SM INVESTMENTS CORPORATION

Creating Value at All Times

Annual Report 2011

Creating Value at All Times

In just over five decades, SM as a company has grown from a mere shoe store to become one of the Philippines' largest conglomerates. As a brand, SM has evolved into a household name earned in time by continuing to serve and deliver the best value products and services, to fulfill aspirations, and to provide a better life for its millions of customers. Behind such growth and wide recognition is the vision, the leadership, prudent use of resources, innovation and dedication of the men and women within the whole SM organization. Their focused intent creates value at all times in businesses that they know best to operate. Such value is backed by hard assets consisting of stores, malls, banks, homes, commercial buildings, and tourist destinations that bear the mark of product quality and service excellence. Behind such value too is the heart that cares for its customers, communities and its environment to ensure sustainable growth and progress. Moving forward, expect greater value to be created, because SM is determined to serve millions more.

INVESTMENTS CORPORATION

V I S I O N . L E A D E R S H I P . I N N O V A T I O N . F O C U S . H A R D W O R K . I N T E G R I T Y . P R U D E N C E .





RETAIL OPERATIONS

SM RETAIL, INC.

- 85% SM DEPARTMENT STORE
- 100% SM SUPERMARKET
- 100% SM HYPERMARKET
- 100% SM SAVEMORE

MALL OPERATIONS

49% SM PRIME HOLDINGS, INC.

BANKING

- 46% BANCO DE ORO UNIBANK
- 21% CHINA BANKING CORPORATION

PROPERTY

67% SM LAND, INC.

- COMMERCIAL
  - 67% COMMERCIAL PROPERTIES GROUP
- RESIDENTIAL
  - 44% SM DEVELOPMENT CORPORATION
  - 27% HIGHLANDS PRIME, INC.
- LEISURE
  - 94% COSTA DEL HAMILO, INC.

HOTELS & CONVENTIONS

100% SM HOTELS AND CONVENTIONS CORPORATION

Numbers represent SM's effective interests.

SM INVESTMENTS CORPORATION

Our Vision

We envision SM to be a Filipino brand that is world-class. We see SM as a market leader that constantly innovates to provide best-value products and services to its millions of customers.

Our Mission

To achieve world-class standards, SM shall adhere to long-held corporate values of hard work, focus, and integrity.

To meet the ever-changing needs of customers, SM shall take the lead in constantly innovating its products and services.

To become an employer of choice, SM shall develop its employees into professionals who are highly motivated to excel in their respective fields of service.

To generate sustainable growth and optimal returns, SM shall exercise prudence in resource management based on its vision and principles of good corporate governance.

To assist and nurture the communities in which it operates, SM shall progressively build on its role as a responsible corporate citizen through its various civic and environmental programs.

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HENRY SY, SR.
Chairman

HENRY SY, JR.
Vice Chairman

TERESITA SY-COSON
Vice Chairperson

MESSAGE TO STOCKHOLDERS

TO OUR FELLOW STOCKHOLDERS

We are pleased to inform you that a tempered economy in 2011 did not hinder SM Investments from delivering its full-year target. Our company's revenues grew 13% while net income grew 15%.

SM also achieved a milestone in 2011. Our company's revenues topped the Php200 billion mark, finishing at Php200.3 billion by yearend, an amount that more than doubled in the last five years. This came from only Php89.1 billion in 2006, which translates to an average five-year growth of 25% per annum. Net income on the other hand grew by an average of 20.3% per annum. During this period also, SM shares grew from Php325.0 on December 2006 to Php582.5 on December 2011, a reflection of SM's ability to bring good returns on your valued investments, combined with your trust and confidence on your company's management.

It is apparent how SM has evolved in the last five years following the public listing of SM's shares in 2005, and the entry of SM Mall of Asia as a landmark mall for the group and for the Philippines. Since then, SM has become bolder, more visible, and has given greater focus on service excellence. It carried out its expansion programs with increased momentum. This kind of dedication made it possible for SM to become a dominant and formidable player in retail, mall development, financial services, and more recently, in residential development. We also forged ahead with our plans to take advantage of the bright prospects in tourism and leisure, which has become our fifth core business.

Such growth was made possible through the dedication of the professionals behind the organization and the efficient corporate systems now in place. We continue to strive toward achieving optimal returns and greater efficiency by creating more synergies in the activities across the whole group, which includes our civic work and social services under SM Foundation.

Our vision for your company remains focused on the long-term prospects in our five core businesses as they could further benefit from expectations of a stronger Philippine economy. The signs are clear to us. Better governance in the public sector and the continued productivity of the Filipino people both in and outside of the country offers much room for steady growth in the consumer sector. The monetary and financial systems are in a healthy state and have led to a low-interest rate environment. This, in turn, fuels more sustainable growth in specific sectors such as residential development, especially for the mass market which had long been underserved. Even tourism looks bright as a fresh approach is taken to highlight the warmth and fun loving side of the Filipinos on top of the country's spectacular sights. Undoubtedly, much can still be expected from an emerging country with an expanding middle market.

We are also participating in the continued growth in China where personal incomes are growing even faster in the Philippines. We already see our older malls in Xiamen and Jinjiang reaping the benefits of the focus, dedication and the innovative approach that we took.

Our optimism shows in our investment plan for 2012. Our budget allows for a Php56 billion budget to drive an aggressive expansion of our retail stores, malls, bank branches, residential and office buildings and hotels. Of that amount, we are earmarking about Php7 billion for China where the presence of SM malls is gaining more momentum. Such is SM's commitment to progress. Sustainable growth is the company's key focus in spite of the many awards reaped over the years for excellence in management and the various services that SM offers. The board and management of SM continue to challenge its people and the company to become better in all aspects of its diverse businesses. More importantly, we challenge the whole organization to further enhance the relationship with the millions of customers and stakeholders that we serve every single day.

5-Year Track Record

YEAR	REVENUES (Php billion)	REVENUES % Growth	NET INCOME (Php billion)	NET INCOME % Growth	SHARE PRICE (Php)	SHARE PRICE % Growth	DIVIDENDS (Php Per Share)	DIVIDENDS % Growth
2007	123.9	39.11%	12.1	15.06%	340.0	4.60%	5.41	15.11%
2008	147.5	19.06%	14.0	15.62%	192.0	-43.53%	5.90	9.06%
2009	158.0	7.14%	16.0	14.43%	325.0	69.27%	6.88	16.61%
2010	177.2	12.11%	18.4	15.07%	543.0	67.08%	7.88	14.53%
2011	200.3	13.04%	21.2	15.10%	582.5	7.27%	TBA	

HENRY SY, SR.
Chairman

HENRY SY, JR.
Vice Chairman

TERESITA SY-COSON
Vice Chairperson

In 2011, SM delivered results that went beyond our expectations. The robust performance of our core businesses, which individually also sustained their respective growth and expansion momentum, contributed significantly to achieving this positive outcome.

PRESIDENT'S REPORT

I am very pleased to report that in 2011, SM delivered results that went beyond our expectations. The robust performance of our core businesses, which individually also sustained their respective growth and expansion momentum, contributed significantly to achieving this positive outcome. More noteworthy is the fact that 2011 presented serious challenges such as extreme natural calamities, a debt crisis in the western world, and political conflicts, which combined, affected global output. In addition, our own economy experienced slower growth due mainly to the under spending of the national government. In the midst of these headwinds, SM forged ahead and delivered, supported mainly by a resilient consumer sector.

For full year 2011, our company attained a 15% growth in its net income, which amounted to Php21.2 billion, from Php18.4 billion in 2010. Consolidated revenues for 2011 grew 13% to Php200.3 billion, from Php177.2 billion during the previous year. Operating income rose 16% from Php32.2 billion the previous year, to Php37.4 billion in 2011, for an operating margin of 19%. EBITDA for the year expanded by 16%, amounting to Php44.6 billion, and resulting in a higher EBITDA margin of 22%.

Meanwhile, a look at SM's balance sheet clearly shows that it has continued to be sound in 2011, with net worth increasing 12% to Php222.3 billion and net debt to equity ratio at a healthy level of 28:72. We had two funding initiatives during the year. The first was in February 2011 when SM issued Php7.0 billion worth of five-year corporate notes. The next was in September 2011 with the issuance of seven- and ten-year fixed rate corporate notes worth Php5.0 billion.

Between our company's five core businesses, our banks, namely **BDO Unibank, Inc.** and **China Banking Corp.** contributed the most to our net income, with a 31.1% share.

BDO had a very good year in spite of very low policy rates, which made it challenging for the industry to improve its margins. The bank managed to grow its net income by 19% to Php10.5 billion. BDO focused mainly in growing its recurring income, which rose 18% to Php12.3 billion as gross loans increased by 24% to Php670.1 billion. The bank also grew its low-cost deposits by 10% to Php858.6 billion.

BDO's non-performing loan (NPL) ratio further declined to 3.4% from 4.7% in 2010. Its NPL coverage is among the highest in the industry at 106%. Meanwhile, the bank's capital adequacy ratio (CAR) improved from 13.8% in 2010 to 15.8%. The full year 2011 results brought in enhanced shareholder returns, with return on equity at 11.7%.

China Bank reported a consolidated net income of Php5.0 billion for full year 2011, resulting in a healthy return on equity of 13.7%. Its gross loans jumped 32% to Php150.0 billion while total deposits increased by 1.5% to Php216.1 billion. China Bank continues to be well capitalized with a CAR of 17.8%. Its NPL ratio further improved to 2.9%.

The second largest contribution to SM's earnings came from the retail group with 30.2%. **SM Retail, Inc.** registered a full year 2011 net income of Php5.8 billion, rising 3% compared to 2010, while total sales for the group increased 9% to Php148.2 billion. SM Retail's continued expansion, particularly of the SaveMore store format, still proved to be a key driver of the group's performance, as another 25 new branches were opened in 2011 from 14 the previous year.

SM Retail, Inc. realized a net margin of 3.9% for the year and its EBITDA grew 5.9% to Php10.0 billion, for an EBITDA margin of 6.7%. Of total retail sales, 43% came from the non-food group, while the 57% came from the food group. Regarding net income, the non-food group contributed 27% to the total, while the food group provided 73%.

Our retail operations opened 34 new stores in 2011 the bulk of which were the 25 new SaveMore stores. The rest were three SM Supermarkets, five SM Hypermarkets and one SM Department Store. The total number of stores by the end of the year stood at 169 consisting of 41 department stores, 33 supermarkets, 65 SaveMore branches, and 30 hypermarkets. We expect this pace of expansion to continue through 2012, with particular focus on the provinces for the department stores, supermarkets, and hypermarkets, which are mainly anchor stores in SM malls. SaveMore will aggressively open 30 to 40 stand-alone branches nationwide.

