotels and Entertainment Corporation to SM Hotels and Conventions Corp.

SMCP
In August 2010, SMIC disposed 50.0 million of its SMCP shares to Sto. Roberto Marketing Corp., an unaffiliated company, equivalent to 40% of the total outstanding common stock of SMCP, at a price of ₱1.00 per share or a total cost of ₱50.0 million. The disposal resulted to a decline in the Parent Company's ownership in SMCP to 59%.

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

Consignment Arrangements on Retail Segment. The retail segment of the Group has entered into various consignment arrangements with suppliers. Under these arrangement, the risks and rewards over the goods remain with the suppliers until the goods are sold. Sales revenue is recognized at gross amount upon actual sales to customers. The related inventory stocks supplied under these arrangement are only payable to suppliers when actually sold.

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

Rent income amounted to ₱17,904.7 million, ₱15,722.1 million and ₱13,468.3 million for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 15).

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

Rent expense amounted to ₱3,016.0 million, ₱2,309.1 million and ₱2,007.7 million for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 24).

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

HTM investments as of December 31, 2010 and 2009 amounted to ₱500.0 million, with caption "Treasury bonds," included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets (see Notes 11 and 17).

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

There was no allowance for impairment loss made for the years ended December 31, 2010 and 2009. The carrying values of AFS investments amounted to ₱12,660.5 million and ₱10,830.7 million as of December 31, 2010 and 2009, respectively (see Note 12).

Estimates and Assumptions

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

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

Allowance for impairment loss amounted to ₱18.2 million and ₱14.6 million as of December 31, 2010 and 2009, respectively. Receivables, including noncurrent portion of receivables from real estate buyers, advances and other receivables included under "Other current assets" account and receivable from a related party and long-term notes included under "Other noncurrent assets" account, amounted to ₱26,847.7 million and ₱25,410.2 million as of December 31, 2010 and 2009, respectively (see Notes 10, 11 and 17).

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

Allowance for impairment loss amounted to ₱45.1 million as of December 31, 2010 and 2009. The carrying values of AFS investments amounted to ₱12,660.5 million and ₱10,830.7 million as of December 31, 2010 and 2009, respectively (see Note 12).

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

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

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

In 2010 and 2009, the Group assessed that the net realizable values of merchandise inventories, condominium units for sale and land and development are higher than cost, hence, the Group did not recognize any losses on write down of the assets. The carrying values of merchandise inventories amounted to ₱10,485.9 million and ₱7,760.8 million as of December 31, 2010 and 2009, respectively (see Note 23). The carrying values of condominium units for sale included under "Other current assets" account amounted to ₱1,531.5 million and ₱1,021.6 million as of December 31, 2010 and 2009, respectively (see Note 11). The carrying values of club shares inventories included under "Other current assets" account amounted to ₱918.8 million and ₱22.7 million as of December 31, 2010 and 2009, respectively (see Note 11). The carrying values of land and development amounted to ₱19,703.6 million and ₱12,370.4 million as of December 31, 2010 and 2009, respectively (see Note 16).

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

The total carrying values of property and equipment and investment properties amounted to ₱127,035.8 million and ₱112,683.1 million as of December 31, 2010 and 2009, respectively (see Notes 14 and 15).

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

Allowance for impairment loss amounted to ₱4,367.7 million and ₱3,987.7 million as of December 31, 2010 and 2009, respectively. The carrying values of investments in shares of stock of associates amounted to ₱70,860.2 million and ₱57,846.8 million as of December 31, 2010 and 2009, respectively (see Note 13).

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

The carrying values of goodwill, trademarks and brand names amounted to ₱15,354.2 million and ₱15,343.5 million as of December 31, 2010 and 2009, respectively (see Note 17).

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

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

Allowance for impairment loss amounted ₱799.7 million as of December 31, 2010 and 2009 (see Note 15). The total carrying values of property and equipment and investment properties amounted to ₱127,035.8 million and ₱112,683.1 million as of December 31, 2010 and 2009, respectively (see Notes 14 and 15).

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

The total carrying values of goodwill and trademarks and brand names with indefinite useful lives arising from business combinations amounted to ₱15,354.2 million and ₱15,343.5 million as of December 31, 2010 and 2009, respectively (see Notes 5 and 17).

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

Deferred tax assets recognized in the consolidated balance sheets as of December 31, 2010 and 2009 amounted to ₱576.4 million and ₱954.0 million, respectively, while the unrecognized deferred tax assets amounted to ₱1,295.3 million and ₱1,734.1 million as of December 31, 2010 and 2009, respectively (see Note 27).

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

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

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to ₱729.6 million and ₱317.7 million as of December 31, 2010 and 2009, respectively (see Note 26). The Group's defined benefit asset amounted to ₱302.2 million and ₱212.8 million as of December 31, 2010 and 2009, respectively (see Note 17). While the Group's defined benefit liability amounted to ₱178.3 million and ₱349.3 million as of December 31, 2010 and 2009, respectively (see Note 26).

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

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

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these proceedings has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (see Note 32).

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from acquisition date and are subject to an insignificant risk of change in value.

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

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as at FVPL, includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories: investments 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. 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 are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account. While interest income earned on investments held for trading are recognized in "Interest income" account in the consolidated statements of income.

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

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

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

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

The Group's investments held for trading and derivative assets are classified as financial assets under this category, 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 under this category (see Note 30).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. Loans and receivables are included in current assets if realizability or collectibility is within 12 months from reporting period. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the loans and receivables are derecognized and impaired, as well as through the amortization process.

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 (see Note 30).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from reporting period and as noncurrent assets if maturity date is more than a year from reporting period.

The Group's investment in quoted Philippine government treasury bonds are classified under this category (see Note 30).

AFS Investments. AFS investments are nonderivative financial assets that are designated in 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 rate method. Assets under this category are classified as current assets if expected to be realized within 12 months from reporting period and as noncurrent assets if expected date of disposal is more than a year 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 (see Note 30).

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 rate 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 (see Note 30).

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 rate method.

Debt Issue Costs
Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest rate 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 (see Note 30). 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 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 flow on the contract.

Options arising from the Parent Company's investment in bonds and convertible bonds payable are the Group's bifurcated embedded derivatives (see Notes 12 and 20).

Derecognition of Financial Assets and Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

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

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

The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income. 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, is 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 Inventories
Land and development, condominium units for sale (included under "Other current assets" account in the consolidated balance sheets) and club shares inventories (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 excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

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, *Financial Instruments: Recognition and Measurement*, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31, *Interests in Joint Ventures*. 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 financial year-end.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation 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, except land, 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 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 financial year-end.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation 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 SM China Companies and Service Companies, were considered as business combination of companies under common control. Thus, the acquisitions were accounted for using an accounting similar to pooling of interests method.

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

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.

Negative goodwill, which is not in excess of the fair values of acquired identifiable nonmonetary assets of subsidiaries and associates, 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 profit or loss. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 net sales shown in the statements of comprehensive income.

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

The retail segment of the Group maintains a loyalty points programme named SM Advantage, SM Prestige and BDO Rewards, which allows the customers to accumulate points when they purchase products in the Group's and its affiliates' retail stores. The points can then be used as a full or partial payment for any purchase at any of the Group's and its affiliates' retail stores, subject to a minimum number of points obtained. The consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

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 at least 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Sale of Club Shares Inventories. Revenue is recognized when the significant risks and rewards of ownership of the club shares inventories have passed to the buyer, which is normally upon delivery of such. Costs of club shares inventories relate to the costs of land and development of the beach and country club.

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

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

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

Dividend. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

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

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 (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. All differences are taken to the consolidated statements of income.

Foreign Currency Translation
The functional currency of the foreign subsidiaries of SM Prime is China yuan renminbi. As of the reporting date, the assets and liabilities of foreign subsidiaries of SM Pime are translated into Philippine peso at the rate of exchange ruling at reporting period and its income and expenses are translated at the weighted average rate for the year. The resulting translation differences 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 accumulated exchange differences are recognized in the consolidated statements of income as a component of the gain or loss on disposal.

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 set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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

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

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

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but 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 reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Business Combinations

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

The acquisition of the Service Companies was considered as business reorganization of companies under common control. Thus, the acquisition was accounted for similar to pooling of interest method. However, the December 31, 2008 consolidated financial statements were not restated due to immateriality. If restated, the December 31, 2008 consolidated net income would be reduced by ₱10.0 million.

The excess of the cost of business combination over the net carrying amounts of the assets and liabilities of ₱12.7 million is included under "Equity adjustment from business combination" account in the equity section of the December 31, 2009 consolidated balance sheet.

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

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

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

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

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

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

The acquisition of Alpha Star was considered as business reorganization of companies under common control. Thus, the acquisition was accounted for similar to pooling of interest method. However, the December 31, 2008 and 2007 consolidated financial statements were not restated due to immateriality. If prior periods would be restated as a result of the acquisition of Alpha Star, the December 31, 2008 and 2007 consolidated net income would be reduced by ₱6.0 million and ₱7.0 million, respectively.

The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities amounting to ₱18.0 million is included under "Equity adjustment from business combination" account in the equity section of the December 31, 2009 consolidated balance sheet.

Acquisition of SM China Companies
On November 13, 2007, the BOD of SM Prime approved the acquisition of 100% of the outstanding common shares of Affluent and Mega Make, holding companies of the three SM Malls in China, in exchange for SM Prime's common shares with a valuation based on the 30-day volume weighted average price of SM Prime at ₱11.86 per share. The acquisition is intended to gain a foothold on China's high-growth prospects and use this as a platform for long-term growth outside the Philippines.

On February 18, 2008, SM Prime executed the subscription agreements with Grand China and Oriental Land Development Limited (Oriental Land) for the exchange of Affluent and Mega Make shares of stock valued for 912,897,212 shares of SM Prime's common stock to be issued upon the approval by the Philippine SEC and PSE. Grand China owns Affluent, which is the holding company of SM Shopping Center (Chengdu) Co. Ltd. (SM Chengdu), Xiamen City Co. Ltd. and Xiamen SM Mall Management Co. Ltd. (collectively, SM Xiamen), while Oriental Land owns Mega Make, the holding company of SM International Square Jinjiang City Fujian (SM Jinjiang).

On May 20, 2008, the Philippine SEC approved the valuation of the share-for-share swap transaction with Grand China and Oriental Land and confirmed that the issuance of shares is exempt from registration requirements of the Securities Regulation Code. Pursuant to the agreements entered into among SM Prime, Grand China and Oriental Land, the 912,897,212 shares of SM Prime were exchanged for 1,000 shares (100% ownership) of Affluent and 1 share (100% ownership) of Mega Make at a total swap price of ₱10,827.0 million. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. The listing of the shares was completed on June 18, 2008. As a result of the acquisition, Affluent and Mega Make became wholly-owned subsidiaries of SM Prime.

On November 30, 2008, SM Prime likewise completed the acquisition of 100% ownership of SM Land China from Grand China for ₱11,360 (HK$2,000). As a result of the acquisition, SM Land China became a wholly-owned subsidiary of SM Prime.

Affluent, Mega Make and SM Land China are herein after collectively referred to as SM China Companies.

For accounting purposes, the acquisition of Affluent and Mega Make was recorded at the fair value of the SM Prime shares issued and cash consideration given to Grand China and Oriental Land at the date of exchange amounting to ₱8,125.0 million, plus directly attributable costs associated with the acquisition.

Acquisition of Affluent and Mega Make. Affluent and Mega Make are unlisted companies which were incorporated under the laws of the British Virgin Islands. Affluent indirectly owns SM Xiamen and SM Chengdu while Mega Make indirectly owns SM Jinjiang, companies incorporated in the People's Republic of China. These companies are engaged in mall operations and development and construction of shopping centers and property management.

Below are the details of the cost of the acquisition of Affluent:

Cost *(in thousands)*:	
Fair value of shares issued	₱4,809,598
Costs associated with the acquisition	24,919
	₱4,834,517

Cash outflow on acquisition *(in thousands)*:	
Cash paid	₱24,919
Cash and cash equivalents of the acquired subsidiary	(558)
Net cash outflow	₱24,361

The total cost of the acquisition was ₱4,834.5 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. SM Prime issued 540,404,330 shares with a fair value of ₱8.90 each, the quoted market price of the shares of SM Prime on the date of exchange.

Below are the details of the cost of the acquisition of Mega Make:

Cost *(in thousands)*:	
Fair value of shares issued	₱3,315,187
Costs associated with the acquisition	17,316
	₱3,332,503

Cash outflow on acquisition *(in thousands)*:	
Cash paid	₱17,316
Cash and cash equivalents of the acquired subsidiary	(18)
Net cash outflow	₱17,298

The total cost of the acquisition was ₱3,332.5 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. SM Prime issued 372,492,882 shares with a fair value of ₱8.90 each, the quoted market price of the shares of SM Prime's shares on the date of exchange.

Acquisition of SM Land China. SM Land China is an unlisted company which was incorporated in Hong Kong.

Below are the details of the net cash inflow from the acquisition of SM Land China:

Cash inflow on acquisition *(in thousands)*:	
Cash paid	₱11
Net cash and cash equivalents of the acquired subsidiary	(7,511)
Net cash inflow	₱7,500

The acquisitions of the SM China Companies were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to pooling of interest method.

The excess of the cost of business combinations over the net carrying amounts of the net assets and liabilities at the beginning of the earliest period presented of the acquired companies amounting to ₱4,818.0 million is included under "Equity adjustment from business combination" account in the equity section of the consolidated balance sheets.

6. Segment Information

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

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.

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.

Transfer prices between business segments are set on an arm's-length basis, similar to transactions with third parties. Segment revenue includes transfers between business segments. Such transfers are eliminated in the consolidation.