Our mall development subsidiary, **SM Prime Holdings, Inc.** (SM Prime) contributed 23.5% to SM's full year earnings. 2011 was a very good year for SM Prime as it exceeded expectations with an earnings growth of 15% to Php9.1 billion. Total revenues for the year rose by 13% to Php26.9 billion for an EBITDA that grew 16% to Php18.5 billion and an EBITDA margin of 69%. Of its total revenues, rental fees contributed 85% to the total, and grew by 14% to Php22.8 billion.

SM Prime's strong performance in 2011 was driven by a host of factors. Foremost is the continued expansion in the Philippines and China. Also, same-store rental revenues grew by 7% for the year. The operations in China also strengthened further as its net profit grew sharply by 107% to Php0.9 billion, from a revenue growth of 45% to Php2.0 billion.

The new malls in the Philippines added 8% or 380,000 square meters (sqm) to the company's total gross floor area (GFA) of 5.0 million sqm.

Real estate development under **SM Land, Inc.** contributed 15.2% to SM's net income as revenues from real estate operations expanded 52% to Php19.7 billion, while net income also from real estate operations increased 39% to Php5.3 billion. Consolidated net income, on the other hand, rose 31% to Php5.1 billion.

SM Land's operations are in residential, commercial and leisure development. However, bulk of its earnings came from its residential arm, SM Development Corporation or SMDC.

In 2011, SMDC saw a sharp increase of 38% in its consolidated net income of Php4.2 billion, as compared to Php3.0 billion in 2010. Its consolidated revenues grew 70% to Php17.0 billion and were derived mainly from real estate operations. During the year, the market continued to warmly accept SMDC's SM Residences and M Place products, allowing it to maintain its leadership position as a residential developer in Metro Manila.

SM Land's commercial properties group topped off last year its latest project, TwoE-Com Center at the Mall of Asia Complex in Pasay City. It provided an additional 107,862 sqm in gross floor area to its total GFA of 259,805 sqm. Benefitting from the country's dynamic and progressive BPO (business process outsourcing) industry, TwoE-com is already 75% leased out to various tenants as of end 2011. Within the first six months of this year, the group plans to start constructing ThreeE-Com Center, which will likewise cater to the office space requirements of BPO firms and add another 125,716 sqm. of floor space.

2011 also saw the construction of another SM project within the Mall of Asia Complex. This is the 62,000-sqm SM Arena, which is scheduled for completion by the second quarter of 2012. SM Arena is a state of the art sports complex with a capacity to admit up to 20,000 spectators. It has already lined up major sports events such as the very popular collegiate basketball tournaments, together with major concerts of renowned local and international artists.

In Hamilo's Pico de Loro in Nasugbu, Batangas, the Miranda and Carola condominium clusters have been completed and have been 79% and 42% sold respectively as of end 2011. The mixed-use development, which includes a beach and country club and the Pico Sands Hotel, is virtually complete and is being enjoyed by residents, club members and their guests.

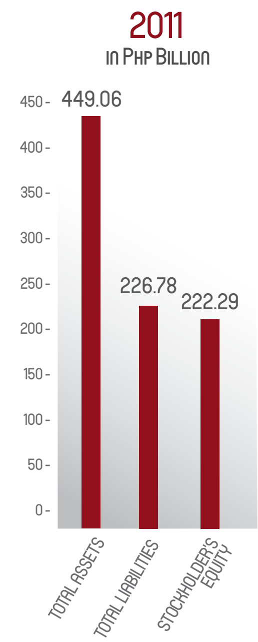
SM's fifth core business under **SM Hotels and Conventions Corporation** launched Pico Sands in April last year. This is a resort hotel at Pico de Loro Cove. The 154-room hotel is a welcome addition to the other fine SM hotels, namely the 261-room Taal Vista in Tagaytay City and the 400-room Radisson Blu in Cebu. Next year, SM Hotels and Conventions will open another hotel, the 204-room Park Inn Davao in Southern Mindanao. In the conventions business, SM continues to be a major player, providing more than 17,644 sqm of leasable convention and exhibit space to hundreds of thousands of delegates and participants, most notably in its flagship SMX Convention Center located at the Mall of Asia Complex.

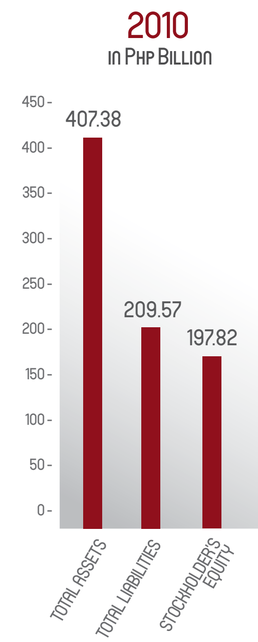
As in years past, your company, SM, has performed to the best of its ability and that is why 2011 ended on a very positive note. As such, we give our success back to the communities we operate through scholarship programs, donation of school buildings, medical missions, and livelihood programs under **SM Foundation, Inc.**

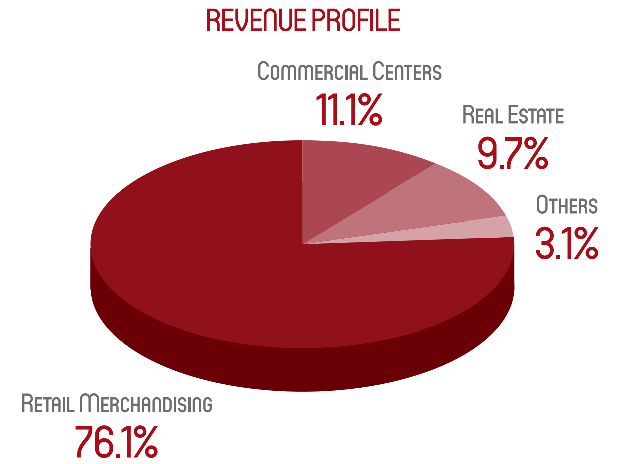
With better economic and business prospects for the country this year, we look at 2012 with greater optimism in sustaining our growth and development in all our endeavors. Our expansion is larger than ever amounting to Php56.8 billion as we further increase our capacity in all of our five core businesses.

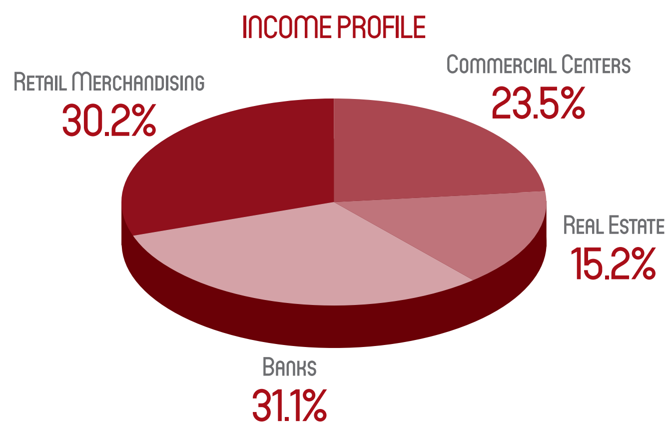
I sincerely thank all of you because as always, it is your genuine trust and untiring support that make it possible for our company to continue flourishing.

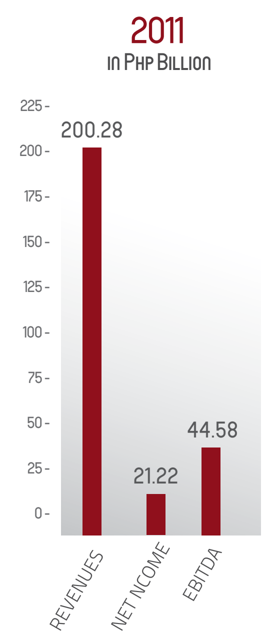
HARLEY T. SY
President

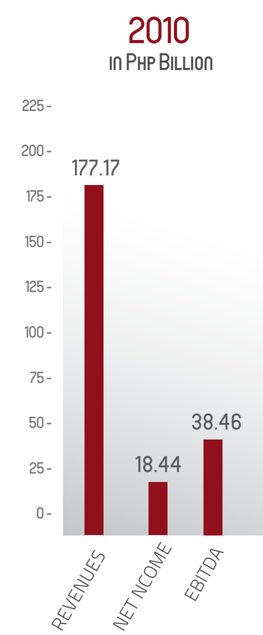












SMIC SHARE PRICE CHART (January to December 2011 in PHP)

BALANCE SHEET HIGHLIGHTS

(PHP Bn)	Jan-Dec 2011	% Chg
Total Assets	449.06	10%
Current Assets	101.26	-3%
Non-current Assets	347.80	15%
Current Liabilities	79.78	28%
Non-current Liabilities	147.00	0%
Total Liabilities	226.78	8%
Stockholder's Equity	222.29	12%
Book Value per share (PHP)	257.61	11%

INCOME STATEMENT HIGHLIGHTS

(PHP Bn) except EPS	Jan-Dec 2011	% Chg
Revenues	200.28	13%
Gross Profit	37.39	16%
Other Income /(Expenses)	(1.69)	-11%
Net Profit Before Tax	35.69	18%
Net Income	21.22	15%
Minority Interest	8.97	39%
Basic EPS (PHP)	34.68	15%

FINANCIAL RATIOS

	2011	2010
Current Ratio (x)	1.27:1	1.67:1
Return on Equity (%)	14.2%	13.8%
Debt/Equity Ratio (%)	51:49	50:50
Net Debt (PHP Bn)	61.33	40.52
Net Debt/Equity (%)	28:72	22:78
Revenue Growth (%)	13%	12%
Net Income Growth (%)	15%	15%
Interest Cover (x)	5.10	4.63
EBITDA (PHP Bn)	44.58	38.46
EBITDA Margin (%)	22.3%	21.7%
Net Margin (%)	10.60%	10.41%

REVENUE PROFILE

	%
Commercial centers	11.1%
Real Estate	9.7%
Others	3.1%
Retail Merchandising	76.1%

INCOME PROFILE

	%
Commercial centers	23.5%
Real Estate	15.2%
Banks	31.1%
Retail Merchandising	30.2%

RETAIL OPERATIONS

Operating in a competitive environment where market preferences often change and customer demand for value-for-money products constantly increases, SM Retail sustained its growth and expansion in 2011. Through the timely and effective implementation of marketing initiatives such as sale events, and offering more novel products and services, SM Retail aptly addressed and met the expectations of clients. Consequently, in spite of the slow economy, SM Retail grew its revenues by 9% to Php148.2 billion. Net income increased by 3% to Php5.8 billion, resulting in a net margin of 3.9%.

During the year, the non-food group composed mainly of SM Department Stores, introduced several key innovations, which led to greater product and service enhancements. Customer-driven and customer-friendly programs launched in 2011 include an on-line gift registry, specialized business units, a new POS (point of sale) system, and tie-ups with leading fashion designers, among others. Meanwhile, the food group, composed of SM Supermarkets, SaveMore branches, and SM Hypermarkets, drove the expansion of SM Retail, with SaveMore opening 25 new branches in 2011.

In total, SM Retail launched 34 new stores last year, bringing the total number of its stores to 169, of which 41 were department stores, 33 were supermarkets, 65 were SaveMore branches, and 30 were hypermarkets.

For this year, the Department Stores will focus on coming out with new and exciting concepts. These include big themed sales events, which entail focused selling efforts within a specific location outside the department stores, such as the SMX Convention Center and other key areas in SM malls. As for the food group, SaveMore will be at the forefront of its entry into strategic provincial districts where demand for organized retail is largely unserved.

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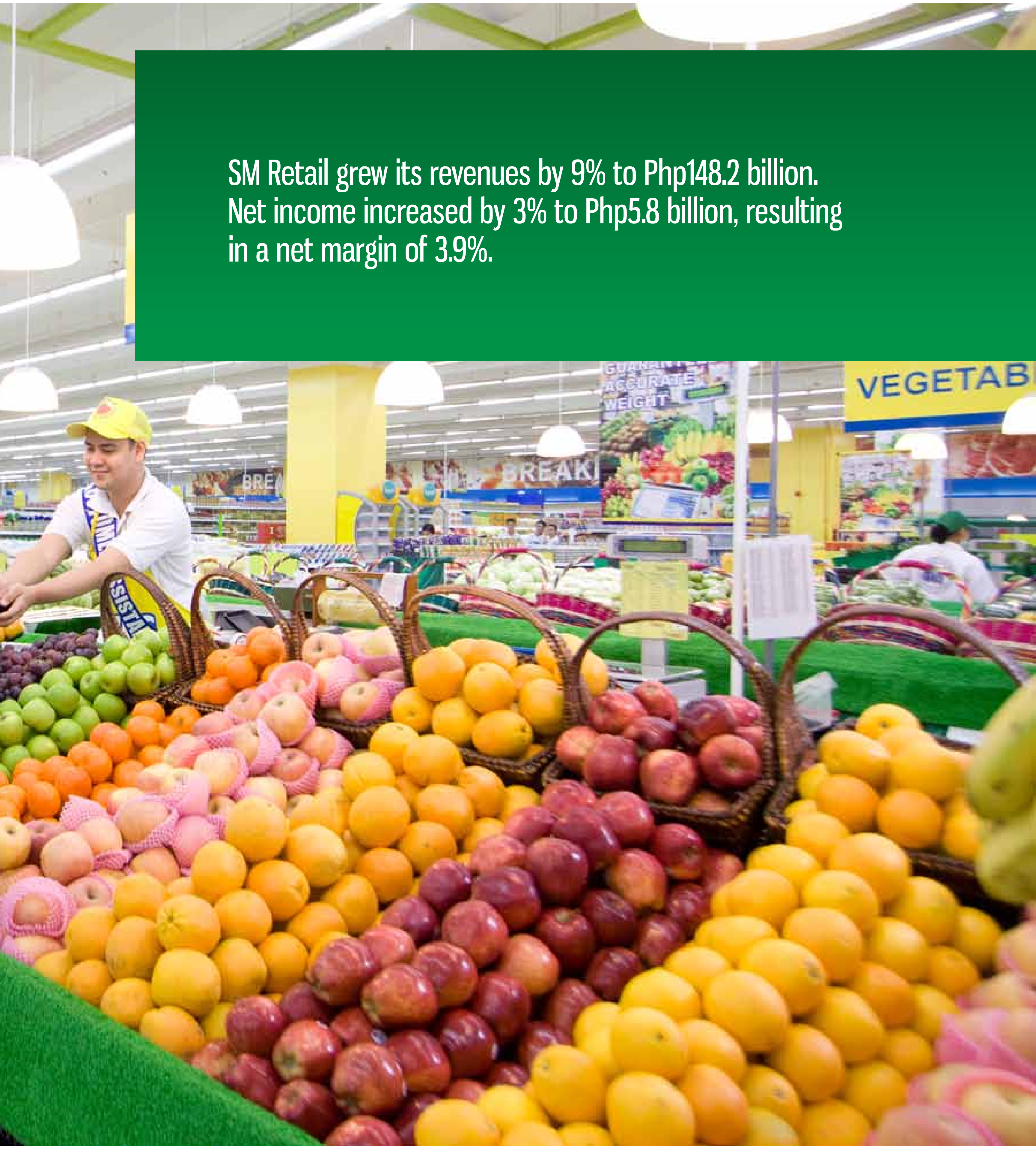


TRENDS & EXPECTATIONS

JORGE T. MENDIOLA
President, SM Department Stores

We overcame these challenges by employing various marketing tools and systems enhancement products that made our operations more attuned with the demands of the business.

How did SM Department Stores perform in 2011?

The SM Department Store chain grew its sales revenues by 8.7%, with same store sales growth at 5.1%.

What were your growth drivers?

Our growth was driven primarily by chain-wide sales events and promotions, complemented by special merchandise themed events. Sales events for the year grew double digit versus 2010. Continued sales growth maturation for newly opened stores such as those in Masinag, San Pablo, Rosario, and Tarlac allowed SM Department Stores to tap into new markets. We also experienced sustained growth seen for lead branches in Mall of Asia, Makati, North Edsa, Cebu and Megamall. Likewise, fashion lines continue to drive growth due to effective brand building marketing efforts focused on private labels.

What challenges came your way during the year and how were you able to overcome them?

Challenges we faced included the threat of a decline in consumer spending due to macroeconomic developments, such as the Arab Spring and continued downturn in the US and Euro markets, as well as natural and manmade disasters.

We overcame these challenges by employing various marketing tools and systems enhancement products that made our operations more attuned with the demands of the business.

We embarked on marketing activities that centered on tapping the more affluent market and easing financial strain on our mass based clientele, via credit card-based promotions. We also focused on merchandise themed sale events that gave freshness to our promotions calendar. We capitalized on auspicious calendar dates, such as extended weekends due to local and national holidays, to drive traffic to our stores. We gave importance to the education of our market towards non-cash payment alternatives (e.g. increase debit and credit cards usage via promotions) aimed at expanding the purchasing power of our customers and improving the retail fundamentals of the department store.

NON-FOOD RETAIL OPERATIONS

How are your sales doing in provincial areas compared with those in Metro Manila?

Sales in provincial areas continue to be more robust. A number of our stores in those areas are fairly new and coming from a low base. As such, we are benefitting not only from the growth cycle, but also from fast expanding markets.

Please tell us how many new branches were opened in 2011 and where are these located?

We opened one new branch in SM Masinag. It is located along Marcos Highway in Antipolo City. This is SM Department Store's 41st branch. SM Masinag is the second SM Department Store located in Marcos Highway, after SM City Marikina. SM Masinag is also the second SM Department Store to be opened in the Province of Rizal after SM City Taytay. It is strategically located to serve the wide customer base in the eastern areas outside of Metro Manila.

SM has always been associated with shoes and footwear. How was the sales volume of these items last year? How do you forecast trends moving forward?

Men's shoes grew by double digits, with ladies shoes and children's shoes likewise posting healthy growth trends.

Special focus will remain on the growth and development of in-house brands via continuous product innovations and aggressive promotional efforts, as well as strengthening of supplier base. Brands include Parisian Shoes for both men and women, Milanos and Salvatorre Mann for men, and Sugarkids and Tough Kids for children, among others.

In 2011, our total chain sold 24.5 million pairs of footwear.

What were your other best selling merchandise lines in 2011 and to which factors do you attribute their popularity?

All Merchandise lines performed well from our own in-house labels as well as Store Consignors. All the Department Stores carry the full fashion merchandise range from Men's, Ladies', and Children's apparel and footwear, to bags, accessories, cosmetics, and home furnishings.

Merchandise lines remain to be fashion forward, creating distinction and differentiation versus competitors and foster loyalty amongst consumers. We continue our focus on value-for-money proposition through competitive price points across different categories and lines.

What new concepts and innovations did you introduce last year?

Specialized Business Units
We continue to believe in the new operating structure of the Department Stores with the creation of specialized business units. This structure has brought innovation in merchandise ranging as well as marketing concepts and executions. We will therefore invest further to ensure that we have a robust organization fuelling our innovations.

Investments in the new POS system
Continuing rollout of our Visual Store system, which allows for, amongst other benefits, a wider range of transaction types to be captured within the system, as opposed to manual interventions in the past.

Leading Marketing Promotions and Designer Tie-ups
We have created departmental promotions that bundle customer benefits with various purchase incentives. Of note, our men's fashion group partnered with the SM Foundation via its "Surrender Your Jeans" promotion. Likewise, the shoes group revitalized its Parisian brand via a tie-up with known fashion designer Mr. Rajo Laurel to launch a special limited edition line of women's shoes.

Launch of On-Line Gift Registry
To further strengthen the customer experience in and out of our stores, we have started to roll out an on-line Gift Registry service that allows celebrators to register their events online.

Business Center Operations
We focused on expanding the breadth and scope of our services, thru public-private partnerships. In the private sector, we continue to sign up new biller partners particularly, electric and water utilities, and cable companies in cities we are present in, and where we intend to expand.

Operational Efficiency Initiatives
Security measures include installation of CCTV (closed circuit television) systems for all stores, the rollout of which is ongoing, in order to complement current procedures and policies meant to deter theft and damage, and to better control asset management.

To promote energy conservation, we have implemented conversion to CFLs (compact fluorescent lamps). Compared to general-service incandescent lamps giving the same amount of visible light, CFLs use less power and have a longer rated life.

What new trends and concepts are you seeing in 2012?

Big Themed Sales Events
We expect big themed sales events (offsite or ex-store selling formats) to continue to drive incremental sales. These events revolve around the concept of a focused category sale within a specific selling location outside the department store. Examples of locations include the SMX Convention Center, Megatrade Halls, and other strategic areas in SM malls. Because these are held out of store, the incremental sales are to be achieved with the least amount of displacement of in-store revenues. This allows us to attract a wider customer base that includes bulk buyers and staunch bargain hunters.

Growth of Private Label
We will continue to promote fashionable items at great value. Focus will remain on continuous product innovation and aggressive promotional efforts, as well as strengthening of our supplier base.

Increasing Environmental Consciousness
We will go on with promoting the usage of reusable shopping bags as well as paper wraps and pouches in lieu of plastics.

How do you plan to stay ahead of competition?

We intend to gain market share by improved customer reach through store openings in city neighborhoods and fast growing provincial cities, addressing the continued greater demand for convenience and accessibility by our customers. SM Department Stores will open in tandem with SM Malls.