Business Segment Data

	2010						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱19,318,278	₱139,263,642	₱12,974,161	₱600,679	₱7,201,676	₱–	₱179,358,436
Inter-segment	4,273,228	3,110,643	3,043,464	–	10,338,408	(20,765,743)	–
	₱23,591,506	₱142,374,285	₱16,017,625	₱600,679	₱17,540,084	(₱20,765,743)	₱179,358,436
Segment results:							
Income before income tax	₱10,796,848	₱8,371,466	₱8,778,124	(₱111,965)	₱10,253,381	(₱7,808,852)	₱30,279,002
Provision for income tax	(2,656,715)	(2,429,969)	(217,396)	(3,663)	(104,286)	10,976	(5,401,053)
Net income	₱8,140,133	₱5,941,497	₱8,560,728	(₱115,628)	₱10,149,095	(₱7,797,876)	₱24,877,949
Net income attributable to:							
Equity holders of the Parent	₱7,856,348	₱5,783,035	₱8,552,486	(₱116,449)	₱10,149,095	(₱13,784,346)	₱18,440,169
Non-controlling interests	283,785	158,462	8,242	821	–	5,986,470	6,437,780
Segment assets (excluding deferred tax)	₱119,193,199	₱65,302,951	₱94,117,055	₱2,485,527	₱190,577,330	(₱64,868,623)	₱406,807,439
Segment liabilities (excluding deferred tax)	₱56,069,831	₱30,496,617	₱35,150,201	₱1,525,299	₱116,317,898	(₱34,629,696)	₱204,930,150
Net cash flows provided by (used in):							
Operating activities	₱13,913,250	₱6,283,721	₱6,561,292	₱675,210	(₱12,548,272)	(₱3,453,710)	₱11,431,491
Investing activities	(14,382,761)	1,328,401	(10,933,360)	(889,640)	11,477,877	1,326,801	(12,072,682)
Financing activities	6,402,803	(6,512,363)	16,421,135	1,908,623	3,823,818	2,074,897	24,118,913
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱5,900,870	₱–	₱64,959,311	₱–	₱70,860,181
Equity in net earnings of associates	–	–	530,499	–	4,910,327	–	5,440,826
Capital expenditures	11,373,974	4,010,949	15,602,168	25,432	2,808,965		33,821,488
Depreciation and amortization	3,616,926	2,027,332	374,859	57,850	547,039	–	6,624,006
Provision for impairment losses	–	–	36,108	–	521,428	–	557,536

	2009						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱16,798,794	₱128,316,354	₱7,506,645	₱469,111	₱6,962,401	₱–	₱160,053,305
Inter-segment	3,824,919	1,800,424	2,059,453	–	3,374,675	(11,059,471)	–
	₱20,623,713	₱130,116,778	₱9,566,098	₱469,111	₱10,337,076	(₱11,059,471)	₱160,053,305
Segment results:							
Income before income tax	₱9,646,482	₱6,908,602	₱3,947,693	₱18,531	₱7,087,919	(₱1,724,282)	₱25,884,945
Provision for income tax	(2,369,645)	(1,791,245)	(206,176)	11	(415,542)	4,854	(4,777,743)
Net income	₱7,276,837	₱5,117,357	₱3,741,517	₱18,542	₱6,672,377	(₱1,719,428)	₱21,107,202
Net income attributable to:							
Equity holders of the Parent	₱7,023,350	₱4,850,361	₱3,732,656	₱17,772	₱6,672,527	(₱6,271,628)	16,025,038
Non-controlling interests	253,487	266,996	8,861	770	(150)	4,552,200	5,082,164
Segment assets (excluding deferred tax)	₱100,690,912	₱44,855,517	₱55,094,283	₱284,918	₱172,124,946	(₱32,360,154)	₱340,690,422
Segment liabilities (excluding deferred tax)	₱48,697,524	₱26,377,945	₱17,474,121	₱257,916	₱103,607,433	(₱24,842,676)	₱171,572,263
Net cash flows provided by (used in):							
Operating activities	₱12,600,419	₱9,014,763	(₱1,919,223)	₱119,586	₱6,216,442	(₱1,430,306)	₱24,601,681
Investing activities	(13,746,179)	(1,186,539)	458,569	(87,419)	(21,462,063)	(4,069,887)	(40,093,518)
Financing activities	(3,166,842)	(5,068,432)	1,281,780	–	16,024,139	5,349,353	14,419,998

	2009						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Eliminations	Consolidated
				(In Thousands)			
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱3,326,215	₱–	₱54,520,555	₱–	₱57,846,770
Equity in net earnings of associates	–	–	359,182	–	3,549,060	–	3,908,242
Capital expenditures	10,747,953	2,694,271	4,747,802	118,437	1,206,375	–	19,514,838
Depreciation and amortization	3,381,399	1,925,280	228,142	6,629	426,694	–	5,968,144
Reversal of impairment losses	–	–	–	–	1,209,646	–	1,209,646

	2008						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱15,339,449	₱118,414,882	₱3,710,496	₱53,003	₱9,980,722	₱–	₱147,498,552
Inter-segment	3,411,982	1,349,009	1,858,498	–	6,712,543	(13,332,032)	–
	₱18,751,431	₱119,763,891	₱5,568,994	₱53,003	₱16,693,265	(₱13,332,032)	₱147,498,552
Segment results:							
Income before income tax	₱9,480,426	₱5,875,205	₱2,013,957	₱464	₱11,607,037	(₱5,904,271)	₱23,072,818
Provision for income tax	(2,747,139)	(2,041,678)	(343,302)	(56)	(550,652)	4,854	(5,677,973)
Net income	₱6,733,287	₱3,833,527	₱1,670,655	₱408	₱11,056,385	(₱5,899,417)	₱17,394,845
Net income attributable to:							
Equity holders of the Parent	₱6,412,215	₱3,723,613	₱1,669,689	₱367	₱11,056,385	(₱8,858,564)	₱14,003,705
Non-controlling interests	321,072	109,914	966	41	–	2,959,147	3,391,140
Segment assets (excluding deferred tax)	₱95,296,018	₱51,798,476	₱44,462,358	₱81,745	₱143,692,951	(₱44,489,834)	₱290,841,714
Segment liabilities (excluding deferred tax)	₱46,558,404	₱23,964,566	₱11,527,846	₱81,040	₱77,970,914	(₱22,171,696)	₱137,931,074
Net cash flows provided by (used in):							
Operating activities	₱10,806,595	₱6,054,989	(₱1,824,632)	₱24,845	(₱9,902,811)	₱6,197,469	₱11,356,455
Investing activities	(8,176,900)	(1,407,435)	1,603,810	(22,377)	15,088,870	(5,895,697)	1,190,271
Financing activities	3,023,035	(3,923,577)	(47,749)	(9,914)	17,787,688	(814,953)	16,014,530
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱1,800,559	₱–	₱45,194,300	₱–	₱46,994,859
Equity in net earnings of associates	–	–	193,952	–	1,443,224	–	1,637,176
Capital expenditures	9,016,568	1,464,531	5,608,827	1,987	2,003,224	–	18,095,137
Depreciation and amortization	2,754,612	1,845,800	255,729	369	381,150	–	5,237,660
Provision for impairment losses	–	–	–	–	5,602,193	–	5,602,193

7. Cash and Cash Equivalents

This account consists of:

	2010	2009
	(In Thousands)	
Cash on hand and in banks (see Note 22)	**₱11,808,709**	₱6,579,398
Temporary investments (see Notes 18 and 22)	**55,152,301**	36,967,603
	₱66,961,010	₱43,547,001

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective temporary investment rates (see Note 25).

8. **Time Deposits and Short-term Investments**

This account consists of:

	2010	2009
	(In Thousands)	
Time deposits:		
Pledged (see Notes 20 and 22)	**₱7,452,800**	₱6,422,970
Not pledged (see Note 22)	**29,966,295**	35,251,479
	37,419,095	41,674,449
Short-term investments (see Note 22)	**876,800**	924,000
	38,295,895	42,598,449
Less current portion	**876,800**	10,361,224
Noncurrent portion	**₱37,419,095**	₱32,237,225

Dollar and peso time deposits as of December 31, 2010 amounting to US$853.5 million (₱37,416.6 million) and ₱2.5 million, respectively, bear annual interest rates ranging from 3.5% to 6.5%. 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 (₱1,972.8 million) are due in October 2017. Peso time deposit amounting to ₱2.5 million is due in August 2012.

Dollar and peso time deposits as of December 31, 2009 amounting to US$897.6 million (₱41,472.0 million) and ₱202.5 million, respectively, bear annual interest rates ranging from 1.5% to 6.5%. Dollar time deposits amounting to US$199.9 million (₱9,237.2 million) matured in March and October 2010, while US$697.7 million (₱32,234.8 million) are due starting May 2011 until September 2014. Peso time deposit amounting to ₱200.0 million matured in January 2010 while the remaining ₱2.5 million is due in August 2012.

A portion of the time deposits amounting to US$170.0 million and US$139.0 million, with peso equivalents of ₱7,452.8 million and ₱6,423.0 million as of December 31, 2010 and 2009, respectively, were used as collateral for loans obtained by SMIC (see Note 20).

Short-term investments amounting to US$20.0 million, with peso equivalents of ₱876.8 million and ₱924.0 million as of December 31, 2010 and 2009, respectively, bear a fixed interest rate of 3.24%.

The interest income earned on time deposits and short-term investments are further discussed in Note 25.

9. Investments Held for Trading and Sale

This account consists of:

	2010	2009
	(In Thousands)	
Investments held for trading -		
Bonds (see Note 22)	**₱444,676**	₱1,642,049
Available-for-sale investments (see Note 12):		
Bonds and corporate notes (see Note 22)	**1,000,000**	2,756,472
Shares of stock	**458,963**	392,282
Redeemable preferred shares	**104,162**	–
	1,563,125	3,148,754
	₱2,007,801	₱4,790,803

The Group recognized a gain of ₱5.7 million and loss of ₱81.6 million and ₱1,354.0 million from fair value adjustments of investments held for trading for the years ended December 31, 2010, 2009 and 2008, respectively. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

10. Receivables

This account consists of:

	2010	2009
	(In Thousands)	
Trade:		
Tenants (see Note 22)	**₱3,304,024**	₱2,722,295
Real estate buyers	**7,798,762**	4,789,491
Due from related parties (see Note 22)	**3,350,787**	3,548,572
Management fees (see Note 22)	**353,691**	378,249
Dividends	**–**	10,266
Total	**14,807,264**	11,448,873
Less allowance for impairment loss	**12,476**	8,926
	14,794,788	11,439,947
Less noncurrent portion of receivables from real estate buyers (see Note 17)	**4,968,012**	2,648,249
Current portion	**₱9,826,776**	₱8,791,698

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

- Trade receivables from tenants and management fee receivables are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Receivables from real estate buyers mainly consist of receivables subject to financing from banks and other financial institutions with interest at market rates ranging from 13% to 18% per annum and normally collectible on a 3 to 5 years' term.

- The terms and conditions relating to related party receivables are further discussed in Note 22.
- Dividends receivable are noninterest-bearing and are normally collectible within the next financial year.

The movements in allowance for impairment loss are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱8,926**	₱8,926
Provision for the year (see Note 24)	**3,550**	–
Balance at end of year	**₱12,476**	₱8,926

Allowance for impairment loss amounting to ₱12.5 million and ₱8.9 million as of December 31, 2010 and 2009, respectively, pertains to receivables from tenants which were identified through specific assessment.

The aging analysis of receivables as of December 31, 2010 and 2009 are as follows:

	2010					
	Neither Past Due	**Past Due but not Impaired**				
	nor Impaired	**31–90 Days**	**91–120 Days**	**Over 120 Days**	**Impaired**	**Total**
			(In Thousands)			
Trade:						
Tenants	**₱2,791,810**	**₱309,157**	**₱190,581**	**₱–**	**₱12,476**	**₱3,304,024**
Real estate buyers:						
Current	**2,706,607**	**36,154**	**12,283**	**75,707**	**–**	**2,830,751**
Noncurrent	**4,968,011**	**–**	**–**	**–**	**–**	**4,968,011**
Due from related parties	**3,350,787**	**–**	**–**	**–**	**–**	**3,350,787**
Management fees	**353,691**	**–**	**–**	**–**	**–**	**353,691**
Net receivables before allowance for doubtful accounts	**₱14,170,906**	**₱345,311**	**₱202,864**	**₱75,707**	**₱12,476**	**₱14,807,264**

	2009					
	Neither Past Due	Past Due but not Impaired				
	nor Impaired	31–90 Days	91–120 Days	Over 120 Days	Impaired	Total
			(In Thousands)			
Trade:						
Tenants	₱2,190,787	₱522,582	₱–	₱–	₱8,926	₱2,722,295
Real estate buyers:						
Current	1,996,088	37,606	17,030	90,110	–	2,140,834
Noncurrent	2,648,657	–	–	–	–	2,648,657
Due from related parties	3,548,572	–	–	–	–	3,548,572
Management fees	378,249	–	–	–	–	378,249
Dividends	10,266	–	–	–	–	10,266
Net receivables before allowance for doubtful accounts	₱10,772,619	₱560,188	₱17,030	₱90,110	₱8,926	₱11,448,873

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

11. **Other Current Assets**

This account consists of:

	2010	2009
	(In Thousands)	
Advances and other receivables (see Note 22)	**₱5,551,857**	₱7,469,189
Prepaid taxes and other prepayments	**3,517,528**	2,456,832
Condominium units for sale (see Note 16)	**1,531,486**	1,021,624
Advances for project development (see Note 22)	**1,121,653**	1,294,011
Club shares inventories	**918,780**	22,707
Input tax	**740,113**	480,112
Supplies and uniform inventory	**457,540**	487,716
Treasury bonds (see Note 17)	**300,000**	–
	14,138,957	13,232,191
Less allowance for impairment loss	**5,705**	5,705
	₱14,133,252	₱13,226,486

- Advances and other receivables include receivables from banks, credit cards and others which are noninterest-bearing and are normally collectible on a 30 to 90 days' term. This also includes interest-bearing advances to third parties, which are normally collectible within the next financial year, and accrued interest which 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. In 2009, advances amounting to ₱639.8 million were liquidated through the transfer of the absolute voting rights in SMRC in favor of SMDC.

- Club shares inventories pertain to club shares of Pico de Loro which Costa 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 inventories had a total of 7,256 and 4,067 as of December 31, 2010 and 2009, respectively.

  On the other hand, at various dates in 2010 and 2009, Costa sold 697 and 40 club shares to third parties and other affiliates for a total consideration of ₱320.6 million and ₱15.0 million, respectively. Gain arising from the sale of club shares amounted to ₱127.4 million and ₱1.4 million for the year ended December 31, 2010 and 2009, respsectively.