We have already lined up our new store openings in the next three years. There will be five in 2012, Olongapo, General Santos, San Fernando, Consolacion, and Lanang in Davao; three in 2013, namely Aura, Cebu Seaside City, and BF Sucat; and five in 2014, which are in San Mateo, Dagupan, Tacloban, Tagbilaran, and Caloocan.

We will likewise sustain our competitive advantage by improving the merchandise mix and increasing the assortment of merchandise that carries higher price points in selected stores.

SM Department Stores will continue focusing on our Value-for-Money proposition, support our top line growth by conceptualizing more sales events, national promotions, and off-site selling activities, and we will likewise continue to review our SM Advantage/Prestige Card Program, as well as the BDO Rewards Program, to understand our customer shopping habits and preferences. We shall also re-launch the SM Shopping Card, a reloadable version of the SM Credit Card available only for our Guarantorship program.

What is your general prognosis for the country's retail industry in the coming two or three years?

We expect the retail industry to continue to be robust, driven by strong consumer expenditures anchored on increased optimism. Consumer spending among middle income and upscale consumers will continue to increase. OFW remittances are expected to be resilient, despite the economic downturn in host countries.

These shall translate to better growth for store-based, non-grocery retailing, including clothing and footwear, consumer electronics, and home appliances and beauty products. Growing demand for convenience and accessibility shall likewise continue, leading to growth of chained brands in city neighborhoods and fast growing provincial cities.

TRENDS & EXPECTATIONS

ROBERT KWEE
President, SM Hypermarkets

Today's shoppers look for more convenience, better choices, value for money and a pleasant shopping environment – not just in Manila but in other urban areas as well – regardless of the situation.

How did the food retail group perform in 2011? Was it at par with your expectations?

We are pleased with how the SM Food Group performed in 2011, as we have done better than industry average and likewise versus budget. As a result of our organic growth and store expansion, the Group exceeded its income target significantly.

How was the competitive environment last year? How did you deal with it?

Today's shoppers look for more convenience, better choices, value for money and a pleasant shopping environment – not just in Manila but in other urban areas as well – regardless of the situation. Last year's global and domestic developments further intensified this behavior. Shoppers have become even more discerning and demanding, posing a great challenge to the whole retail business.

Major retailers responded by aggressively expanding across many regions, and upgrading their offerings and services – making last year's competitive environment very dynamic. SM was at the forefront of this expansion, covering more key cities and provinces to be of service to Filipinos anywhere in the country.

Were you affected by the weather disturbances towards the end of the year? Did they affect your holiday season sales?

The typhoons that hit the country last year affected a few local branches but the dip in sales did not have an impact on our overall performance given our large store footprint. What is

FOOD RETAIL OPERATIONS

interesting to note is that because of our large network, SM became a platform that facilitated relief and rescue operations and donations in those areas affected by these weather disturbances.

An example is last year's calamity that hit Cagayan de Oro. Immediately, we opened our stores and turned them into a refuge for the typhoon victims, and a source of essential emergency goods. Also, in partnership with the local government, we donated Kalinga grocery packs to the different affected barangays serviced by our stores. As the calamity stretched into the holiday season, we even managed to distribute holiday hams to many families in time for the traditional celebration of New Year's Eve, spreading Yuletide cheers to where and when it mattered most.

Were there new or innovative product and service offerings introduced last year?

We have a number of innovative product and service offerings that we continuously redesign to make sure they appropriately respond to what consumers want and need. In terms of implementation, we try to consistently deliver quality products and services to our customers.

What was the total number of new stores opened in 2011 and what is its breakdown per specific format?

The SM Food Group opened 33 new stores in 2011 with SaveMore Market opening the most number at 25 outlets. Meanwhile, SM Hypermarket opened five stores and SM Supermarket opened three stores.

How much additional selling space was created and how much in percentage terms were deployed in Metro Manila?

Total added selling space is 65,000 square meters and 32% of this was deployed in Metro Manila.

What are your expansion plans for 2012? How much will it cost and where will you source the needed funds?

We plan to open 20-30 new stores whose funding will come from both internal and external sources.

Do you expect SaveMore to sustain its rapid expansion in the next three years?

We see the opportunity for expansion of SaveMore Market in its present positioning as a neighborhood store and suffice to say, we will sustain our aggressive expansion for this retail format. In addition, being at the forefront of expansion among the major players in the retail industry, SaveMore will spearhead our entry in key provincial areas where SM is not yet present but eagerly anticipated.

How is your house brand, SM Bonus, doing? How much do you sell from this brand relative to total sales? Do you expect more growth from it?

The patronage of our house brand continues to increase and the number of articles under SM Bonus brand continues to expand into more and more categories every year.

What is your outlook for the country's food retail industry in the near term?

There is a healthy competition among local modern trade players and expected foreign presence will make the playing field more competitive.

Modern trade will continue to grow significantly in value and volume, as major players aggressively expand all over the country, particularly in key provincial and urban areas. Meanwhile, traditional retail is expected to grow in parallel with modern trade. We see this in the continued expansion of sari-sari stores and the expected upgrade in wet markets. These are all responses to the ever evolving and changing profile of shoppers.

At the end of the day, all this will benefit consumers as the industry offers them more choices of goods and services that will give them the best value for their money.

SM DEPARTMENT STORES

Branch	Year Opened	SA* (in sqm)	% of TSA
NCR			
SM Quiapo	1972	4,857.11	
SM Makati	1975	38,139.69	
SM Cubao	1980	23,300.57	
SM Harrison	1984	14,133.22	
SM North EDSA	1985	29,902.35	
SM Sta. Mesa	1990	15,460.01	
SM Megamall	1991	33,986.85	
SM Southmall	1995	16,198.97	
SM Fairview	1997	17,926.56	
SM Manila	2000	16,862.73	
SM Bicutan	2002	10,565.07	
SM San Lazaro	2005	16,174.54	
SM Sucat	2005	10,555.61	
SM Mall of Asia	2006	17,602.38	
SM Marikina	2008	16,477.11	
SM Novaliches	2010	11,008.74	
Total		293,151.51	49.87%
Cavite			
SM Bacoor	1997	15,936.83	
SM Dasmariñas	2004	10,744.02	
SM Rosario	2009	9,608.49	
Total		36,289.34	6.17%
Pampanga			
SM Pampanga	2000	14,804.59	
SM Clark	2006	15,121.03	
Total		29,925.62	5.09%
Bulacan			
SM Marilao	2003	11,294.44	
SM Baliwag	2008	12,839.72	
Total		24,134.16	4.11%
Laguna			
SM Sta. Rosa	2006	13,295.00	
SM San Pablo	2010	9,850.20	
SM Calamba	2010	9,940.42	
Total		33,085.62	5.63%
Batangas			
SM Batangas	2004	13,333.13	
SM Lipa	2006	13,169.20	
Total		26,502.33	4.51%
Rizal			
SM Taytay	2007	10,972.14	
SM Masinag	2011	8,655.89	
Total		19,628.03	3.34%
Quezon			
SM Lucena	2003	12,154.25	2.07%
Baguio			
SM Baguio	2003	9,760.98	1.66%
Naga			
SM Naga	2009	7,841.94	1.33%
Pangasinan			
SM Rosales	2009	11,390.63	1.94%
Tarlac			
SM Tarlac	2010	9,312.91	1.58%
Iloilo			
SM Iloilo	1999	14,376.82	
SM Delgado	2004	6,996.95	
		21,373.77	3.64%
Cebu			
SM Cebu	1993	22,197.70	3.78%
Bacolod			
SM Bacolod	2007	9,853.94	1.68%
Davao			
SM Davao	2001	13,036.33	2.22%
Cagayan de Oro			
SM Cagayan de Oro	2002	8,161.45	1.39%
Total Selling Area		587,800.51	

LUZON

SM BAGUIO	SM Department Store, SM Supermarket
SM ROSALES	SM Department Store, SM Hypermarket
SM CLARK	SM Department Store, SM Hypermarket
SM PAMPANGA	Makro
MAKRO PAMPANGA	SM Department Store, SM Supermarket
SM BALIWAG	SM Department Store, SM Hypermarket
SM MARILAO	SM Hypermarket
SM TAYTAY	SM Department Store, SM Hypermarket
SAVEMORE ANGONO	SM Supermarket
SAVEMORE MORONG	SM Supermarket
MAKRO CAINTA	Makro
SM BACOOR	SM Department Store, SM Supermarket
SM ROSARIO	SM Department Store, SM Supermarket
SM MOLINO	SM Hypermarket
MAKRO IMUS	Makro
SM DAMARIÑAS	SM Department Store, SM Supermarket
SM STA. ROSA	SM Department Store, SM Supermarket
SM LUCENA	SM Department Store, SM Supermarket
SM LIPA	SM Department Store, SM Supermarket
SM NAGA	SM Department Store, SM Supermarket
MAKRO BATANGAS	Makro
SM BATANGAS	SM Department Store, SM Supermarket

VISAYAS

SM ILOILO (DELGADO)	SM Department Store, SM Supermarket
SM ILOILO (MANDURRIAO)	SM Department Store, SM Supermarket
SAVEMORE JARO	SM Supermarket
SAVEMORE JARO 2	SM Supermarket
MAKRO ILOILO	Makro
SM CEBU	SM Department Store, SM Supermarket
SAVEMORE MACTAN	SM Supermarket
SAVEMORE ELIZABETH MALL	SM Supermarket
MAKRO CEBU	Makro
SM BACOLOD	SM Department Store, SM Supermarket

MINDANAO

SM CAGAYAN DE ORO	SM Department Store, SM Supermarket
MAKRO CAGAYAN	Makro
SM DAVAO	SM Department Store, SM Supermarket
MAKRO DAVAO	Makro

SM HYPERMARKETS

Branch	Year Opened	SA* (in sqm)	% of TSA
NCR			
Sucat	2001	11,518.73	
Bicutan	2002	6,148.87	
Valenzuela	2005	6,623.12	
Mall of Asia	2006	8,448.14	
North Edsa	2006	6,420.24	
Pasig	2006	6,139.86	
Muntinlupa	2007	7,277.02	
Mandaluyong	2009	4,029.91	
Fairview	2009	7,426.03	
Makati	2009	5,633.54	
Las Piñas	2009	5,534.57	
Novaliches	2009	4,933.97	
Eton	2009	4,672.10	
North Harbor	2010	5,469.39	
Adriatico	2010	4,651.11	
Cubao	2010	6,087.50	
Sucat Lopez	2011	3,034.75	
Total		104,048.85	60.29%
Bulacan			
Marilao	2003	5,905.43	
Baliwag	2008	5,279.22	
Total		11,184.65	6.48%
Cavite			
Molino	2005	6,976.59	
Imus	2011	4,990.43	
Marketmall	2011	4,383.04	
Total		16,350.06	9.47%
Pampanga			
Clark	2006	7,125.72	
Pampanga	2010	4,437.58	
Total		11,563.30	6.70%
Rizal			
Taytay	2007	6,029.66	3.49%
Pangasinan			
Rosales	2008	5,790.39	3.36%
Batangas			
Batangas	2010	4,492.25	2.60%
Cebu			
Cebu	2011	5,103.53	
J Centre mall	2011	3,969.50	
Total		9,073.03	5.26%
Iloilo			
Iloilo	2010	4,048.88	2.35%
Total Selling Area		172,581.07	

SM DEPARTMENT STORE
SM SUPERMARKET
SM HYPERMARKET
MAKRO

SAVEMORE

Branch	Year Opened	SA* (in sqm)	% of TSA
NCR			
Marikina	1999	2,878.77	
Festival Mall	2004	3,846.62	
Savers Square Center	2008	913.13	
Nagtahan	2008	2,143.85	
North Edsa	2008	1,734.80	
Mezza	2009	3,413.02	
Laong Laan	2009	519.04	
P.Tuazon	2009	770.50	
Del Monte	2009	1,286.23	
Taft	2009	1,202.17	
Broadway	2009	1,860.95	
Anonas	2009	1,157.05	
Novaliches	2009	2,257.51	
Visayas Avenue	2009	758.60	
Nepa Q	2010	807.05	
Pasong Tamo	2010	1,104.92	
Amang Rodriguez	2010	1,702.48	
Malabon	2010	1,040.01	
FRC Zapote	2010	721.14	
Cartimar	2010	777.65	
Berkeley	2010	743.58	
Elizabeth Center	2011	1,176.65	
Jackman	2011	779.69	
Bayambang	2011	664.42	
Araneta	2011	2,276.89	
Sta. Ana	2011	2,427.60	
Shoe Avenue	2011	891.47	
Pedro Gil	2011	990.30	
Kanlaon	2011	514.39	
A.Venue	2011	1,225.35	
Laong Laan 2	2011	1,466.67	
Total		44,052.50	42.85%
Rizal			
Angono	2006	1,261.87	
Morong	2007	2,618.15	
Tanay	2008	2,654.28	
Total		6,534.30	6.36%
Pampanga			
Angeles	2010	712.34	
Apalit	2011	627.99	
Balibago	2011	856.36	
Total		2,196.69	2.14%
Bulacan			
Baliwag	2010	907.70	
Malhacan	2011	3,094.39	
Sta. Maria	2011	1,075.98	
Total		5,078.07	4.94%
Isabela			
Ilagan	2010	3,078.40	
Ilagan 2	2011	1,261.57	
Total		4,339.97	4.22%
Nueva Ecija			
Amigo Mall	2009	1,574.46	
Megacenter	2009	2,882.10	
Total		4,456.56	4.33%
Cavite			
Mendez	2010	1,059.88	
Salitran	2011	2,543.28	
Total		3,603.16	3.50%
Laguna			
Binan	2011	2,332.63	
Halang	2011	1,376.42	
Total		3,709.05	3.61%
Ilocos Norte			
Laoag 1	2011	2,113.67	2.06%
Cagayan			
Tuguegarao	2011	1,658.03	1.61%
Nueva Vizcaya			
Solano	2009	916.08	0.89%
Zambales			
Iba Zambales	2011	1,243.95	1.21%
Legaspi			
Metro Hub Legaspi	2010	1,580.00	1.54%
Cebu			
Mactan	2002	1,381.87	
Elizabeth Mall	2003	2,672.68	
Parkmall	2008	4,264.48	
Canduman	2011	755.45	
Maguikay	2011	743.05	
Total		9,817.53	9.55%
Iloilo			
Jaro	1998	1,494.47	
Jaro 2	2006	1,161.25	
Total		2,655.72	2.58%
Bacolod			
Rivson	2009	1,330.00	
Bacolod East	2010	1,233.30	
Total		2,563.30	2.49%
Cagayan de Oro			
Agora	2010	2,092.23	
Capistrano	2011	1,762.07	
Kauswagan	2011	2,437.69	
Total		6,291.99	6.12%
Total Selling Area		102,810.57	

SM SUPERMARKETS

Branch	Year Opened	SA* (in sqm)	% of TSA
NCR			
North Edsa	1985	2,926.36	
Sta.Mesa	1990	6,032.31	
Megamall	1991	5,329.56	
Southmall	1995	6,002.01	
Fairview	1997	6,986.19	
Manila	2000	4,641.35	
Makati	2004	3,629.36	
San Lazaro	2005	6,266.99	
Marikina	2008	6,914.64	
Cubao	2008	5,813.68	
Novaliches	2010	3,775.12	
Megamall Building A	2011	3,201.72	
Total		61,519.29	40.58%
Cavite			
Bacoor	1995	5,442.53	
Dasmariñas	2004	4,186.88	
Rosario	2009	3,775.12	
Total		13,404.53	8.84%
Laguna			
Sta. Rosa	2006	5,086.03	
San Pablo	2010	3,475.04	
Calamba	2010	3,503.39	
Total		12,064.46	7.96%
Batangas			
Batangas	2004	4,464.09	
Lipa	2006	6,136.89	
Total		10,600.98	6.99%
Pampanga			
San Fernando	2000	5,932.65	3.91%
Tarlac			
Tarlac	2010	4,029.69	2.66%
Baguio			
SM Baguio	2003	2,575.90	1.70%
Zambales			
Olongapo	2011	1,724.54	1.14%
Quezon			
Lucena	2003	3,634.99	2.40%
Rizal			
Masinag	2011	3,238.12	2.14%
Naga			
Naga	2009	3,485.88	2.30%
Iloilo			
Mandurriao	1999	4,620.24	
Delgado	2004	1,754.39	
Total		6,374.63	4.21%
Cebu			
Cebu	1998	4,170.71	2.75%
Bacolod			
Bacolod	2007	7,541.23	4.97%
Davao			
Davao	2001	5,781.51	3.81%
Cagayan de Oro			
Cagayan de Oro	2002	5,511.94	3.64%
Total Selling Area		151,591.05	

SM DEPARTMENT STORE
SM SUPERMARKET
SM HYPERMARKET
MAKRO

MALL OPERATIONS

SM Prime Holdings, Inc. (SM Prime), the country's dominant mall developer and operator, exceeded expectations in 2011. In spite of a sluggish economy, SM Prime delivered a 15% growth in consolidated net income to Php9.1 billion. Total revenues, on the other hand, amounted to Php26.9 billion, for a growth of 13%.

Two important factors enabled SM Prime to deliver these noteworthy results. One is the added floor space provided by new SM malls that opened in 2010 and 2011. The other is the respectable same store rental growth of 7%. On top of these is a reduction in the company's operating and interest expenses. Further adding momentum to SM Prime's banner year is the profitable operations of its malls in China.

Moving forward, SM Prime will launch four new malls in 2012, aside from SM City Olongapo, which already opened its doors in February of this year. Interestingly, all these five malls are located outside Metro Manila. The company recognizes that because of bigger disposable incomes and progressive populations, many provincial areas are fast becoming ideal venues for its malls. For the rest of the year, SM Prime will open SM City Consolacion in Cebu, SM City Lanang in Davao City, SM City General Santos in Southern Mindanao, and SM City San Fernando in Pampanga. A fifth mall in China, SM Chongqing, will also be inaugurated. By the end of 2012, the company will have 46 malls in the Philippines and five in China. Their combined GFA (gross floor area) will approximately be 6.3 million square meters.

In spite of a sluggish economy, SM Prime delivered a 15% growth in consolidated net income to Php9.1 billion. Total revenues, on the other hand, amounted to Php26.9 billion, for a growth of 13%.

TRENDS & EXPECTATIONS

JEFFREY C. LIM
Executive Vice President/CFO, SM Prime Holdings, Inc.

SM Prime started its preparation for climate change several years ago. Such preparation required us to review our existing and future mall structures and implement changes from engineering design, architecture, construction, down to disaster preparedness.

How did SM Prime perform in 2011?

The company performed better than expected and we beat the market consensus. Rental revenues went up by 14%, and same store rental growth increased by a robust 7%. Operating income, on the other hand, grew 17%, while net income rose by 15%, its highest growth rate since 1999.

To which factors could you attribute the company's higher than expected growth last year?

To a large extent, it was due to our strong same store rental growth. We were also able to better manage operating expenses, particularly power consumption which is one of our largest expense items. We have also reduced our funding cost by taking advantage of the lower interest rate environment. The growth was also aided by our emerging operations in China where earnings more than doubled in 2011.

Why are you seeing very high growths in your China operations?

SM Prime's malls in China delivered very strong results from a mix of factors. For one, we are still coming from a low base as most of our malls are relatively newer than the ones in the Philippines and we continue to add new capacity every year at a faster rate also. Average rental income in the SM malls in China went up 45% in 2011, much higher than the increase in our costs which resulted in a 71% surge in our operating income and a hefty 107% rise in net income. Even the net margin in China is

better now at 44% compared with 33% in the Philippines. We are all gratified at the warm reception we are getting in China. Our positive results there are helping us open more doors in other cities and municipalities.

How many new malls will you open in the Philippines this year and where will these be located?

We plan to open five new malls in 2012. These are SM City Olongapo in Zambales with a gross floor area of 47,426 square meters (sqm); SM City Lanang in Davao City with 145,824 sqm; SM City General Santos in Southern Mindanao with 88,106 sqm; SM City Consolacion in Cebu with 73,801 sqm; and SM City San Fernando in Pampanga with 42,625 sqm.

Will you be expanding existing malls in 2012?

SM Prime will start most of the construction for its expansion projects in 2012, with completion seen in the next two years. For instance, the expansion of SM City Bacolod and SM City Clark is expected to be completed in 2013, while that of SM City Baguio and SM Megamall would be in 2014.

What are your plans in China for 2012?

We plan to open our fifth mall in China by the last quarter of 2012. It will be in the City of Chongqing in Southwest China and will have a gross floor area of about 147,446 sqm. Chongqing is one of the largest cities in China with a population of over 32 million. This is more than two times the population of Metro Manila where SM has 16 malls of which the three are the largest in the world. This is why we are very excited by the prospects of this particular mall. Note also that personal incomes are rising faster in China.

How much is your projected 2012 capital expenditure in the Philippines and in China? From where will they be sourced?

Our total estimated capex for 2012 is Php21 billion. Php14 billion is allotted for the Philippines and Php7 billion for China. As in the past, we will raise the funds from both internally generated funds and borrowing.

What is your stand on the REIT (real estate investment trust) in the Philippines? Is there still a chance that you will participate in it?