  The movements in allowance for impairment loss per classification are as follows:

	Prepaid Taxes and Other Prepayments	Advances and Other Receivables	Total
		(In Thousands)	
As of January 1, 2009	₱484,282	₱5,705	₱489,987
Reversal of provision in 2009	(484,282)	–	(484,282)
As of December 31, 2009 and 2010	₱–	₱5,705	₱5,705

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

12. **Available-for-Sale Investments**

This account consists of investments in:

	2010	2009
	(In Thousands)	
Shares of stock:		
Listed	**₱7,374,086**	₱6,691,382
Unlisted	**101,875**	338,593
Bonds and corporate notes (see Note 22)	**5,120,431**	3,737,607
Redeemable preferred shares	**104,162**	102,795
Club shares	**5,110**	5,420
	12,705,664	10,875,797
Less allowance for impairment loss	**45,132**	45,132
	12,660,532	10,830,665
Less current portion (see Note 9)	**1,563,125**	3,148,754
Long-term portion	**₱11,097,407**	₱7,681,911

The account includes SM Prime's investment in redeemable preferred shares issued by a domestic corporation with an annual dividend rate of 8.25% and investment in corporate notes issued by Banco de Oro Unibank, Inc. (BDO) with fixed interest rate of 6.80% (see Note 22). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. Preferred shares amounting to US$50.0 million (₱2,453.3 million) were redeemed in October 2009. The remaining shares as of December 31, 2010 are mandatorily redeemable in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

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

Investments in bonds and corporate notes as of December 31, 2009 include retail treasury bills which were purchased with fixed interest rate of 10.6% and third party zero-coupon and convertible bonds with fixed interest rate of 2.5%. These investments will mature on various dates starting July 12, 2010 until February 11, 2013.

The investment in convertible bonds as of December 31, 2010 and 2009 have embedded derivatives which are further discussed in Note 30.

The movements in allowance for impairment loss are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱45,132**	₱1,063,296
Recovery	–	(1,018,164)
Balance at end of year	**₱45,132**	₱45,132

The movements in net unrealized gain on AFS investments for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱3,816,597**	₱849,062
Share in net unrealized gain of associates (see Note 13)	**1,996,139**	1,538,412
Gain due to changes in fair value of AFS investments	**1,466,702**	1,429,123
Transferred to consolidated statements of comprehensive income	**(481,343)**	–
Balance at end of year	**₱6,798,095**	₱3,816,597

Gain on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income amounted to ₱481.3 million for the year ended December 31, 2010, none for the year ended December 31, 2009 and ₱122.4 million for the year ended December 31, 2008. The amounts are exclusive of the share of the non-controlling interests.

13. Investments in Shares of Stock of Associates

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

	2010	2009
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱46,827,926**	₱41,225,306
Additions	**7,310,303**	3,242,909
Disposals/reclassifications - net	**(24,038)**	2,359,711
Balance at end of year	**54,114,191**	46,827,926
Accumulated equity in net earnings:		
Balance at beginning of year	**15,006,502**	10,130,579
Equity in net earnings	**5,440,826**	3,908,242
Share in net unrealized gain on AFS investments of associates	**2,065,101**	1,603,186
Dividends received	**(1,355,614)**	(635,505)
Accumulated equity in net earnings of investments sold/reclassified	**(43,167)**	–
Balance at end of year	**21,113,648**	15,006,502
	75,227,839	61,834,428
Allowance for impairment loss:		
Balance at beginning of year	**3,987,658**	4,361,027
Additions (see Note 24)	**380,000**	–
Recovery	–	(373,369)
Balance at end of year	**4,367,658**	3,987,658
	₱70,860,181	₱57,846,770

The Group recognized its share in the net gain on AFS investments of the associates amounting to ₱2,065.1 million and ₱1,603.2 million and net loss of ₱3,033.7 million, inclusive of the share of the non-controlling interests amounting to ₱69.0 million, ₱64.8 million and ₱62.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. The net unrealized gain or loss was recognized in the consolidated statements of comprehensive income. The allowance for impairment loss pertaining on its investment in BDO amounted to ₱3,987.7 million as of December 31, 2010 and 2009, and on its investment in Highlands Prime, Inc. (HPI) amounted to ₱380.0 million as of December 31, 2010 and none in 2009.

The major associates of the Group are as follows:

	Effective Percentage of Ownership		
Company	**2010**	2009	Principal Activities
BDO	**41**	46	Financial services
Sodexho Pass, Inc.	**40**	40	Retail
HPI	**24**	24	Real estate development and tourism
China Banking Corporation (China Bank)	**20**	20	Financial services
Belle Corp. (Belle)	**13**	–	Real estate development and tourism

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% direct and effective ownership, respectively, as of December 31, 2010.

SMIC and an affiliate entered into a deed of assignment whereby the affiliate cedes, transfers, conveys and assigns to the former, all commercial rights for certain marketable securities. The consideration, which is equivalent to the cost of the assigned shares of ₱5,712.0 million and ₱2,178.0 million as of December 31, 2010 and 2009, respectively, was paid through application of outstanding receivables of SMIC from the affiliate.

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

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

At various dates in 2009, SMIC acquired a total of 34.9 million additional BDO common shares, which is equivalent to 1.5% of the total outstanding common stock of BDO, at an average price of ₱24.65 a share or for a total cost of ₱860.8 million.

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

At various dates in 2009, SMIC acquired a total of 0.6 million additional China Bank shares, which is equivalent to 0.65% of the total outstanding common stock of China Bank, at an average price of ₱320.89 a share or for a total cost of ₱204.1 million.

On October 18, 2009, SM Land sold 0.5 million China Bank shares with total carrying value amounting to ₱18.9 million for ₱182.5 million. The gain on sale of investments in shares of stock of associates amounted to ₱163.6 million.

The condensed financial information of significant associates is shown below:

	2010	2009
	(In Millions)	
BDO:		
Total resources	**₱1,009,869**	₱862,049
Total liabilities	**912,137**	794,162
Interest income	**49,930**	48,810
Interest expense	**15,772**	18,251
Net income	**8,881**	6,101
China Bank:		
Total resources	**257,479**	234,036
Total liabilities	**225,025**	203,667
Interest income	**13,213**	13,410
Interest expense	**4,580**	5,174
Net income	**5,004**	4,103
Highlands Prime:		
Total assets	**5,019**	4,689
Total liabilities	**2,260**	1,939
Revenue from real estate sales	**427**	1,098
Cost of real estate sold	**230**	847
Net income	**8**	24
Belle:		
Total assets	**10,528**	9,973
Total liabilities	**4,350**	4,274
Revenue from real estate sales	**1,263**	1,403
Cost of real estate sold	**697**	851
Net income	**465**	386

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

	2010	2009
	(In Thousands)	
BDO	**₱81,262,407**	₱51,377,507
China Bank	**10,536,720**	8,170,728
Highlands Prime	**1,852,723**	2,686,449
Belle	**7,235,586**	–

14. Property and Equipment

The movements in this account are as follows:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)					
Cost										
Balance as of December 31, 2008	₱2,947,124	₱4,865,603	₱5,167,326	₱2,811,850	₱1,774,776	₱1,802,878	₱1,698,384	₱564,584	₱275,611	₱21,908,136
Additions	–	10,825	750,586	308,156	558,185	383,206	564,356	219,653	73,264	2,868,231
Acquired business (see Note 5)	–	–	–	4,871	1,616	–	–	–	–	6,487
Reclassifications	–	(255,153)	71,554	(97,767)	203,080	43,606	(138,610)	919	(147,079)	(319,450)
Disposals/retirements	–	(64)	(181,426)	(61,744)	(299,390)	(205,196)	(163,901)	(4,851)	(572)	(917,144)
Balance as of December 31, 2009	2,947,124	4,621,211	5,808,040	2,965,366	2,238,267	2,024,494	1,960,229	780,305	201,224	23,546,260
Additions	–	62,715	1,090,663	360,809	784,465	667,928	817,095	30,169	589,641	4,403,485
Reclassifications	(1,892)	(140,961)	293,750	(35,386)	61,889	(88,121)	(132,640)	(182,360)	(85,092)	(310,813)
Disposals/retirements	–	(8,673)	(553,728)	(37,513)	(34,383)	(179,800)	(15,492)	(1,734)	(6,105)	(837,428)
Balance as of 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**
Accumulated Depreciation and Amortization										
Balance as of December 31, 2008	₱–	₱2,134,348	₱3,598,561	₱1,960,075	₱967,572	₱1,428,415	₱922,827	₱277,091	₱–	₱11,288,889
Depreciation and amortization	–	273,903	873,710	282,359	206,761	122,894	247,666	36,993	–	2,044,286
Acquired business (see Note 5)	–	–	–	1,098	118	–	–	–	–	1,216
Reclassifications	–	(179,829)	(18,140)	(30,026)	138,496	20,594	(118,758)	1,275	–	(186,388)
Disposals/retirements	–	(9)	(139,960)	(48,122)	(218,184)	(127,929)	(56,675)	(4,070)	–	(594,949)
Balance as of December 31, 2009	–	2,228,413	4,314,171	2,165,384	1,094,763	1,443,974	995,060	311,289	–	12,553,054
Depreciation and amortization	–	70,420	695,655	317,717	344,960	230,439	327,429	(9,309)	–	1,977,311
Reclassifications	–	(36,304)	59,002	(62,059)	(120,503)	(155,487)	(148,442)	2,522	–	(461,271)
Disposals/retirements	–	–	(523,959)	(26,979)	(18,658)	(64,217)	(1,643)	(673)	–	(636,129)
Balance as of 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**
Net Book Value										
As of December 31, 2010	**₱2,945,232**	**₱2,271,763**	**₱2,093,856**	**₱859,213**	**₱1,749,676**	**₱969,792**	**₱1,456,788**	**₱322,551**	**₱699,668**	**₱13,368,539**
As of December 31, 2009	2,947,124	2,392,798	1,493,869	799,982	1,143,504	580,520	965,169	469,016	201,224	10,993,206

15. **Investment Properties**

The movements in this account are as follows:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as of December 31, 2008	₱19,730,004	₱67,552,251	₱12,782,865	₱9,210,389	₱109,275,509
Additions	1,909,872	3,277,091	1,280,429	7,098,891	13,566,283
Reclassifications	946,746	4,277,213	656,497	(4,074,513)	1,805,943
Disposals	(61,046)	(1,726)	(19)	–	(62,791)
Balance as of December 31, 2009	22,525,576	75,104,829	14,719,772	12,234,767	124,584,944
Additions	3,298,010	1,668,232	386,442	10,074,185	15,426,869
Reclassifications	1,608,388	8,011,986	867,775	(9,480,046)	1,008,103
Disposals	(129,476)	–	–	–	(129,476)
Balance as of December 31, 2010	**₱27,302,498**	**₱84,785,047**	**₱15,973,989**	**₱12,828,906**	**₱140,890,440**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance as of December 31, 2008	₱821,500	₱12,503,367	₱5,860,844	₱–	₱19,185,711
Reversal on impairment loss	(351,995)	–	–	–	(351,995)
Depreciation and amortization	113,238	2,471,310	1,137,843	–	3,722,391
Reclassifications	144,999	204,943	(9,220)	–	340,722
Disposals	–	(1,726)	(19)	–	(1,745)
Balance as of December 31, 2009	727,742	15,177,894	6,989,448	–	22,895,084
Depreciation and amortization	338,854	2,870,901	1,134,186	–	4,343,941
Reclassifications	56,640	26,787	(99,256)	–	(15,829)
Balance as of December 31, 2010	**₱1,123,236**	**₱18,075,582**	**₱8,024,378**	**₱–**	**₱27,223,196**
Net Book Value					
As of December 31, 2010	**₱26,179,262**	**₱66,709,465**	**₱7,949,611**	**₱12,828,906**	**₱113,667,244**
As of December 31, 2009	21,797,834	59,926,935	7,730,324	12,234,767	101,689,860

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

	2010	2009
	(In Thousands)	
Beginning balance	**₱799,708**	₱1,151,703
Reversal of provision	–	(351,995)
Ending balance	**₱799,708**	₱799,708

The fair values of investment properties were determined by independent appraisers based on appraisal reports made in 2010, which amounted to ₱288,069.7 million at reporting period. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱475.0 million and ₱487.0 million of December 31, 2010 and 2009, respectively, and a fair value of ₱13,531.0 million as of August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land 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 ₱623.0 million and ₱647.0 million as of December 31, 2010 and 2009, respectively, and a fair value of ₱16,879.0 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱17,904.7 million, ₱15,722.1 million and ₱13,468.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. Consolidated direct operating expenses from investment properties which generate income amounted to ₱11,271.4 million, ₱9,745.8 million and ₱8,208.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Construction in progress account includes shopping mall complex under construction of SM Prime. In 2010, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Taguig, SM Masinag, SM Suzhou and SM Chongqing. In 2009, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Tarlac, SM Calamba, SM San Pablo, SM Novaliches, SM Masinag, SM Suzhou and SM Chongqing.

Shopping mall complex under construction includes cost of land amounting to ₱1,966.4 million and ₱2,087.7 million as of December 31, 2010 and 2009, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱27,509.0 million and ₱19,076.0 million as of December 31, 2010 and 2009, 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 of December 31, 2010 and 2009 are valued at ₱5,745.0 million and ₱3,962.0 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱600.2 million and ₱1,037.0 million in 2010 and 2009, respectively. Capitalization rates used were 6.87% and 8.30% in 2010 and 2009, respectively.

16. Land and Development and Condominium Units for Sale

Land and development, which amounted to ₱19,703.6 million and ₱12,370.4 million as of December 31, 2010 and 2009, respectively, include land and cost of the condominium projects.

SMDC
Land and development costs attributable to SMDC pertain to the on-going residential condominium projects. Estimated cost to complete the projects amounted to ₱5,518.0 million and ₱8,364.0 million as of December 31, 2010 and 2009, respectively.

SMDC has also acquired several parcels of land for future development with aggregate carrying value of ₱8,759.5 million and ₱2,149.5 million as of December 31, 2010 and 2009, respectively.

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

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

SMDC partially finances its project development through issuance of notes and availment of loans. Capitalized borrowing costs amounted to ₱334.9 million and ₱222.0 million in 2010 and 2009, respectively.

On June 30, 2004, SMDC entered into a JVA with Government Service Insurance System (GSIS) for the development of a residential condominium project on a parcel of land owned by GSIS.

As of December 31, 2010, the development of the said project has not yet started.

Costa del Hamilo Inc. (Costa), a subsidiary of Mt. Bliss
Costa's construction projects located at Hamilo Coast in Nasugbu, Batangas consist of condominium buildings and beach and country club. As of December 31, 2010, Costa completed the construction of two condominium projects and the beach and country club. Total estimated cost to complete the on-going projects amounted to ₱711.5 million and ₱1,439.1 million as of December 31, 2010 and 2009, respectively.

In April 2010, the construction of Pico de Loro Beach and Country Club (Pico de Loro) by Costa was completed but the ownership of the risk and rewards of the beach and country club was transferred to Pico de Loro in June 2010. The total actual cost of beach and country club, in exchange for a total of 4,000 club shares amounted to ₱1,128.2 million as of December 31, 2010. Such amount includes ₱38.9 million cost of land and directly attributable costs, transferred by Costa to Pico de Loro in 2009.

Condominium units for sale amounting to ₱1,531.5 million and ₱1,021.6 million as of December 31, 2010 and 2009, respectively, pertain to completed projects of SMDC, Costa and ICDC. The amounts were included under "Other current assets" account in the consolidated balance sheets (see Note 11).

The condominium units for sale and land and development are stated at cost as of December 31, 2010 and 2009.

Borrowing costs capitalized to land and development account amounted to ₱336.4 million and ₱222.0 million in 2010 and 2009, respectively. The average rates used to determine the amount of borrowing costs eligible for capitalization range from 6.7% to 7.2% in 2010, and 4.8% to 6.9% in 2009. Interest expense charged to operations amounted to ₱311.3 million in 2010 and ₱44.1 million in 2009.

17. **Intangibles and Other Noncurrent Assets**

Intangibles
This account consists of:

	2010	2009
	(In Thousands)	
Trademarks and brand names	**₱6,124,762**	₱6,124,762
Goodwill	**9,229,438**	9,218,769
	₱15,354,200	₱15,343,531

Other Noncurrent Assets
This account consists of:

	2010	2009
	(In Thousands)	
Receivable from a related party and escrow fund (see Note 22)	**₱8,618,215**	₱6,442,458
Receivables from real estate buyers (see Note 10)	**4,968,012**	2,648,249
Deposits and advance rentals	**4,780,450**	2,996,328
Derivative assets (see Note 30)	**1,253,129**	356,179
Long-term notes (see Note 22)	**506,724**	506,724
Defined benefit asset (see Note 26)	**302,215**	212,773
Treasury bonds	**200,000**	500,000
Others	**416,891**	386,800
	₱21,045,636	₱14,049,511

The movements in goodwill are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱9,310,388**	₱5,946,363
Additions (see Note 5)	**10,669**	3,364,025
Balance at end of year	**9,321,057**	9,310,388
Less accumulated impairment loss	**91,619**	91,619
Net book value	**₱9,229,438**	₱9,218,769

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 3-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 9.19% to 12.61% and 9.89% to 14.04% as of December 31, 2010 and 2009, respectively. The discount rates were determined based on the yield of 10-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 2010 and 2009 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 2012.

Escrow fund amounting to ₱2,618.2 million and ₱442.5 million as of December 31, 2010 and 2009, respectively, pertains mainly to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell prior to HLURB's issuance of a license to sell and certificate of registration.

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

Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.50% as of December 31, 2010 and 2009. 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%, payable quarterly. The ₱200.0 million will mature on July 31, 2013 while the remaining ₱300.0 million will mature on July 31, 2011 (see Note 11).

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

18. Bank Loans

This account consists of:

	2010	2009
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱14,028,800**	₱1,016,400
Peso-denominated loans	**3,970,000**	500,000
Subsidiaries -		
Peso-denominated loans	**2,410,000**	3,356,894
	₱20,408,800	₱4,873,294

The U.S. dollar-denominated loans amounting to US$320.0 million (₱14,028.8 million) and US$22.0 million (₱1,016.4 million) as of December 31, 2010 and 2009, respectively, bear interest at 3-month London Inter-Bank Offered Rate (LIBOR) plus margin. The peso-denominated loans bear annual interest rates ranging from 2.50% to 3.80% and 4.80% to 8.00% in 2010 and 2009, respectively. These loans payable have maturities of less than one year.

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

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2010	2009
	(In Thousands)	
Trade	**₱24,623,436**	₱21,930,908
Payable arising from acquisition of land	**3,674,262**	2,282,258
Nontrade	**2,264,026**	1,297,275
Due to related parties (see Note 22)	**1,967,940**	2,935,524
Gift checks redeemable and others	**1,935,065**	1,614,071
Accrued interest (see Note 22)	**1,689,155**	1,674,284
Payable to government agencies	**1,458,125**	955,941
Accrued expenses (see Note 22)	**1,427,317**	1,212,302
	₱39,039,326	₱33,902,563

The terms and conditions of the above liabilities follow:

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

20. Long-term Debt

This account consists of:

	2010			2009		
	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	**₱45,453,484**	**(₱473,682)**	**₱44,979,802**	₱39,270,000	(₱351,967)	₱38,918,033
Convertible bonds	**993,374**	**(3,062)**	**990,312**	13,167,251	(70,007)	13,097,244
Peso-denominated:						
Five-year and seven-year retail bonds	**9,400,000**	**(73,859)**	**9,326,141**	9,400,000	(85,466)	9,314,534
Bank loans collateralized with time deposits	**9,000,000**	**(24,335)**	**8,975,665**	6,000,000	(17,964)	5,982,036
Preferred shares	**3,500,000**	**(9,256)**	**3,490,744**	3,500,000	(11,871)	3,488,129
Other bank loans	**12,549,000**	**(28,079)**	**12,520,921**	13,049,500	(34,160)	13,015,340

(Forward)

	2010			2009		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
			(In Thousands)			
Subsidiaries						
U.S. dollar-denominated:						
Three-year term loans	**₱3,945,600**	**(₱48,325)**	**₱3,897,275**	₱4,158,000	(₱85,442)	₱4,072,558
Three-year bilateral loans	**1,753,600**	**(22,795)**	**1,730,805**	924,000	(4,438)	919,562
Three-year club loan	**1,753,600**	**(40,462)**	**1,713,138**	–	–	–
Five-year bilateral loans	**1,315,200**	**(26,951)**	**1,288,249**	–	–	–
Two-year, three-year and five-year bilateral loans	**1,096,000**	**(16,193)**	**1,079,807**	2,541,000	(33,705)	2,507,295
China yuan-renminbi denominated:						
Five-year loan	**2,614,348**	**–**	**2,614,348**	2,368,520	–	2,368,520
Eight-year loan	**763,071**	**–**	**763,071**	778,228	–	778,228
Peso-denominated:						
Three-year and five-year fixed rate notes	**10,000,000**	**(75,510)**	**9,924,490**	–	–	–
Five-year, seven-year and ten-year corporate notes	**5,000,000**	**–**	**5,000,000**	–	–	–
Five-year and ten-year corporate notes	**4,295,200**	**(41,020)**	**4,254,180**	4,300,000	(43,395)	4,256,605
Five-year floating rate notes	**2,994,000**	**(8,562)**	**2,985,438**	3,996,000	(18,239)	3,977,761
Five-year, seven-year and ten-year fixed rate notes	**2,988,020**	**(18,152)**	**2,969,868**	2,994,010	(21,598)	2,972,412
Five-year bilateral loans	**109,375**	**(458)**	**108,917**	3,171,875	(10,952)	3,160,923
Other bank loans	**11,800,000**	**(45,840)**	**11,754,160**	10,380,000	(37,796)	10,342,204
	131,323,872	**(956,541)**	**130,367,331**	119,998,384	(827,000)	119,171,384
Less current portion	**1,767,203**	**(442)**	**1,766,761**	921,467	(1,351)	920,116
Noncurrent portion	**₱129,556,669**	**(₱956,099)**	**₱128,600,570**	₱119,076,917	(₱825,649)	₱118,251,268

Parent Company

Fixed Rate Bonds

On October 13, 2010, SMIC issued US$400.0 million (₱16,807.6 million) bonds 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 (₱8,167.5 million) additional bonds, and US$82.9 million (₱3,329.5 million) and US$130.8 million (₱5,310.6 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due in 2013 and US$500.0 million 6.00% bonds due in 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 net 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 (₱16,622.2 million) bonds which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱12,023.7 million and ₱16,170.0 million as of December 31, 2010 and 2009, 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 US$300.0 million Convertible Bonds (the Bonds) (financial liability component amounted to ₱993.4 million), which carry a zero coupon with a yield to maturity of 3.50%, due on March 20, 2012. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 30.

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted or purchased and cancelled. Starting April 25, 2007, the conversion price is equal to P453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2010, the bondholders of US$9.0 million (₱435.1 million) bonds opted to convert into 959,631 of SMIC's shares (see Note 21). The said conversion resulted in a gain of ₱84.8 million shown under "Gain on sale available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income. The related derivative liability derecognized upon conversion amounted to US$2.3 million (₱97.8 million) (see Note 30).

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

Lastly, the call option gives right to the Parent Company to redeem the remaining Bonds, in whole but not in part at their early redemption amount on the date fixed for redemption, provided, however, that no such redemption may be made unless the closing price of the shares of the Parent Company (translated into US dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio. The remaining bonds will be redeemed at 118.96% of the principal amount.

Five-year and Seven-year Retail Bonds
On June 25, 2009, SMIC issued fixed rate bonds 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 fixed rate loan bears an annual interest of 7.34%, while the floating rate loan is based on a three-month 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 on a 3-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus a margin of 0.375% per annum, payable quarterly in arrears.

These loans are collateralized by SMIC's time deposits amounting to US$170.0 million and US$139.0 million with peso equivalents of ₱7,452.8 million and ₱6,423.0 million as of December 31, 2010 and 2009, respectively (see Note 8).

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 ₱10,000.0 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 a margin of 75 basis points. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

The preferred shares are mandatorily redeemable on August 6, 2012 at redemption price, which consists of (1) 100% of the offer price; (2) all unpaid cash dividends accruing thereon, if any, and/or in the event no cash dividends are declared for the relevant period, an amount equivalent to the sum of the cash dividends on the preferred shares had dividends been declared and paid for the relevant period; and (3) any charges on unpaid amounts due then outstanding. SMIC has an option to early redeem the preferred shares subject to certain conditions. On February 7, 2011, SMIC prepaid the Series 1 preferred shares amounting to ₱3,300.0 million.

Other Peso Bank Loans
This account includes the following:

	2010	2009
	(In Thousands)	
Ten-year term loans	**₱2,050,000**	₱2,050,000
Seven-year term loans	**6,499,000**	6,499,500
Five-year term loans	**4,000,000**	4,000,000
Series "A" floating rate notes	**–**	500,000
	₱12,549,000	₱13,049,500

- 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.

- 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 ₱0.5 million amortization which is due annually after issue date up to the 6th year. The remaining balance is due on maturity.

- 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.

- 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 a margin of 0.125% per annum. The loans will mature in October and November 2014. On January 31, 2011, SMIC prepaid the ₱2,000.0 million fixed rate loan.

- 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.

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

- The five-year Series A notes bear interest based on a 3-month PDST-F rate plus a spread of 1.00% per annum, payable quarterly in arrears and has matured on October 28, 2010.

Subsidiaries

US dollar-denominated Three-Year Term Loans
The US$90.0 million (₱3,945.6 million) unsecured loans were obtained by SM Prime in April and May 2009. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 23, 2012.

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.

US dollar-denominated Three-Year Club Loan
The US$40.0 million (₱1,753.6 million) unsecured loans were drawn by SM Prime on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012.

US dollar-denominated Five-year Bilateral Loans
The US$30.0 million (₱1,315.2 million) five-year bilateral unsecured loan was obtained by SM Prime on November 30, 2010. The loan bears interest rate based on LIBOR plus spread, with bullet maturity on November 15, 2015.

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

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 (₱2,216.2 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 5.18% in 2010 and 2009 (see Note 30).

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained by SM Prime on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥60.0 million (₱398.1 million) was made in 2010 and the balance will be drawn in 2011. 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 5.60% in 2010 (see Note 30).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained by SM Prime on December 28, 2005 amounting to ¥155.0 million, with peso equivalents of ₱763.1 million and ₱778.2 million as of December 31, 2010 and 2009, respectively, 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 5.35% in 2010 and 2009 (see Note 30).

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

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

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on December 20, 2010 amounting to ₱3,000.0 million, ₱1,134.0 million, ₱52.5 million and ₱813.5 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 5.79%, 5.88% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 30).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate notes and ten-year fixed rate note obtained by SM Prime on April 14, 2009 amounting to ₱200.0 million, ₱3,000.0 million and ₱1,100.0 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively (see Note 30).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year bullet term loan obtained by SM Prime on June 18, 2007 and July 9, 2007 totaling ₱4,000.0 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. A portion of the loan amounting to ₱1,000.0 million was prepaid on December 20, 2010. The related unamortized debt issuance costs charged to expense amounted to ₱3.0 million in 2010 (see Note 30).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively (see Note 30).

Philippine Peso-denominated Five-Year Bilateral Loan
This represents a five-year bullet term loan obtained by SM Prime on June 21, 2006 amounting to ₱3,000 million and will mature on June 21, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on December 21, 2010. The related unamortized balance of debt issue costs charged to expense amounted to ₱3.0 million (see Note 30).

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

Philippine Peso-denominated Five-Year Syndicated Loans
In 2004, two subsidiaries of SM Prime obtained a five-year term loan, which originally amounted to ₱1,600.0 million, to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100.0 million starting October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. Starting April 2007, the fixed interest rate of 9.66% was reduced to 6.75%.