We are not prepared to participate in the REIT listing given its current implementing rules and regulations, particularly on the public float requirement and the value added tax (VAT) on the transfer of the properties.

How did the tropical storm that battered Northern Mindanao late last year affect SM City Cagayan De Oro?

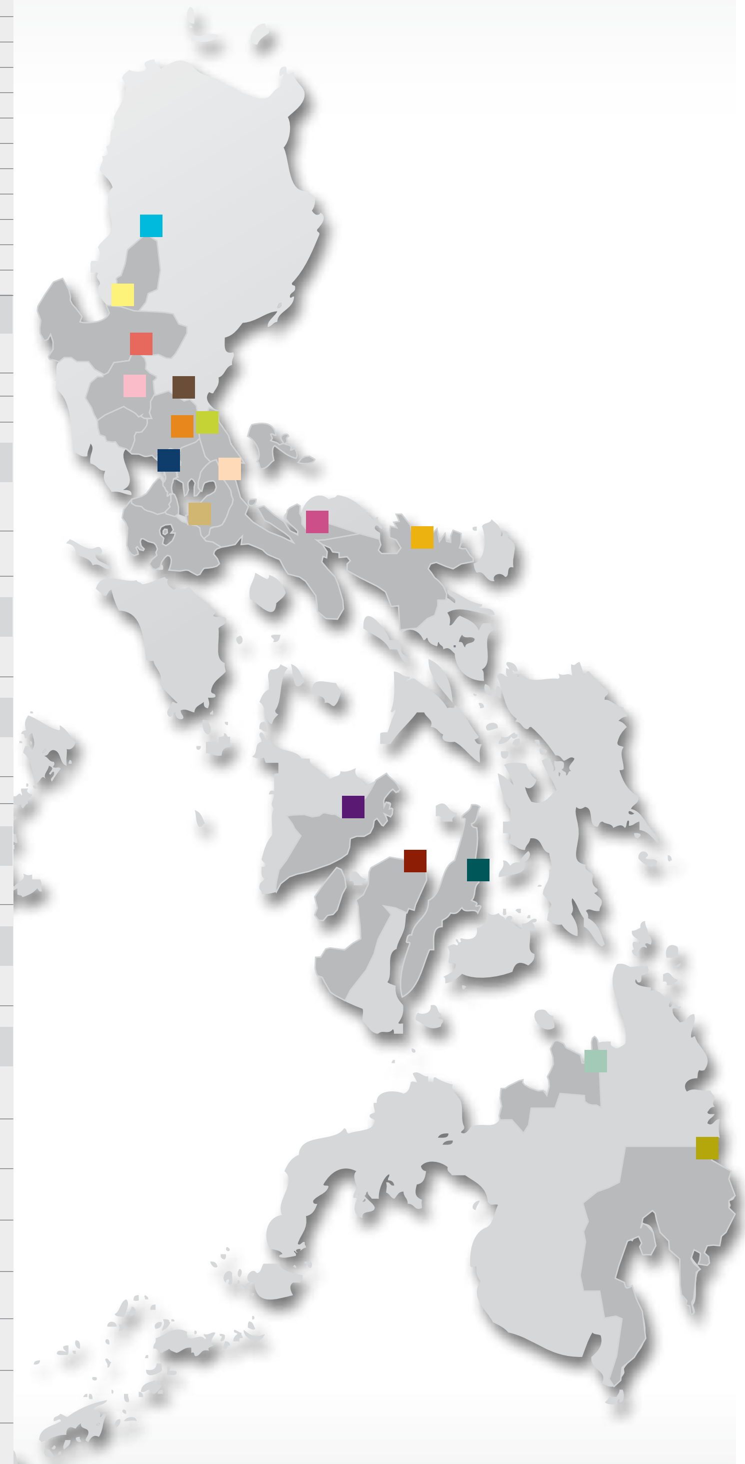
The mall itself was not affected because of its elevated location. It was therefore able to maintain normal operating hours despite the citywide power and water outage. More importantly, SM Prime donated Php3.0 million in cash to the local government units and distributed relief goods to more than 10,000 families in the cities of Cagayan De Oro and Iligan. We also gave out over 70,000 bottles of water in various evacuation centers where it was much needed. We have also agreed with Gawad Kalinga to build 200 housing units for the displaced families in Cagayan De Oro.

How have you been preparing for the risks and challenges brought about by climate change? What are your disaster preparedness initiatives?

SM Prime started its preparation for climate change several years ago. Such preparation required us to review our existing and future mall structures and implement changes from engineering design, architecture, construction, down to disaster preparedness. Given the considerable presence of SM malls across the country, we also emphasize minimizing our environmental impact in all locations and capacities. The core of our program focuses on energy and resource efficiency, air quality and solid waste management, as well as stringent compliance with international and local environmental regulations.

PHILIPPINE MALLS

Area/Province	Malls	Year Opened	GFA	% of Total GFA
NCR	SM City North Edsa	1985	424,691	
	SM City Sta. Mesa	1990	133,327	
	SM Megamall	1991	346,789	
	SM Southmall	1995	205,120	
	SM City Fairview	1997	188,681	
	SM City Manila	2000	167,812	
	SM City Sucat	2001	98,106	
	SM City Bicutan	2002	113,671	
	SM City San Lazaro	2005	178,516	
	SM Center Valenzuela	2005	70,681	
	SM Mall of Asia	2006	406,961	
	SM Center Pasig	2006	29,602	
	SM Center Muntinlupa	2007	54,292	
	SM City Marikina	2008	178,485	
	SM City Las Piñas	2009	40,267	
	SM City Novaliches	2010	60,560	
	Total GFA for NCR		2,697,561	54%
Cavite	SM City Bacoor	1997	120,202	
	SM City Dasmariñas	2004	94,285	
	SM Center Molino	2005	52,061	
	SM City Rosario	2009	59,326	
	Total GFA for Cavite		325,874	6%
Cebu	SM City Cebu	1993	274,236	5%
Pampanga	SM City Pampanga	2000	132,484	
	SM City Clark	2006	101,840	
	Total GFA for Pampanga		234,324	5%
Rizal	SM City Taytay	2007	98,928	
	SM City Masinag	2011	90,261	
	Total GFA for Rizal		189,189	4%
Laguna	SM City Sta. Rosa	2006	86,463	
	SM City San Pablo	2010	59,643	
	SM City Calamba	2010	67,384	
	Total GFA for Laguna		213,490	4%
Batangas	SM City Batangas	2004	80,350	
	SM City Lipa	2006	77,301	
	Total GFA for Batangas		157,651	3%
Bulacan	SM City Marilao	2003	93,910	
	SM City Baliwag	2008	61,262	
	Total GFA for Bulacan		155,172	3%
Iloilo	SM City Iloilo	1999	105,953	2%
Davao	SM City Davao	2001	78,735	2%
Cagayan De Oro	SM City Cagayan De Oro	2002	87,940	2%
Quezon	SM City Lucena	2003	78,655	2%
Baguio	SM City Baguio	2003	107,950	2%
Tarlac	SM City Tarlac	2010	101,629	2%
Negros Occidental	SM City Bacolod	2007	71,752	1%
Pangasinan	SM City Rosales	2008	63,330	1%
Naga	SM City Naga	2009	74,275	1%
	Total GFA		5,017,716	



CHINA MALLS

	Existing	Address	Yr/Month Opened	GFA (sqm)
	SM Xiamen	Xiamen City, Fujian Province	2001 December	128,203
	Lifestyle Center		2009 October	109,922
	Jinjiang	Quanzhou City, Fujian Province	2005 November	167,830
	Chengdu	Chengdu City, Sichuan Province	2006 October	166,665
	Suzhou	Wuzhong District, Suzhou, Jiangsu Province	2011 September	72,552

	Upcoming	Address	Target Opening	GFA (sqm)
	Chongqing	Yubei District, Chongqing City	2012	147,446
	Zibo	Zichuan District, Zibo, Shandong Province	2014	154,000
	Tianjin	Tianjin Binhai New Area	2014	540,000

SM MALLS TRIVIA PHILIPPINES

5.0 million sqm
Total Gross Floor Area

12,763
Mall Tenants

228
Movie Screens

3.5 million
Average Daily Pedestrian Count

41
Malls Nationwide

24,580
Food Court Seats

138,304
Cinema Seats

104
Bowling Lanes

55,602
Parking Slots

408
Food Court Tenants

2011 MALL OPENING-PHILIPPINES

SM Prime Opens
SM City Masinag

Gross Floor Area: 90,261 sqm.
Number of Tenants: 195
Occupancy Rate: 80%

SM Prime Holdings, Inc. (SM Prime) opened SM City Masinag on May 6, 2011. It is the company's 41st shopping mall in the country and its second in the province of Rizal, after SM City Taytay. SM City Masinag has a gross floor area (GFA) of 90,261 square meters (sqm) and occupies 37,017 sqm of land.

SM Prime president Mr. Hans T. Sy said, "Opening this mall is in line with our thrust to further expand in the areas where there still is a large unserved market for an integrated malling, shopping, dining, and entertainment experience which SM Prime ably offers."

SM City Masinag is located along Marcos Highway in Antipolo City which has been declared by President Benigno C. Aquino III as a highly urbanized city. It is the largest city in the CALABARZON region in terms of population and it serves as a major suburb just outside Metro Manila.

As of end 2011, SM City Masinag had an occupancy rate of 80% with almost 200 tenants. Its major tenants include SM Department Store and SM Supermarket which occupy 12,913 sqm and 6,933 sqm of floor space, respectively. It also has Ace Hardware, SM Appliance Center, Watsons, Surplus Shop, BDO Unibank, China Bank, National Book Store, and Nine West, among others. In addition, SM City Masinag has amenities like a 406-seat food court; four cinemas with a combined seating capacity of 1,200; and parking slots for 500 vehicles.

What makes SM City Masinag quite unique is the availability of a 14,000 cubic meter holding tank. This is equivalent to three times the size of a five-meter high basketball court that can hold up to three million gallons of water. It was built as a water catchment facility to help prevent flooding in the area during heavy rains. The stored rainwater is then recycled and used to water plants, clean the mall and flush its toilets.

Furthermore, SM City Masinag has features that aim to reduce energy consumption such as the Big Ass Fans which aid in cooling air much more efficiently. The mall also uses clerestory windows as a source of natural light. Both are employed to reduce electricity consumption.

Another feature is the metal screen system or Green Screen at the Carpark. The Green Screen is carefully designed to allow plants to grow on the walls at the rear side of the structure. SM City Masinag likewise makes use of LED Park Finders in its Carpark as well as LED and compact fluorescent lamps for the mall's lighting requirements.