Other Bank Loans - Subsidiaries
This account includes the following:

	2010	2009
	(In Thousands)	
Ten-year term loan	**₱1,200,000**	₱1,200,000
Five-year term loans	**9,020,000**	7,600,000
Four-year term loan	**750,000**	750,000
Three-year term loan	**830,000**	830,000
	₱11,800,000	₱10,380,000

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

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

Year Obtained	Maturity	Subsidiary	**2010**	2009	Interest Rate (see Note 30)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱–	PDST-F plus an agreed margin
		SM Prime	**1,000.0**	–	Agreed fixed rate less PDST-F
		SM Land	**225.0**	–	Fixed rate of 8.0% to 8.15%
		Costa	**120.0**	–	Fixed rate of 8.0% to 8.27%
		SM Land	**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	**1,400.0**	1,400.0	Fixed rate of 7.87% to 8.25%
		SM Land	**200.0**	200.0	PDST-F plus an agreed margin
		SMDC	**–**	1,250.0	PDST-F plus an agreed margin
2008	2013	SM Prime	**1,000.0**	1,000.0	Fixed rate of 7.18%
		SMDC	**–**	750.0	Fixed rate of 8.59% to 8.66%
			₱9,020.0	₱7,600.0	

- On April 15, 2009, SM Prime obtained a four-year bullet loan amounting to ₱750.0 million and will mature on April 15, 2013. The loan bears an interest rate based on Philippine Interbank Reference (PHIREF) rate plus margin (see Note 30).

- On October 16, 2009, SM Prime obtained a three-year bullet loan amounting to ₱830.0 million and will mature on October 16, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 30).

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

Debt Issue Cost

The movements in unamortized debt issue cost in 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱827,000**	₱490,651
Additions	**432,296**	537,001
Amortization (see Note 24)	**(302,755)**	(200,652)
Balance at end of year	**₱956,541**	₱827,000

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
2011	₱1,767,203	(₱442)	₱1,766,761
2012	21,541,420	(127,295)	21,414,125
2013	19,225,175	(153,770)	19,071,405
2014	42,646,262	(320,655)	42,325,607
2015	22,363,560	(127,877)	22,235,683
2016	2,200,000	(15,124)	2,184,876
2017	17,630,252	(190,699)	17,439,553
2018	2,850,000	(12,797)	2,837,203
2019	1,100,000	(7,882)	1,092,118
	₱131,323,872	(₱956,541)	₱130,367,331

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2010 and 2009, the Group is in compliance with the terms of its loan covenants.

21. Equity

Capital Stock

As of December 31, 2010 and 2009, SMIC's number of authorized shares is 690,000,000 with a par value of ₱10.0 a share. SMIC's issued and subscribed shares are 611,982,669 and 611,023,038 as of December 31, 2010 and 2009, respectively. At various dates in 2010, an additional 959,631 shares were issued as a result of the conversion of SMIC's Convertible Bonds (see Note 20). The excess of the conversion price over par value totaling ₱425.5 million is presented as "Additional Paid-in Capital" in the consolidated balance sheets.

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 of December 31, 2010 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

The cost of common shares held by subsidiaries as of December 31, 2009 amounting to ₱24.1 million pertains to 90,506 shares with an average cost of ₱266.0 per share.

Retained Earnings

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

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

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱63,566.9 million and ₱54,040.4 million as of December 31, 2010 and 2009, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

22. Related Party Transactions

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at normal market prices. For the years ended December 31, 2010, 2009 and 2008, 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. 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 or common significant influence.

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 ₱3,012.8 million, ₱2,775.4 million and ₱2,444.2 million for the years ended December 31, 2010, 2009 and 2008, 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 ₱656.1 million, ₱611.8 million and ₱518.9 million for the years ended December 31, 2010, 2009 and 2008, 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 ₱695.4 million, ₱565.7 million and ₱346.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Service Income
The Group provides manpower and other services to affiliates. Service income earned amounted to ₱26.6 million, ₱50.6 million and ₱80.7 million in 2010, 2009 and 2008, respectively.

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 ₱188.5 million, ₱139.7 million and ₱105.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Cash Placements and Loans
The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates (see Notes 7, 8, 9, 12 and 17).

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

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

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

Relationship	Nature of Transactions/ Outstanding Accounts	**2010**	2009	2008
			(In Thousands)	
Associates	Interest income	**₱3,013,880**	₱2,511,819	₱1,879,199
	Interest expense	**1,161,073**	673,149	646,647
	Rent income	**27,744**	30,812	19,587
	Service income	**360**	360	360
Retail affiliates and others	Rent income	**2,985,019**	2,744,458	2,424,563
	Management fee income	**695,395**	565,731	346,439
	Management fee expense	**656,131**	611,835	518,908
	Dividend income	**188,472**	139,744	105,344
	Service income	**26,202**	50,120	80,004

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

	2010	2009
	(In Thousands)	
Cash and cash equivalents (see Note 7)	**₱61,561,555**	₱39,304,252
Time deposits and short-term investments (see Note 8)	**38,293,363**	42,595,986
Investments held for trading (see Note 9)	**159,750**	149,385
AFS investments (see Note 12)	**1,077,679**	2,068,358
Receivables:		
Receivable from a related party and advances for project development (see Notes 11 and 17)	**7,121,653**	7,294,011
Due from related parties (see Note 10)	**3,350,787**	3,548,572
Tenants (see Note 10)	**878,452**	578,345
Advances and other receivables (see Note 11)	**754,064**	1,105,896
Long-term notes (see Note 17)	**506,724**	506,724
Management fees (see Note 10)	**353,691**	378,249
Bank loans (see Note 18)	**15,062,000**	242,000
Accounts payable and other current liabilities:		
Due to related parties (see Note 19)	**1,967,940**	2,935,524
Accrued interest (see Note 19)	**115,581**	93,474
Accrued expenses (see Note 19)	**58,440**	132,209
Long-term debt:		
Current portion of long-term debt (see Note 20)	–	504,863
Long-term debt - net of current portion (see Note 20)	**11,543,558**	7,758,032

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits related to key management personnel of the Group for the years ended December 31, 2010, 2009 and 2008 consist of short-term employee benefits amounting to ₱585.7 million, ₱541.7 million and ₱451.4 million, respectively, and post-employment benefits (pension benefits) amounting to ₱86.6 million, ₱87.4 million and ₱61.4 million, respectively.

23. Cost of Sales

This account consists of:

	2010	2009	2008
		(In Thousands)	
Merchandise inventories at beginning of year	**₱7,760,762**	₱7,211,203	₱5,958,302
Purchases	**107,481,508**	99,050,659	93,909,392
Total goods available for sale	**115,242,270**	106,261,862	99,867,694
Merchandise inventories at end of year	**10,485,903**	7,760,762	7,211,203
	₱104,756,367	₱98,501,100	₱92,656,491

24. Selling, General and Administrative Expenses

This account consists of:

	2010	2009	2008
		(In Thousands)	
Personnel cost (see Note 22)	**₱8,728,907**	₱7,893,583	₱6,413,565
Depreciation and amortization (see Notes 14, 15 and 20)	**6,624,006**	5,968,144	5,237,660
Utilities	**4,577,600**	3,647,984	3,405,763
Rent (see Note 28)	**3,016,022**	2,309,105	2,007,651
Taxes and licenses	**2,740,926**	2,608,944	2,371,515
Outside services	**1,974,286**	1,677,606	1,657,489
Advertising and promotions	**1,215,989**	662,424	675,495
Repairs and maintenance	**899,266**	601,484	493,676
Management fees (see Note 22)	**725,212**	659,835	646,471
Supplies	**698,628**	559,127	528,087
Provision for impairment loss and others (see Notes 10, 11, 12, 13 and 15)	**557,536**	–	5,602,193
Commission expense	**404,679**	361,603	121,471
Insurance	**356,054**	216,273	206,677
Entertainment, representation and amusement	**287,665**	196,239	117,847

(Forward)

	2010	2009	2008
		(In Thousands)	
Transportation and travel	**₱287,649**	₱228,031	₱161,500
Pension expense (see Note 26)	**281,567**	270,805	208,464
Professional fees	**206,447**	186,010	209,621
Data processing	**160,840**	96,994	51,561
Communications	**92,602**	101,862	88,507
Others	**1,660,453**	1,456,761	1,151,232
	₱35,496,334	₱29,702,814	₱31,356,445

25. **Interest Income and Interest Expense**

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

	2010	2009	2008
		(In Thousands)	
Interest income on:			
Time deposits (see Note 8)	**₱2,071,015**	₱1,602,868	₱972,598
AFS investments and others (see Notes 9 and 12)	**849,554**	862,388	3,949,272
Temporary investments (see Note 7)	**763,649**	950,409	771,811
Investments held for trading (see Note 9)	**32,234**	42,401	114,934
	₱3,716,452	₱3,458,066	₱5,808,615

	2010	2009	2008
		(In Thousands)	
Interest expense on:			
Long-term debt (see Note 20)	**₱7,177,322**	₱5,579,959	₱3,317,600
Bank loans (see Note 18)	**132,967**	608,418	475,751
Accretion on notes payable	–	–	640,786
Others	**342,268**	77,758	38,634
	₱7,652,557	₱6,266,135	₱4,472,771

26. **Pension Benefits**

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service.

The following tables summarize the components of net benefit expense recognized by MSI, Sanford, SVI, AMC, CFMC, LFMC, LTBG, MFMC and MCLG (subsidiaries of SM Retail); MRDC; and SM Hotels, as included in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

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

	2010	2009	2008
		(In Thousands)	
Current service cost	**₱60,962**	₱104,959	₱124,710
Interest cost	**61,573**	58,568	106,534
Expected return on plan assets	**(27,501)**	(26,553)	(31,821)
Recognized actuarial loss (gain)	**(1,961)**	4,579	5,826
Others	**14,305**	216	215
Net benefit expense	**₱107,378**	₱141,769	₱205,464

Defined Benefit Liability

	2010	2009
	(In Thousands)	
Present value of obligation	**₱695,108**	₱922,784
Fair value of plan assets	**732,189**	731,047
Unfunded (funded) status	**(37,081)**	191,737
Unrecognized actuarial gain	**219,047**	157,729
Others	**(3,692)**	(215)
Defined benefit liability	**₱178,274**	₱349,251

Changes in the Present Value of the Defined Benefit Obligation

	2010	2009	2008
		(In Thousands)	
Defined benefit obligation at beginning of period	**₱922,784**	₱643,307	₱1,417,341
Reclassifications to defined benefit assets	**(386,635)**	(205,913)	(149,629)
Interest cost	**61,573**	58,568	106,534
Current service cost	**60,962**	104,959	124,710
Actuarial loss (gain) on defined benefit obligations	**23,505**	305,898	(765,951)
Benefits paid	**(22,581)**	(113,209)	(26,959)
Transfer from (to) related parties	**17,504**	32,971	(68,401)
Defined benefit obligation acquired in business combinations	**–**	96,203	5,111
Other adjustments	**17,996**	–	551
Defined benefit obligation at end of period	**₱695,108**	₱922,784	₱643,307

Changes in the Fair Value of Plan Assets

	2010	2009	2008
		(In Thousands)	
Fair value of plan assets at beginning of period	**₱731,047**	₱571,629	₱487,469
Reclassifications to defined benefit assets	**(317,680)**	(262,047)	(78,922)
Actual contributions	**149,592**	289,637	316,491
Actuarial gain (loss) on plan assets	**146,806**	108,771	(89,871)
Expected return on plan assets	**27,501**	26,553	31,821
Benefits paid	**(22,581)**	(113,209)	(26,959)
Transfer from (to) related parties	**17,504**	32,971	(68,401)
Plan assets acquired in business combinations	**–**	76,742	–
Other adjustments	**–**	–	1
Fair value of plan assets at end of period	**₱732,189**	₱731,047	₱571,629

Unrecognized Actuarial Gain

	2010	2009	2008
		(In Thousands)	
Net cumulative unrecognized actuarial gain (loss) at beginning of period	**₱157,729**	₱440,597	(₱433,845)
Actuarial gain (loss) on:			
Plan assets	**146,806**	108,771	(89,871)
Defined benefit obligation	**(23,505)**	(305,898)	765,951
Reclassifications from (to) defined benefit assets	**(60,022)**	(72,760)	66,911
Actuarial loss arising from business combinations	**–**	(17,560)	(1,700)
Recognized actuarial loss (gain)	**(1,961)**	4,579	5,826
Other adjustments	**–**	–	127,325
Net cumulative unrecognized actuarial gain at end of period	**₱219,047**	₱157,729	₱440,597

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

	2010	2009	2008	2007	2006
			(In Thousands)		
Present value of defined benefit obligation	**₱695,108**	₱922,784	₱643,307	₱1,417,341	₱927,400
Fair value of plan assets	**732,189**	731,047	571,629	487,469	398,380
Deficit (Surplus)	**(37,081)**	191,737	71,678	929,872	529,020

Certain subsidiaries have defined benefit assets as of December 31, 2010 and 2009. The following tables summarize the components of net benefit expense recognized by the Parent Company; SM Land; SM Prime; SMDC; SM Retail; MSB, MSF, MSM, MMSA, MBLI, MSP, MSC, MMSM, MSG, MSD, MSA, SM Mart, Inc. and Super Shopping Market, Inc. (subsidiaries of SM Retail); Manila Southcoast Development Corp. and Costa (subsidiaries of Mt. Bliss); and Hotel Specialists (Tagaytay), Inc. and SMX Convention Specialist Corp. (subsidiaries of SM Hotels), as recognized in the consolidated statements of income, and the funded status and amounts as recognized in the consolidated balance sheets for the plan:

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

	2010	2009	2008
		(In Thousands)	
Current service cost	**₱150,541**	₱76,995	₱47,612
Interest cost	**148,216**	71,001	53,087
Expected return on plan assets	**(107,419)**	(65,246)	(45,157)
Recognized actuarial loss (gain)	**(27,508)**	43,849	(59,747)
Effect of asset limit	**4,409**	1,863	7,205
Others	**5,950**	574	–
Net benefit expense	**₱174,189**	₱129,036	₱3,000

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

	2010	2009
	(In Thousands)	
Present value of obligation	**₱1,618,563**	₱926,755
Fair value of plan assets	**2,437,705**	1,306,847
Funded status	**(819,142)**	(380,092)
Unrecognized actuarial gain	**510,542**	159,972
Amount not recognized due to asset limit	**13,477**	9,068
Others	**(7,092)**	(1,721)
Defined benefit asset	**(₱302,215)**	(₱212,773)

Changes in the Present Value of the Defined Benefit Obligation

	2010	2009	2008
		(In Thousands)	
Defined benefit obligation at beginning of period	**₱926,755**	₱492,166	₱486,055
Reclassifications from defined benefit liability	**386,635**	205,913	149,629
Current service cost	**150,541**	76,995	47,612
Interest cost	**148,216**	71,001	53,087
Actuarial loss (gain) on obligations	**58,868**	143,281	(227,645)
Benefits paid	**(46,489)**	(38,741)	(13,190)
Transfer to related parties	**(14,063)**	(42,117)	(3,465)
Other adjustments	**8,100**	18,257	83
Defined benefit obligation at end of period	**₱1,618,563**	₱926,755	₱492,166

Changes in the Fair Value of Plan Assets

	2010	2009	2008
		(In Thousands)	
Fair value of plan assets at beginning of period	**₱1,306,847**	₱743,477	₱642,662
Actual contributions	**392,338**	246,082	75,609
Actuarial gain (loss) on plan assets	**373,973**	62,727	(82,300)
Reclassifications from defined benefit liability	**317,680**	262,047	78,922
Expected return on plan assets	**107,419**	65,246	45,157
Benefits paid	**(46,489)**	(38,741)	(13,190)
Transfer to related parties	**(14,063)**	(42,117)	(3,465)
Other adjustments	**–**	8,126	82
Fair value of plan assets at end of period	**₱2,437,705**	₱1,306,847	₱743,477

Unrecognized Actuarial Gain

	2010	2009	2008
		(In Thousands)	
Net cumulative unrecognized actuarial gain at beginning of period	**₱159,972**	₱129,463	₱110,776
Actuarial gain (loss) on:			
Defined benefit obligation	**(58,868)**	(143,281)	227,645
Plan assets	**373,973**	62,727	(82,300)
Reclassifications from (to) defined benefit liability	**60,022**	72,760	(66,911)
Recognized actuarial (gain) loss	**(27,508)**	43,849	(59,747)
Other adjustments	**2,951**	(5,546)	–
Net cumulative unrecognized actuarial gain at end of period	**₱510,542**	₱159,972	₱129,463

The amounts for the current and previous four periods follow:

	2010	2009	2008	2007	2006
			(In Thousands)		
Fair value of plan assets	**₱2,437,705**	₱1,306,847	₱743,477	₱642,662	₱216,263
Present value of defined benefit obligation	**1,618,563**	926,755	492,166	486,055	270,383
Surplus (Deficit)	**819,142**	380,092	251,311	156,607	(54,120)

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

	2010	2009
Discount rate	**6%–8%**	9%–12%
Expected rate of return on assets	**6%**	6%
Future salary increases	**10%–11%**	10%–11%

The major categories of plan assets as a percentage of the fair value of plan assets for 2010 consist of the following investments: common trust funds (37%), bonds (10%), government securities (45%), shares of stock (3%), cash and cash equivalents (3%) and others (2%).

The Group expects to contribute about ₱318.5 million to its defined benefit pension plan in 2011.

27. Income tax

The details of the Group's deferred tax assets and liabilities are as follows:

	2010	2009
	(In Thousands)	
Deferred tax assets:		
Unamortized past service cost and defined benefit liability	**₱208,929**	₱104,775
Unrealized foreign exchange loss and others	**204,381**	602,509
Accrued leases	**84,266**	34,492
MCIT	**50,688**	75,284
Unrealized marked-to-market loss on investments	**28,100**	28,100
Deferred income on sale of real estate	**–**	56,927
NOLCO	**–**	51,912
	₱576,364	₱953,999
Deferred tax liabilities:		
Trademarks and brand names	**₱1,837,429**	₱1,837,429
Capitalized interest	**1,313,177**	1,124,208
Unrealized foreign exchange gain	**872,549**	879,735
Unrealized gross profit on sale of real estate	**275,549**	355,230
Accrued/deferred rent income	**165,114**	58,901
Unrealized marked-to-market gain on investments	**77,735**	1,669
Unamortized past service cost and defined benefit asset	**51,496**	63,832
Others	**43,125**	25,888
	₱4,636,174	₱4,346,892

The Group's consolidated deferred tax assets as of December 31, 2010 and 2009 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, which pertains to the Parent Company, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

	2010	2009
	(In Thousands)	
Net unrealized foreign exchange loss	**₱1,656,228**	₱1,596,889
Allowance for impairment losses	**1,395,119**	1,661,310
NOLCO	**467,458**	–
Accretion on convertible bonds	**230,391**	2,269,466
MCIT	**144,651**	21,805
Nonrefundable advance rentals	**86,241**	98,983
Marked-to-market loss on investments	**–**	80,858
	₱3,980,088	₱5,729,311

As of December 31, 2010, the Group's MCIT and NOLCO are as follows:

Date Paid/Incurred	Carryforward Benefit Up To	MCIT	NOLCO
		(In Thousands)	
December 31, 2008	December 31, 2011	₱10,870	₱–
December 31, 2009	December 31, 2012	58,381	–
December 31, 2010	December 31, 2013	170,864	467,458
		₱240,115	₱467,458

NOLCO and MCIT applied as deduction from taxable income and income tax due amounted to ₱173.0 million and ₱27.8 million in 2010, respectively, ₱447.5 million and ₱21.5 million in 2009, respectively, and NOLCO amounting to ₱2,207.3 million was applied as deduction from taxable income in 2008.

The reconciliation between the statutory tax rates and the Group's effective tax rates on income before income tax is as follows:

	2010	2009	2008
Statutory income tax rates	**30%**	30%	35%
Add (deduct) income tax effects of reconciling items:			
Equity in net earnings of associates	**(5)**	(5)	(2)
Interest income subjected to final tax	**(3)**	(4)	(3)
Gain on sale of shares of stock	**(2)**	–	(11)
Dividend income exempt from tax	**(1)**	(1)	(1)
Effect of change in tax rate	**–**	–	4
Others	**(2)**	(2)	–
Change in unrecognized deferred tax assets	**1**	–	3
Effective income tax rates	**18%**	18%	25%

Under Republic Act No. 9337, regular corporate income tax rate for domestic corporations and resident and nonresident foreign corporations will be reduced from 35% to 30% beginning January 1, 2009. The deferred income taxes and the provision for current income tax include the effect of the change in tax rates.

28. **Lease Agreements**

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. 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 ₱9,503.8 million and ₱8,594.6 million as of December 31, 2010 and 2009, respectively.

The minimum lease receivables under the noncancellable operating leases of the Parent Company as of December 31 are as follows:

	2010	2009
	(In Thousands)	
Within one year	**₱584,714**	₱569,299
After one year but not more than five years	**2,127,508**	2,265,627
After five years	**311,124**	781,247
Balance at end of year	**₱3,023,346**	₱3,616,173

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 of December 31 are as follows:

	2010	2009
	(In Thousands)	
Within one year	**₱373,895**	₱167,792
After one year but not more than five years	**1,737,603**	816,030
After five years	**7,814,374**	5,236,373
Balance at end of year	**₱9,925,872**	₱6,220,195

SVI has finance leases for several sets of 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 total future minimum lease payments amounted to ₱3.9 million and ₱10.9 million, while the present value of future minimum lease payments amounted to ₱3.1 million and ₱10.2 million, as of December 31, 2010 and 2009, respectively.

29. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to raise financing for 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 currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The BOD reviews and agrees policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 4.

Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the Group's financial liabilities that are exposed to interest rate risk in 2010 and 2009:

	2010							
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost**	**Carrying Amount**
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$383,384	₱16,807,552	(₱190,699)	₱16,616,853
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	–	379,156	–	16,622,199	(194,453)	16,427,746
Interest rate	–	–	–	6.00%	–			
US$350 million fixed rate bonds	–	–	274,264	–	–	12,023,733	(88,530)	11,935,203
Interest rate	–	–	6.75%	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱5,990	₱5,990	₱2,981,980	₱9,994,060	₱–	12,988,020	(93,662)	12,894,358
Interest rate	9.31% - 9.60%	9.31% - 9.60%	6.76% - 9.60%	7.73% - 9.85%	–			
Five-year and seven-year retail bonds	–	–	–	8,400,000	1,000,000	9,400,000	(73,859)	9,326,141
Interest rate	–	–	–	8.25%	9.10%			
Corporate Notes	5,550	5,550	–	2,984,400	1,100,000	4,095,500	(39,587)	4,055,913
Interest rate	8.40%	8.40%	–	8.40%	10.11%			
Redeemable preferred shares - Series 1	–	3,300,000	–	–	–	3,300,000	(8,920)	3,291,080
Interest rate	–	7.51%	–	–	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	1,027,300	822,700	2,000,000	–	2,000,000
Interest rate	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%			
Peso loans collateralized with time deposits	–	–	–	1,500,000	–	1,500,000	(6,243)	1,493,757
Interest rate	–	–	–	7.34%	–			
Other bank loans	1,000,000	–	1,000,000	7,744,000	1,750,000	11,494,000	(33,370)	11,460,630
Interest rate	6.65% -7.58%	–	6.82%	6.90%-8.57%	6.71% - 9.75%			
Variable Rate								
Foreign Currency Loans:								
US$ three-year term loans	$–	$110,000	$–	$–	$–	4,822,400	(51,104)	4,771,296
Interest rate	–	LIBOR+spread	–	–	–			
China Yuan renminbi five-year loans	¥20,000	¥40,000	¥60,000	¥260,000	¥–	2,614,348	–	2,614,348
Interest rate	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	–			
US$ club loans	$–	$40,000	$–	$–	$–	1,753,600	(40,462)	1,713,138
Interest rate	–	LIBOR+spread	–	–	–			
US$ bilateral loans	–	–	25,000	–	–	1,096,000	(16,193)	1,079,807
Interest rate	–	–	LIBOR+spread	–	–			
US$300 million convertible bonds	–	22,659	–	–	–	993,374	(3,062)	990,312
Interest rate	–	3.50%	–	–	–			

(Forward)

	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				2010				
				(In Thousands)				
China Yuan renminbi eight-year bilateral loans	¥75,000	¥40,000	¥–	¥–	¥–	₱763,071	₱–	₱763,071
Interest rate	5.35%	5.35%	–	–	–			
Other bank loans	$–	$–	$20,000	$30,000	$–	2,192,000	(46,968)	2,145,032
Interest rate	–	–	LIBOR+spread	LIBOR+spread	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱6,000,000	₱–	₱1,500,000	₱–	7,500,000	(18,092)	7,481,908
Interest rate	–	PDST-F+margin%	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	–	–	–	3,000,000	–	3,000,000	–	3,000,000
Interest rate	–	–	–	PDST-F+margin%	–			
Five-year floating rate loan	2,000	2,992,000	–	–	–	2,994,000	(8,562)	2,985,438
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Redeemable preferred shares - Series 2	–	200,000	–	–	–	200,000	(336)	199,664
Interest rate	–	PDST-F+margin%	–	–	–			
Corporate notes	–	–	–	199,700	–	199,700	(1,433)	198,267
Interest rate	–	–	–	PDST-F+margin	–			
Five-year bilateral loans	62,500	46,875	–	–	–	109,375	(458)	108,917
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Other bank loans	–	10,000	840,000	9,045,000	2,960,000	12,855,000	(40,548)	12,814,452
Interest rate	–	PDST-F+margin	PDST-F+margin	PDST-F+margin	PDST-F+margin			
						₱131,323,872	(₱956,541)	₱134,367,331

	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				2009				
Fixed Rate				*(In Thousands)*				
Foreign Currency Loans:								
US$500 million fixed rate bonds	$–	$–	$–	$500,000	$–	₱23,100,000	(₱234,973)	₱22,865,027
Interest rate	–	–	–	6.00%				
US$350 million fixed rate bonds	–	–	–	350,000	–	16,170,000	(116,994)	16,053,006
Interest rate	–	–	–	6.75%	–			
Peso Loans:								
Five-year and seven-year retail bonds	₱–	₱–	₱–	₱8,400,000	₱1,000,000	9,400,000	(85,466)	9,314,534
Interest rate	–	–	–	8.25%	9.10%			
Corporate Notes	5,850	5,850	5,850	2,982,450	1,100,000	4,100,000	(41,659)	4,058,341
Interest rate	8.40%	8.40%	8.40%	8.40%	10.11%			
Redeemable preferred shares - Series 1	–	–	3,300,000	–	–	3,300,000	(11,344)	3,288,656
Interest rate	–	–	7.51%	–	–			
Five-year, seven-year, ten-year fixed rate notes	5,990	5,990	5,990	981,980	1,994,060	2,994,010	(21,598)	2,972,412
Interest rate	9.31% - 9.60%	9.31% - 9.60%	9.31% - 9.60%	9.31% - 9.60%	9.60% - 9.85%			
Other bank loans	–	1,004,000	4,000	7,592,000	4,749,500	13,349,500	(39,748)	13,309,752
Interest rate	–	6.65% - 8.25%	8.20% - 8.25%	5.55% - 8.67%	6.71% - 9.75%			

(Forward)

	2009							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
Variable Rate								
Foreign Currency Loans:								
US$300 million convertible bonds	$–	$–	$285,005	$–	$–	₱13,167,251	(₱70,007)	₱13,097,244
Interest rate	–	–	3.50%	–	–			
US$ three-year term loans	–	–	110,000	–	–	5,082,000	(89,880)	4,992,120
Interest rate	–	–	LIBOR+spread	–	–			
US$ bilateral loans	–	30,000	–	25,000	–	2,541,000	(33,705)	2,507,295
Interest rate	–	LIBOR+spread	–	LIBOR+spread	–			
China Yuan renminbi five-year loans	¥16,000	¥20,000	¥30,000	¥284,000	¥–	2,368,520	–	2,368,520
Interest rate	5.18%	5.18%	5.18%	5.18%	–			
China Yuan renminbi eight-year bilateral loans	–	75,000	40,000	–	–	778,228	–	778,228
Interest rate	–	5.35%	5.35%	–	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱–	₱6,000,000	₱–	₱–	6,000,000	(17,964)	5,982,036
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year floating rate loan	2,000	2,000	3,992,000	–	–	3,996,000	(18,239)	3,977,761
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Five-year bilateral loans	62,500	3,062,500	46,875	–	–	3,171,875	(10,952)	3,160,923
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Series "A" floating rate note	500,000	–	–	–	–	500,000	(925)	499,075
Interest rate	PDST-F+margin%	–	–	–	–			
Redeemable preferred shares - Series 2	–	–	200,000	–	–	200,000	(527)	199,473
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year and ten-year syndicated loans	–	–	–	–	200,000	200,000	(1,736)	198,264
Interest rate	–	–	–	–	PDST-F+margin%			
Other bank loans	–	–	–	9,580,000	–	9,580,000	(31,283)	9,548,717
Interest rate	–	–	–	PDST-F+margin	–			
						₱119,998,384	(₱827,000)	₱119,171,384