All these initiatives are a part of SM Prime's commitment to environmental preservation and sustainability. More broadly, SM Supermalls and its Engineering Design and Development (EDD) have partnered with the U.S. Green Building Council (USGBC) to achieve a common mission of fostering a prosperous and sustainable future through cost-efficient and energy saving green buildings.

Designed by DSGN Associates, SM City Masinag's exterior features a combination of crisp colors and materials, ample landscaping, and carefully proportioned shapes detailed for a modern, sophisticated appearance. The mall internally connects a wide variety of shops, restaurants, junior anchors, and entertainment facilities. Upon entering the mall, the eyes of customers are drawn upward to an array of suspended, decorative light fixtures, which creatively illuminate the sculptured ceiling as well as the patterned floor. The mall likewise has a walk-a-lator surrounded by glass sheets and multi-level parking for customer convenience.

SM City Masinag serves shoppers in Antipolo City and nearby cities and municipalities like Rodriguez, Marikina, San Mateo, Cainta, Taytay, Tanay, Baras and even some parts of Quezon province.

2011 MALL OPENING-CHINA

SM Prime Opens
SM City Suzhou

Gross Floor Area: 72,552 sqm.
Occupancy Rate: 88%

SM Prime Holdings, Inc. (SM Prime) opened SM City Suzhou in mainland China's Jiangsu Province on September 23, 2011. It is the company's fourth shopping mall in China, after SM City Xiamen, SM City Jinjiang and SM City Chengdu. The cities of Xiamen and Jinjiang are in China's Fujian Province while Chengdu is in the Province of Sichuan.

SM Prime President Mr. Hans T. Sy said, "We are very pleased to open the doors of our newest mall, SM City Suzhou in China. The mall's launching affirms SM Prime's keen objective to continue growing and expanding in areas of opportunity, even in those beyond the boundaries of the Philippines. It also confirms that the Filipinos have the needed knowledge, skills and talent to compete in the global arena. Thus, the company intends to open several more new malls in China in the coming years."

SM City Suzhou, which is located in the Central Business District of Wuzhong in Southern Suzhou, has a gross floor area (GFA) of 72,552 square meters (sqm), and has an occupancy rate of 88%. It is a one-stop mall which caters to the general needs of the community with its supermarket, fashion and food tenants, specialty stores and cinema. SM City Suzhou's major tenants are Vanguard Hypermarket, SM Department Store, and Wanda Cinema. The shopping mall caters to a large number of students in the nearby International Education Park, families from the developing communities, and tourists from the popular Taihu Lake area.

The city of Suzhou in China has a population of approximately 6.36 million and has several export processing zones and industrial parks. It is home to the Suzhou Industrial Park (SIP), the largest Singapore-China cooperation project for industrial development. Suzhou's many industries include electronics, information technology and biotechnology. Suzhou is the second largest industrial city in China next to Shanghai. The city is also known for its rich cultural attractions such as temples, gardens, and ancient water towns. Notable tourist spots in the city include the Humble Administrator Garden, the Tiger Hill and River Cities.

During the opening, SM City Suzhou welcomed its guests and shoppers with a Lion Dance, and various events in different areas of the mall. They held an Acrobat and Magic Show, the Pleasant Goat and Big Big Wolf cartoon show, a parade at the Courtyard; a Meet and Greet with Taiwanese singer Guo Jing and a Singing Contest at the Atrium. Simultaneously, SM City Suzhou's North Plaza had a Kia car promo exhibit, while children performed at Building D in a program called, Kindergarten Performance Show. A spectacular fireworks display at night capped the opening festivities at the mall.

2012 MALL EXPANSION PROGRAM PHILIPPINES AND CHINA


SM City Consolacion


SM City Gensan


SM City Lanang

SM City San Fernando

Growing Beyond the Metropolis
SM Prime Set to Open Five New Malls Outside Metro Manila

2012 may prove to be another banner year for the growth and expansion of SM Prime Holdings, Inc. (SM Prime) in the Philippines. The company intends to launch five new malls this year, all in areas outside Metro Manila. This is aligned with SM Prime's strategy to bring SM's mark of one-stop shopping and entertainment convenience into the provinces, where there are still a large number of unserved markets. SM Prime also brings with each mall its own brand of environmental engineering and design, and its SM Cares program, which caters to the special needs of the elderly, the children, and breastfeeding mothers. SM Prime also brings with it new concepts that enhance the experience of its millions of customers.

Starting SM Prime's expansion program this year is SM City Olongapo, which opened last February 10, 2012. SM City Olongapo is the company's very first mall in the province of Zambales. Prior to the mall's opening, more than 80% of SM City Olongapo's retail space had already been awarded to various tenants that include SM Department Store and SM Supermarket, BDO, Watsons, Ace Hardware, National Bookstore, Jollibee, and KFC, among others.

Next in line would be SM City San Fernando in Pampanga. The seven-storey SM City San Fernando features an SM Department Store and an SM Supermarket as anchor tenants. It will provide a three-level parking building that directly connects to the shopping mall. Three cinemas will be part of the major attractions of SM City San Fernando's indoor entertainment area.

Another new mall to open this year is SM City Consolacion in Cebu. SM City Consolacion will be a three-level shopping center. As in most other SM malls, it will house an SM Department Store and an SM Supermarket. It also features an al fresco dining area in its food court and a Cyberzone for the latest in tech gadgets and equipment. Four cinemas will serve the needs of avid moviegoers. Covered parking for close to 900 vehicles will be available.

Meanwhile, the biggest SM mall scheduled to open in 2012 is SM City Lanang in Davao. The upcoming premiere shopping complex is the second SM mall in the province. The mall's offerings include five cinemas plus an IMAX 3D-capable theater. There will also be a theater set-up for live performances such as concerts. Other planned offerings are a Cyberzone, a bowling center, and a Science Discovery Center. SM City Lanang will host as major tenants SM Department Store, SM Supermarket, and Forever 21, among many others.

Rounding out SM Prime's 2012 expansion program in the country is SM City General Santos in South Cotabato. The three-level shopping complex will be SM Prime's first mall in the province of South Cotabato. It will host an SM Department Store, an SM Supermarket, a Cyberzone, and a food court. Other offerings include four cinemas and one live theater set-up. It will have both open and covered parking areas, which together could accommodate about 1,500 vehicles. A brightly colored al fresco dining area will also be made available.

A Fifth in China:
SM City Chongqing

This year, in the heart of this vibrant and interesting city, a new SM Prime shopping mall will rise. The company's fifth mall in China, it will be known as SM City Chongqing. Construction of the mall started in August 2009 and upon its completion this year, it will offer an estimated gross floor area (GFA) of 147,446 square meters (sqm) out of the 44,187 sqm of land on which it stands. In terms of GFA, SM City Chongqing will be roughly similar to the company's SM City Sta. Mesa in the Philippines.

SM Chongqing is a one-building structure with five levels. Its exterior design features fish scale panels that are accented by lighting at their overlaps. Inside the mall, slanted glass panels define lobbies, which help create a grand entrance ambiance. It features nine movie cinemas and 1,570 parking slots, and a mix of local and international stores, among them a large department store.

As SM Prime gains more experience and market acceptance in China, it is expected to accelerate its pace of growth and expansion. By 2014, the company aims to launch two more new shopping malls, SM City Zibo and the highly anticipated SM City Tianjin, which is foreseen to be the biggest among all SM shopping malls, with an estimated GFA of more than 500,000 sqm.

BANKING

In 2011, BDO Unibank, Inc. (BDO) maintained its distinction as the country's largest bank in terms of total resources, customer loans, deposits, and trust assets. Its net income of Php10.5 billion for the year was in line with its target, and reflected a 19% improvement over the Php8.8 billion profit the bank attained in 2010. Despite challenges to the country's economy, BDO still managed to significantly increase its loan portfolio by 24% to Php670.1 billion, surpassing the industry's 19% average loan growth. This was achieved by tapping creditworthy borrowers from progressive industry sectors.

An added achievement was that the bank's NPL (non-performing loans) ratio further improved to 3.4% by the end of 2011 from 4.7% the year before. Low-cost deposits increased 10%, reaching Php858.6 billion. Its recurring fee-based income likewise increased, growing 18% to Php12.3 billion. BDO's CAR (capital adequacy ratio) for the year improved to 15.8% from 13.8% in 2010. For 2012, the bank will continue capitalizing on growth opportunities across industry and geographic segments.

China Banking Corporation (China Bank), for its part, realized a consolidated net income of Php5.0 billion in 2011. This resulted in a return on equity of 13.7%, and a return on assets of 2%. The bank's core business expanded rapidly during the year as its gross loans surged 32% to reach Php150.0 billion, with all market segments from corporate to consumer posting hefty growth. With particular focus on loans quality, China Bank improved its NPL ratio to 2.9% in 2011 from 3.9% the previous year. Total deposits, on the other hand, amounted to Php216.1 billion while its CAR remained solid at 17.8%.

By the end of 2011, China Bank had 293 branches after opening 24 new branches, 15 of which were for the main bank and nine for its subsidiary, ChinaBank Savings.

For 2012, BDO will continue capitalizing on growth opportunities across industry and geographic segments.

TRENDS & EXPECTATIONS

NESTOR V. TAN
President, BDO Unibank, Inc.

We put value in keeping pace with the changing needs of our growing clientele, fortifying relationships with existing customers and building new ones. Growth naturally follows when you are able to meet those needs.

How would you describe BDO's performance in 2011?

I am pleased to report that BDO sustained its growth momentum in 2011 despite the challenges of the external economic environment, slower economic growth, strong competitive pressures in the industry, and margin pressures from an abnormal interest rate structure.

The Bank achieved its income guidance of Php10.5 billion in 2011, representing a 19% year-on-year increase over the Php8.8 billion in 2010 on the healthy expansion across all business segments.

What were your major growth drivers?

Our earnings growth was primarily driven by above-industry expansion rates in our loans and deposits, coupled with a strong and steady contribution from our service businesses.

Our lending business remained buoyant in 2011, on stable and broad-based demand from major markets. BDO's gross customer loans grew by 24% year-on-year against the industry's 19%.

Meanwhile, the Bank's extensive branch network allowed us to sustain the growth in deposit volumes, particularly low-cost deposits, thus giving us the ability to better manage our funding costs.

Our service businesses, comprised mainly of our asset and wealth management, payments and electronic banking,

BDO

insurance and capital markets activities, likewise turned in a solid performance with an 18% year-on-year growth.

These growth drivers highlight the Bank's earnings quality in terms of diversification and sustainability.

You were the very first Philippine bank to reach the Php1.0 trillion-level in terms of total assets. How were you able to achieve this feat?

Size was never the objective for us. Achieving this feat was a by-product of doing what we do, relatively well. Leveraging on our strong business franchise, we were able to post above-industry growth rates and retain market dominance in key business lines. We put value in keeping pace with the changing needs of our growing clientele, fortifying relationships with existing customers and building new ones. Growth naturally follows when you are able to meet those needs.