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 rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge the underlying debt obligations. As of December 31, 2010 and 2009, after taking into account the effect of interest rate swaps, approximately 67% and 60%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2010	**100**	**(₱428.1)**	**(₱35.2)**
	50	**(214.0)**	**(17.6)**
	(100)	**428.1**	**35.2**
	(50)	**214.0**	**17.6**
2009	100	(475.8)	(32.5)
	50	(237.9)	(15.1)
	(100)	475.8	31.4
	(50)	237.9	16.8

The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuance which are denominated in U.S. dollars. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency swap contracts, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as of December 31, 2010 and 2009:

	2010	
	US$	**PhP**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**$557,097**	**₱24,423,131**
Time deposits and short-term investments	**20,000**	**876,800**
Investments held for trading	**6,165**	**270,274**
Receivables	**206,718**	**9,062,540**
Noncurrent assets:		
Time deposits	**853,480**	**37,416,563**
AFS investments	**93,976**	**4,119,929**
Derivative assets	**4,492**	**196,951**
Total foreign currency-denominated financial assets	**1,741,928**	**76,366,188**
Current liabilities:		
Accounts payable and other current liabilities	**20,609**	**903,518**
Bank loans	**320,000**	**14,028,800**
Noncurrent liabilities:		
Long-term debt - net of current portion	**1,274,869**	**55,890,271**
Derivative liabilities	**6,735**	**295,263**
Total foreign currency-denominated financial liabilities	**1,622,213**	**71,117,852**
Net foreign currency-denominated financial assets	**$119,715**	**₱5,248,336**

	2009	
	US$	PhP
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$200,498	₱9,263,019
Time deposits and short-term investments	235,690	10,888,893
Investments held for trading	33,510	1,548,185
AFS investments	38,008	1,755,970
Receivables	152,539	7,047,326
Noncurrent assets:		
Time deposits	697,722	32,234,762
AFS investments	15,606	720,980
Derivative assets	1,485	68,603
Total foreign currency-denominated financial assets	1,375,058	63,527,738
Current liabilities:		
Accounts payable and other current liabilities	19,532	902,393
Bank loans	22,000	1,016,400
Noncurrent liabilities:		
Long-term debt - net of current portion	1,300,005	60,060,251
Derivative liabilities	41,361	1,910,895
Total foreign currency-denominated financial liabilities	1,382,898	63,889,939
Net foreign currency-denominated financial liabilities	$7,840	₱362,201

As of December 31, 2010 and 2009, approximately 46.4% and 48.9%, respectively, of the Group's total consolidated bank loans and debt were denominated in US dollars. Thus, a strengthening of the Philippine peso against the US dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, foreign exchange gain of ₱407.2 million, ₱224.0 million and ₱3.0 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2010, 2009 and 2008, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2008	47.52
December 31, 2009	46.20
December 31, 2010	43.84

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments).

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax *(In Millions)*
2010	**1.50**	**(₱179.6)**
	1.00	**(119.7)**
	(1.50)	**179.6**
	(1.00)	**119.7**
2009	1.50	11.7
	1.00	7.8
	(1.50)	(11.7)
	(1.00)	(7.8)

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

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

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

The 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 ₱66,961.0 million, ₱876.8 million, ₱444.7 million and ₱1,000.0 million, respectively, as of December 31, 2010.

The tables below summarize the maturity profile of the Group's financial liabilities as of December 31, 2010 and 2009 based on the contractual undiscounted payments:

	2010				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱20,418,853**	**₱–**	**₱–**	**₱20,418,853**
Accounts payable and other current liabilities*	**–**	**37,581,201**	**–**	**–**	**37,581,201**
Long-term debt (including current portion)	**–**	**3,691,182**	**137,141,508**	**21,395,475**	**162,228,165**
Derivative liabilities					
Non-deliverable forwards	**–**	**–**	**1,153,311**	**–**	**1,153,311**
Interest rate swaps	**–**	**113,820**	**51,097**	**–**	**164,917**
Convertible bonds	**–**	**–**	**126,631**	**–**	**126,631**
Dividends payable	**–**	**24,287**	**–**	**–**	**24,287**
Tenants' deposits	**–**	**341,749**	**12,059,812**	**42,870**	**12,444,431**
	₱–	**₱62,171,092**	**₱150,532,359**	**₱21,438,345**	**₱234,141,796**

	2009				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
			(In Thousands)		
Bank loans	₱–	₱4,894,870	₱–	₱–	₱4,894,870
Accounts payable and other current liabilities*	–	32,946,622	–	–	32,946,622
Long-term debt (including current portion)	–	1,653,584	137,714,682	12,215,956	151,584,222
Derivative liabilities					
Non-deliverable forwards	–	–	403,012	–	403,012
Interest rate swaps	–	95,272	(2,394)	–	92,878
Convertible bonds	–	–	1,811,643	–	1,811,643
Dividends payable	–	22,251	–	–	22,251
Tenants' deposits	–	–	10,011,346	–	10,011,346
	₱–	₱39,612,599	₱149,938,289	₱12,215,956	₱201,766,844

* *Excluding payable to government agencies of ₱1,458.1 million and ₱955.9 million as of December 31, 2010 and 2009, respectively, the amounts of which are not considered as financial liabilities.*

Credit Risk

The Group trades only with recognized, creditworthy related and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Group's exposure to bad debts at a minimum level. Given the Group's diverse base of customers, it is not exposed to large concentrations of credit risk.

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

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

Credit Risk Exposure and Concentration. The table below shows the maximum exposure to credit risk of the Group per business segment as of December 31, 2010 and 2009, without considering the effects of collaterals and other credit risk mitigation techniques.

	2010					
	Shopping Mall Development	**Retail**	**Real Estate Development and Tourism**	**Hotels and Conventions**	**Others**	**Total**
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱9,719,718**	**₱14,021,255**	**₱13,275,621**	**₱1,740,618**	**₱27,319,930**	**₱66,077,142**
Time deposits and short-term investments (including noncurrent portion)	**876,800**	**–**	**–**	**–**	**37,419,095**	**38,295,895**
Investments held for trading	**444,676**	**–**	**–**	**–**	**–**	**444,676**
AFS investments	**1,104,161**	**4,558**	**6,953,965**	**–**	**4,597,848**	**12,660,532**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**2,548,660**	**1,991,137**	**8,443,713**	**23,972**	**1,787,306**	**14,794,788**
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheet)	**878,195**	**2,486,468**	**1,142,955**	**70,485**	**968,049**	**5,546,152**
Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheet)	**–**	**–**	**–**	**–**	**6,000,000**	**6,000,000**
Treasury bonds (included under “Other current and noncurrent assets” account in the consolidated balance sheet)	**–**	**500,000**	**–**	**–**	**–**	**500,000**
Long-term notes (included under “Other noncurrent assets” account in the consolidated balance sheet)	**–**	**288,600**	**–**	**–**	**218,124**	**506,724**
Derivative assets	**738,229**	**–**	**–**	**–**	**514,900**	**1,253,129**
	₱16,310,439	**₱19,292,018**	**₱29,816,254**	**₱1,835,075**	**₱78,825,252**	**₱146,079,038**

	2009					
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	₱3,786,467	₱12,469,094	₱701,146	₱73,314	₱25,094,946	₱42,124,967
Time deposits and short-term investments (including noncurrent portion)	924,000	–	–	–	41,674,449	42,598,449
Investments held for trading	333,665	–	–	–	1,308,384	1,642,049
AFS investments	1,102,795	4,558	6,744,819	–	2,978,493	10,830,665
Receivables - net (including noncurrent portion of receivables from real estate buyers)	2,184,967	1,783,171	5,081,146	45,999	2,344,664	11,439,947
Advances and other receivables - net (included under “Other current assets” account in the consolidated balance sheet)	669,192	3,824,628	1,495,516	19,726	1,454,422	7,463,484
Receivable from a related party (included under “Other noncurrent assets” account in the consolidated balance sheet)	–	–	–	–	6,000,000	6,000,000

(Forward)

	2009					
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Total
			(In Thousands)			
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheet)	₱–	₱500,000	₱–	₱–	₱–	₱500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	–	288,600	–	–	218,124	506,724
Derivative assets	355,235	–	–	–	944	356,179
	₱9,356,321	₱18,870,051	₱14,022,627	₱139,039	₱81,074,426	₱123,462,464

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

As of December 31, 2010 and 2009, these financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

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 of December 31, 2010 and 2009, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	2010		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱66,077,142**	**₱–**	**₱66,077,142**
Time deposits and short-term investments (including noncurrent portion)	**38,295,895**	**–**	**38,295,895**
Investments held for trading	**444,676**	**–**	**444,676**
AFS investments	**12,656,288**	**4,244**	**12,660,532**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**11,379,096**	**2,791,810**	**14,170,906**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**5,546,152**	**–**	**5,546,152**

(Forward)

	2010		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**₱6,000,000**	**₱–**	**₱6,000,000**
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	**500,000**	**–**	**500,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**506,724**	**–**	**506,724**
Derivative assets	**1,253,129**	**–**	**1,253,129**
	₱142,659,102	**₱2,796,054**	**₱145,455,156**

	2009		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱42,124,967	₱–	₱42,124,967
Time deposits and short-term investments (including noncurrent portion)	42,598,449	–	42,598,449
Investments held for trading	1,642,049	–	1,642,049
AFS investments	10,614,883	215,782	10,830,665
Receivables - net (including noncurrent portion of receivables from real estate buyers)	8,581,832	2,190,787	10,772,619
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	7,463,484	–	7,463,484
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 noncurrent assets" account in the consolidated balance sheet)	500,000	–	500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	506,724	–	506,724
Derivative assets	356,179	–	356,179
	₱120,388,567	₱2,406,569	₱122,795,136

Equity Price Risk

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

The effect on income before tax and equity (as a result of change in fair value of investments held for trading and AFS investments as of December 31, 2010 and 2009) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

		2010	
	Change in Equity Price	**Effect on Income Before Income Tax**	**Effect on Equity After Income Tax**
		(In Millions)	
Investments held for trading	**+14.03%**	**₱35.9**	**₱–**
	-14.03%	**(35.9)**	**–**
AFS investments	**+14.03%**	**–**	**1,835.0**
	-14.03%	**–**	**(1,835.0)**

		2009	
	Change in Equity Price	Effect on Income Before Income Tax	Effect on Equity After Income Tax
		(In Millions)	
Investments held for trading	+13.30%	₱71.8	₱–
	-13.30%	(71.8)	–
AFS investments	+13.30%	–	71.4
	-13.30%	–	(71.4)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of 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 22:78 and 21:79 as of December 31, 2010 and 2009, respectively, while the ratio of interest-bearing debt to total capital plus interest-bearing debt were 50:50 and 49:51 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, 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

	2010	2009
	(In Thousands)	
Bank loans	**₱20,408,800**	₱4,873,294
Current portion of long-term debt	**1,766,761**	920,116
Long-term debt - net of current portion and pledged time deposits	**121,147,771**	111,828,298
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*	**(102,807,129)**	(83,740,364)
Total net interest-bearing debt (a)	**40,516,203**	33,881,344
Total equity attributable to equity holders of the Parent	**141,543,064**	124,795,332
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱182,059,267**	₱158,676,676
Gearing ratio (a/b)	**22%**	21%

* *Excluding AFS investments-bonds and corporate notes and long-term notes included under "Other noncurrent assets" account amounting to ₱218.1million and ₱288.6 million, respectively, in 2010 and ₱260.6 million and ₱288.6 million, respectively, in 2009.*

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

	2010	2009
	(In Thousands)	
Bank loans	**₱20,408,800**	₱4,873,294
Current portion of long-term debt	**1,766,761**	920,116
Long-term debt - net of current portion and pledged time deposits	**121,147,771**	111,828,298
Total interest-bearing debt (a)	**143,323,332**	117,621,708
Total equity attributable to equity holders of the Parent	**141,543,064**	124,795,332
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱284,866,396**	₱242,417,040
Gearing ratio (a/b)	**50%**	49%

30. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading:				
Bonds	**₱444,676**	**₱444,676**	₱1,642,049	₱1,642,049
Shares of stock			–	–
Derivative assets	**1,253,129**	**1,253,129**	356,179	356,179
	1,697,805	**1,697,805**	1,998,228	1,998,228
Loans and receivables:				
Cash and cash equivalents	**66,961,010**	**66,961,010**	43,547,001	43,547,001
Time deposits and short-term investments (including noncurrent portion)	**38,295,895**	**43,063,118**	42,598,449	45,898,280
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**14,794,788**	**14,794,788**	11,439,947	11,439,947
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	**5,546,152**	**5,546,152**	7,463,484	7,463,484
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheets)	**6,000,000**	**6,400,621**	6,000,000	6,207,480
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	**506,724**	**574,530**	506,724	657,718
	132,104,569	**137,340,219**	111,555,605	115,213,910
Held-to-Maturity -				
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheets)	**500,000**	**519,454**	500,000	527,875
AFS Investments:				
Shares of stock	**7,430,829**	**7,430,829**	6,984,843	6,984,843
Bonds and corporate notes	**5,120,431**	**5,120,431**	3,737,607	3,737,607
Redeemable preferred shares	**104,162**	**104,162**	102,795	102,795
Club shares	**5,110**	**5,110**	5,420	5,420
	12,660,532	**12,660,532**	10,830,665	10,830,665
	₱146,962,906	**₱152,218,010**	₱124,884,498	₱128,570,678

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Financial Liabilities at FVPL -				
Derivative liabilities	**₱1,351,441**	**₱1,351,441**	₱2,198,472	₱2,198,472
Other Financial Liabilities:				
Bank loans	**20,408,800**	**20,408,800**	4,873,294	4,873,294
Accounts payable and other current liabilities*	**37,581,200**	**37,581,200**	32,946,622	32,946,622
Long-term debt (including current portion and net of unamortized debt issue cost)	**130,367,331**	**142,521,216**	119,171,384	129,075,779
Dividends payable	**24,287**	**24,287**	22,251	22,251
Tenants' deposits	**12,375,013**	**12,352,285**	9,987,054	9,986,529
	₱202,108,072	**₱214,239,229**	₱169,199,077	₱179,102,947

** Excluding payable to government agencies of ₱1,458.1 million and ₱955.9 million as of December 31, 2010 and 2009, respectively, the amounts of which are not considered as financial liabilities.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are the quoted market prices of the instruments at reporting period.

Cash and Cash Equivalents. The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 1.10% to 2.80% and 1.15% to 2.92% as of December 31, 2010 and 2009, respectively.

Receivables and Advances and Other Receivables included under "Other current assets" account. The net carrying value approximates the fair value due to the short-term maturities. The carrying value of the noncurrent portion of receivables from real estate buyers likewise approximates its fair value.

Receivable from a Related Party and Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of receivable from a related party and long-term notes is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 1.79% to 2.50% and 4.42% to 5.12% as of December 31, 2010 and 2009, respectively. While the discount rates used for long-term notes range from 1.29% to 5.68% and 4.28% to 8.10% as of December 31, 2010 and 2009, respectively.

Held-to-Maturity Investment. The fair value is based on its quoted market price ranging from 103.75% to 104.10% and 105.25% to 106.07% as of December 31, 2010 and 2009, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at reporting period. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used range from 3.31% to 4.33% and 6.28% to 7.09% as of December 31, 2010 and 2009, respectively. For unquoted equity securities, these are carried at cost less allowance for impairment loss due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.31% to 5.43% and 4.27% to 8.94% as of December 31, 2010 and 2009, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.94% to 3.55% and 1.92% to 3.52% as of December 31, 2010 and 2009, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.31% to 9.19% and 6.94% to 9.93% as of December 31, 2010 and 2009, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps, cross currency swaps, foreign currency call options and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the investment in bonds and issuance of convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy
As at December 31, 2010, the Group held the following financial instruments measured at fair value:

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 of December 31:

	2010		
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	**₱444,676**	**₱–**	**₱–**
Derivative assets	**–**	**1,253,129**	**–**
	444,676	**1,253,129**	**–**
AFS investments:			
Shares of stocks	**7,374,086**	**–**	**–**
Bonds and corporate notes	**5,120,431**	**–**	**–**
Redeemable preferred shares	**–**	**104,162**	**–**
Club shares	**5,110**	**–**	**–**
	12,499,627	**104,162**	**–**
	₱12,944,303	**₱1,357,291**	**₱–**
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱1,224,810**	**₱126,631**

	2009		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	₱1,642,049	₱–	₱–
Derivative assets	–	355,235	944
	1,642,049	355,235	944
AFS investments:			
Shares of stocks	6,691,382	–	–
Redeemable preferred shares	–	102,795	–
Bonds and corporate notes	3,737,607	–	–
Club shares	5,420	–	–
	10,434,409	102,795	–
	₱12,076,458	₱458,030	₱944
Financial Liabilities			
Financial Liabilities at FVPL - Derivative liabilities	₱–	₱386,829	₱1,811,643

During the years ended December 31, 2010 and 2009, 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 instruments classified under Level 3 pertain to the derivative assets arising from options embedded in the investment in convertible bonds and derivative liability arising from the options in the Parent Company's convertible bonds. These were classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values.

Shown below is the rollforward analysis of the fair value changes from these financial instruments for the year ended December 31:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**(₱1,810,699)**	(₱1,481,991)
Fair value of derivatives on settled contracts	**1,736,460**	–
Fair value changes	**(52,392)**	(328,708)
Balance at end of year	**(₱126,631)**	(₱1,810,699)

The balance at beginning of year includes positive fair value at inception of the option arising from investment in convertible bonds amounting to ₱0.9 million and negative fair value at the beginning of the year of the options arising from the Parent Company's convertible bonds amounting to ₱1,811.6 million. The fair value changes during the year were recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2010	**100 bps**	**(₱12,934)**
	(100) bps	**13,156**
2009	100 bps	(250,370)
	(100) bps	259,760

Derivative Financial Instruments
To address the Group's exposure to market risk for changes in interest rates primarily arising from 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. These derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

Derivative Assets

	2010	2009
	(In Thousands)	
Parent:		
Options arising from investments in convertible bonds	**₱–**	₱944
Non-deliverable forwards	**514,900**	–
Subsidiary:		
Non-deliverable forwards	**541,278**	287,576
Interest rate swaps	**196,951**	67,659
	₱1,253,129	₱356,179

Derivative Liabilities

	2010	2009
	(In Thousands)	
Parent:		
Non-deliverable forwards	**₱514,900**	₱–
Options arising from convertible bonds	**126,631**	1,811,643
Subsidiary:		
Non-deliverable forwards	**541,278**	287,577
Interest rate swap	**168,632**	99,252
	₱1,351,441	₱2,198,472

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

		2010	
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
		(Amounts in Thousands)	
Interest Rate Swaps			
Floating-fixed:			
Outstanding notional amount	**$30,000**	**$30,000**	**$30,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.53%**	**3.53%**	**3.53%**
Outstanding notional amount	**$40,000**	**$40,000**	**$–**
Receive-floating rate	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**	–
			–
Pay-fixed rate	**3.41%**	**3.41%**	–
Outstanding notional amount	**$20,000**	**$20,000**	**$20,000**
Receive-floating rate	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**
Pay-fixed rate	**3.41%**	**3.41%**	**3.41%**
Outstanding notional amount	**$115,000**	**$115,000**	**$25,000**
Receive-floating rate	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**
Pay-fixed rate	**4.10% to 5.40%**	**4.10% to 5.40%**	**4.10%**
Outstanding notional amount	**₱750,000**	**₱750,000**	**₱750,000**
Receive-floating rate	**3 months PHIREF+margin%**	**3 months PHIREF+margin%**	**3 months PHIREF+margin%**
Pay-fixed rate	**8.20%**	**8.20%**	**8.20%**
Fixed-floating:			
Outstanding notional amount	**₱1,000,000**	**₱1,000,000**	**₱1,000,000**
Receive-floating rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱1,000,000**	**₱1,000,000**	**₱1,000,000**
Receive-floating rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**
Outstanding notional amount	**₱985,000**	**₱980,000**	**₱975,000**
Receive-fixed rate	**9.3058%**	**9.3058%**	**9.3058%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	2009		
	<1 Year	>1-<2 Years	>2-<5 Years
	(In Thousands)		
Interest Rate Swaps			
Floating-fixed:			
Outstanding notional amount	$145,000	$115,000	$25,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	4.10 to 5.40%	4.10 to 5.40%	4.10%
Outstanding notional amount	₱750,000	₱750,000	₱750,000
Receive-floating rate	3 months PHIREF+margin%	3 months PHIREF+margin%	3 months PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-floating:			
Outstanding notional amount	₱990,000	₱985,000	₱980,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST-F +margin%	3MPDST-F +margin%	3MPDST-F +margin%

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options and 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 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% on February 11, 2011.

As of December 31, 2010, all embedded derivatives (i.e., conversion option, call option and put option) have nil values.

As of December 31, 2010 and 2009, the net fair value of the options, which is shown under noncurrent asset in the consolidated balance sheets amounted to nil and ₱0.9 million gain, respectively. The Group recognized unrealized marked-to-market loss of ₱0.9 million and ₱2.8 million in 2010 and 2009, respectively, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

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 asset is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱48.37 to US$1. Considering the exposure of the Parent Company, the option was assessed as 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, and such option is also considered a short put option.

As of December 31, 2010 and 2009, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱126.6 million and ₱1,811.6 million, respectively. The Group recognized unrealized marked-to-market loss of ₱51.5 million in 2010 and ₱325.9 million in 2009, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Call Options Arising from Sale of SMC Common Shares. On October 31, 2008, the shares sale was consummated through the PSE of which a realized marked-to-market gain of ₱236.9 million was recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Cross Currency Swaps. In 2004, SM Prime entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.3 to US$1.0. Under these agreements, SM Prime effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet-term loan with semi-annual interest payments up to October 2009 (see Note 20). As of December 31, 2008, the cross currency swaps have negative fair values of ₱861.0 million. Gain on fair value changes from these cross currency swaps contracts recognized in the consolidated statements of income amounted to ₱185.2 million in 2009.

Interest Rate Swaps. In 2010, SM Prime entered into two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As of December 31, 2010, these swaps have positive fair values of ₱86.7 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 20). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱6.4 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 20). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱1.9 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$30 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 20). As of December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱20.0 million.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 20). SM Prime preterminated the US$30.0 million on November 30, 2010. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2010. As of December 31, 2010 and 2009, the outstanding floating to fixed interest rate swaps have net negative fair values of ₱129.8 million and ₱99.3 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 20). As of December 31, 2010 and 2009, the floating to fixed interest rate swap has negative fair value of ₱30.6 million and positive fair value of ₱9.6 million, respectively.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 20). As of December 31, 2010 and 2009, the fixed to floating interest rate swaps have positive fair values of ₱90.3 million and ₱58.1 million, respectively.

In 2004, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$80.0 million. Under these agreements, SM Prime effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009 (see Note 20). As of December 31, 2008, the floating to fixed interest rate swaps have negative fair values of ₱40.6 million. Gain on fair value changes from these interest rate swaps contracts recognized in the consolidated statements of income amounted to ₱40.6 million in 2009.

Foreign Currency Options. In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As of December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

In 2009, SM Prime entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38 million. Under the option contracts, at each expiry date, SM Prime compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As of December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US$1.00 and ₱49.02 to US$1.00, respectively. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2009.

To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, SM Prime entered into the following cost reduction trades in 2007:

Trade Date	Start Date	Notional Amount	Strike Rate	Premium (p.a.)	Payment Dates
		(In Thousands)			
January 25, 2007	January 25, 2007	₱3,942,000	₱52 (US$1.00)	1.00%	October 18, 2007 April 18, 2008
June 27, 2007	April 18, 2007	₱3,942,000	₱49 (US$1.00)	1.00%	October 18, 2007 April 18, 2008 June 30, 2008
June 27, 2007	February 15, 2007	₱1,200,000	₱49 (US$1.00)	1.00%	February 15, 2008 June 30, 2008

In these trades, SM Prime will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the exchange rate between US$ and ₱ trade above the strike price on the two dates, SM Prime will have to pay a penalty based on an agreed formula. As of December 31, 2008, there were no outstanding foreign currency call options. Loss on fair value changes from these currency options is ₱17.0 million in 2008.

Non-deliverable Forwards. In 2010, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. The Parent Company and SM Prime recognized derivative asset and derivative liability amounting to ₱1,056.2 million from the outstanding forward contracts as of December 31, 2010.

In 2009, SM Prime entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. SM Prime recognized derivative asset and derivative liability amounting to ₱288.0 million from the outstanding forward contracts as of December 31, 2009.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as of December 31 are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**(₱1,842,293)**	(₱2,353,176)
Fair value of derivatives on settled contracts	**1,487,595**	969,501
Net change in fair value	**256,386**	(458,618)
Balance at end of year	**(₱98,312)**	(₱1,842,293)

In 2010, net changes in fair value amounting to ₱327.4 million comprise of interest paid amounting to ₱71.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱256.4 million, which is included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

In 2009, net changes in fair value amounting to (₱139.6 million) comprise of interest paid amounting to ₱319.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market loss on derivatives amounting to ₱458.6 million, which is included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets as follows:

	2010	2009
	(In Thousands)	
Derivative assets (see Note 17)	**₱1,253,129**	₱356,179
Derivative liabilities	**(1,351,441)**	(2,198,472)
Balance at end of year	**(₱98,312)**	(₱1,842,293)

31. **EPS Computation**

	2010	2009	2008
	(In Thousands, Except for Per Share Data)		
Net Income Attributable to Common Equity Holders of the Parent			
Net income attributable to common equity holders of the Parent for basic earnings (a)	**₱18,440,169**	₱16,025,038	₱14,003,705
Effect on net income of convertible bonds, net of tax	–	747,104	–
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱18,440,169**	₱16,772,142	₱14,003,705
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period (c)	**611,218**	611,023	611,023
Dilutive effect of convertible bonds	–	29,552	–
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**611,218**	640,575	611,023
Basic EPS (a/c)	**₱30.17**	₱26.23	₱22.92
Diluted EPS (b/d)	**₱30.17**	₱26.18	₱22.92

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS in ₱30.32 and ₱25.90 in 2010 and 2008, respectively.

32. **Other Matters**

a. 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.

b. On November 10, 2009, Belle entered into a Memorandum of Agreement with SMCP and its related companies, for Belle's acquisition of all the outstanding capital stock of Premium Leisure & Amusement, Inc. (PLAI). PLAI and its consortium members were granted a license by the Philippine Amusement and Gaming Corporation, to develop and operate an integrated resort complex.

   The acquisition of PLAI will be via share swap, where the entire outstanding capital stock of PLAI, consisting of 0.05 million common shares, will be exchanged for 2,700 million new common shares of Belle, from its authorized and unissued capital stock.

   The valuation of the PLAI shares was made by an independent appraiser and approved by the SEC on October 6, 2010. Pursuant to this acquisition, Belle obtained a loan facility from BDO amounting to ₱5,600.0 million on December 1, 2010, which will be used to finance the construction of the said integrated resort complex.

As of March 2, 2011, Belle and PLAI are taking steps for the implementation of the share swap, following the approvals from the Bureau of Internal Revenue and SEC.

c. On February 4, 2011, the Parent Company issued corporate notes amounting to ₱7,000.0 million, which bear a fixed interest rate of 6.165% per annum, payable semi-annually in arrears. The corporate notes will mature on February 4, 2016.