What challenges did you face during the past year and what steps did you take to address them?

As with other local banks, BDO faced margin pressures with the declining interest rate environment amid excess system liquidity largely driven by foreign capital inflows. To address this, we actively tapped the small- and medium-enterprises (SMEs) and consumer loan market where margins are relatively higher, while growing our low-cost deposits to manage our funding costs.

What was the impact of other external factors such as geopolitical issues and natural calamities on BDO?

These had limited, if not insignificant, impact on BDO, as evidenced by the Bank's sustained growth momentum last year. The Bank, as with the local banking industry in general, performed well on the strength of the country's macroeconomic fundamentals and largely domestic-driven nature that served as buffers against any impact from these external challenges.

How many branches did you open in 2011 and how many are scheduled to open this year?

We opened 21 new branches last year and are hopeful that we can secure more licenses for our target areas.

Will there be further expansion through mergers and acquisitions during the year?

We are looking at mergers and acquisitions only as an alternative means of acquiring branch licenses for our expansion.

How do you intend to maintain your dominant position in the industry?

We need to remain focused on the customers and their needs.

We need to continue to leverage on our strong business franchise and wide distribution network to maximize client coverage and extend our geographic reach.

Further, we need to ensure that our operating platform is in place for sustainable growth and scale. Critical is our continued upgrades in Information Technology (IT) applications and capacity to accommodate the increased volume of accounts and transactions anticipated with BDO's expansion.

What innovations can clients expect from BDO in 2012?

Innovation for us is a continuous process – in products, process, service delivery and even business model.

As always, our clients can expect more product offerings with features attuned to their distinct needs and lifestyles, much like those we launched last year such as our trust product Easy Investment Plan (EIP), and Forever 21 co-branded and American Express (Amex) Blue Cards.

We will also continue to invest in risk management and back-office efficiencies so that our clients can continue to enjoy an efficient service delivery they have grown accustomed to.

What initiatives do you plan to implement in 2012 to mitigate the effects of the European debt crisis on BDO?

We remain vigilant to the ongoing situation in the Euro region. As it is, however, the Bank has no direct exposure to the troubled European economies.

We will continue to focus on the domestic market, specifically the resilient consumer sector and the anticipated project financing requirements of the government's Public-Private Partnership projects (PPP).

We will continue to prudently manage our balance sheet to protect the Bank against unexpected losses that may arise from an economic downturn. Aside from continuing our conservative provisioning policy, we are also striving to further reduce our non-performing assets. To date, the Bank's gross non-performing loan (NPL) ratio has declined to 3.4% as of end-2011 from 4.7% as of end-2010, while NPL coverage has increased to 106% from 92%, respectively.

What is your outlook for the Philippine banking industry in the next two to three years?

The next two to three years hold ample opportunities for Philippine banks. There is potential to further grow consumer lending, given that this sector remains under-penetrated. Meanwhile, the expansion in the middle-market segment is seen to continue, driven by the growth in secondary and tertiary cities, as well as the rising importance of the informal sector. Further, loan demand to finance infrastructure spending is expected to rise on the back of PPPs.

TRENDS & EXPECTATIONS

PETER S. DEE
President & CEO, China Bank

Please tell us how China Bank performed in 2011.

China Bank reported an audited consolidated net income of Php5.0 billion. This translates to a creditable return on equity of 13.72% and return on assets of 2.04%. The year was notable for the higher-than-industry growth in our gross loan portfolio of 32%, which somehow eased the impact of drastically lower yields and thinning margins. Higher contribution from trust fees, sale of acquired assets and Bancassurance business compensated for the lower trading and foreign exchange gains.

The Bank continued full blast in its branch expansion program, opening in 2011 a total of 24 branches, 15 for China Bank and nine for China Bank Savings – bringing the total branch network to 293. The Bank has more than doubled its number of branches from 141 in 2006, adding 152 branches since then including the branches from its acquisition of Manila Bank in 2007. Despite the Php1 billion additional operating expense drag of the additional branches, China Bank continued to report one of the best cost-to-income ratios at 55.18%.

Total assets grew by 1.88% to Php262.2 billion, while low-cost CASA deposits improved by 13.17% to Php81.3 billion. China Bank's capital funds increased to Php39.3 billion which translates to a capital adequacy ratio of 17.80%, still one of the strongest in the industry. The Bank has consistently provided good returns to shareholders through its substantial cash and stock dividends of Php12.0 per share and 10% stock dividends, respectively, paid in 2011.

Fitch Ratings affirmed China Bank's credit ratings (individual rating of C/D) and the national rating of AA which is one notch below the top bank rating in the country. Capital Intelligence rating agency also affirmed its credit rating for China Bank (Financial Strength BBB-) and recently upgraded its Foreign Currency Long-Term rating to BB from BB- following the upgrade in the Philippines' sovereign rating.

The Bank has consistently proven its excellence in governance by being awarded the Gold award (only bank among the gold awardee companies) by the Institute of Corporate Directors (ICD) in its 2010 Corporate Governance Scorecard (score of 95% or higher), recognizing its performance in protecting the rights and equitable treatment of its shareholders, role of stakeholders, disclosure and transparency, and Board responsibilities. China Bank's Private Banking Group (PBG) was awarded "Best Wealth Management House in the Philippines" and was also cited as a "rising star" – an emerging private banking powerhouse in the country – at The Asset Triple A Investment Awards held in Hong Kong. Also in 2011, the Bank received Straight Through Processing (STP) award for being a top Commercial Payment Bank in the Philippines given by Bank of America Merrill Lynch.

Where did your growth last year mainly come from?

Loans growth accelerated last year by 32% to Php150.0 billion, a pace three times faster than the average growth of the previous ten years. Substantial growth was recorded across all market segments: corporates by 32%, commercial by 37%, and consumer by 28%.

Even as loans grew faster, the Bank sustained its tight focus on loans quality thru a regular review at the board level of non-performing loans. The resulting 8% drop in non-performing loans to an NPL ratio of 2.93%, together with the already more than adequate provisions for possible loan losses during the previous years, allowed the Bank to provide for lower loan loss provisions of Php155.10 million from Php495.8 million of the previous year, and still improve its loan loss coverage ratio to 143.90%.

On the fee-based businesses, revenues from MCBLife, a bancassurance joint venture with Manulife Philippines, broke previous records and exceeded set targets – fulfilling its initial promise of becoming a major non-traditional revenue source for the Bank. Other fee-based businesses such as remittances, private banking and income from sale of acquired assets also contributed to the revenue growth.

Did the financial difficulties felt in the US and Europe affect your performance in any way?

The underlying uncertainties arising from the Greek financial crisis and the slow US recovery actually served to highlight the brighter outlook for economies in Asia vis-à-vis the Western economies burdened by highly leveraged consumers and highly leveraged governments.

Meanwhile, the monetary and fiscal policy responses by the Eurozone and the US authorities have led to a massive flow of liquidity that is now actively seeking yields in emerging markets, particularly Asia. This liquidity overhang has dampened interest rates throughout the developing and

CHINA BANK

developed financial systems. This trend was supported by the statement of the US Federal Reserve that interest rates are likely to remain low until 2014, which superseded an earlier pronouncement by Federal Reserve Chairman Ben Bernanke that rates will remain low thru third quarter of 2013.

The sharp fall in interest rate has led to a prolonged phase of low margins that substantially undercut the volume effect of loan portfolio growth. The issue of whether the low interest rates are sufficient rewards for the kinds of risk being underwritten has started to come to the fore.

In addition, the low interest rate environment translates to reduced market volatility, and consequently limited opportunities to earn substantial gains from securities trading. This has led to concerns that possible rate reversals may hit the securities portfolio with substantial mark-to-market losses.

How have your mergers and acquisitions, such as that of Manila Bank, been doing thus far? Will there be more M&As?

China Bank's network expansion began in 2006 from a base of 141 branches. Since then, the Bank has added 152 branches – including the branch licenses from its Manila Bank acquisition. The branches absorbed from Manila Bank and some of the older branches (opened during the last five years) are already making money and contributing to the bottom line. However, the low interest environment has meant that break-even periods for new branches will take somewhat longer than during periods of healthier spreads. To date, the total combined network of China Bank & China Bank Savings is 293 branches complemented by 475 ATMs nationwide. The Bank will continue its branch expansion program, either organically or through bank acquisitions/mergers.

What can clients expect from China Bank in 2012?

Clients could look forward to more innovative and competitive products and services that will be more responsive to their requirements. New products such as credit cards will be soft-launched this year, together with cash card and debit card offerings. China Bank will also strengthen its presence in its traditional commercial/SME/middle market segments. We intend to build our relationship management ability to better respond to our customers' needs and anticipate changes.

The savings bank subsidiary is all set to go full blast this year, with its goal to become a sales oriented organization with a strong focus on the retail consumer segments of vehicle finance and housing loans as well as SMEs. It will further expand its distribution footprint by opening new branches and increasing usage of alternative banking channels such as internet and mobile banking services.

China Bank continues to be among the busiest banks in terms of business improvement and technology projects in the pipeline, starting with its core banking system implementation. The CRM, business intelligence, loyalty and rewards program will also be rolled out in 2012.

What would your core strategies be during the year?

China Bank's three-year (2012-2014) business plan builds on the existing three-year core strategies with emphasis on market focus and segmentation, with a clear purpose of expanding the customer base and number of relationships. China Bank will continue to strengthen revenue growth from core businesses, continue diversification of revenue sources, sustain its network expansion and distribution channels, strengthen ability to compete, and strengthen organizational and operational efficiency.

As the Bank pursues loan expansion, the goal is to increase the share to total loan portfolio of the commercial and consumer segments by growing much faster than the loans to the corporate sector. The fastest growth will come from the consumer segment, with both the Consumer Banking Group of the main bank and the China Bank Savings making a big push.

The commercial/middle market segment will grow by leveraging on the increased footprint of our growing branch network. The branches will be the cornerstone of the Bank's low-cost fund generation strategy and serve as a platform for cross-selling other financial services. Synergy with the Bank's holding company, the SM Group, SM mall tenants and other affiliates like Manulife will be actively tapped to build up our share of the consumer and commercial markets.

On the corporate front, China Bank will target possible opportunities in the public-private-partnerships (PPPs) projects, infrastructure and mining.

As customer satisfaction and retention are key drivers for success, the Bank intends to attract, train and retain the right people to ensure that adequate and competent staffing could support the Bank's business and growth strategies. The Bank's investments in infrastructure and technology are needed to handle the increase in business transactions and growing demand for timely and accurate customer and financial information.

What would be your expected growth drivers?

We believe that the key to growth in market share is sustaining our competitiveness in both traditional lending and fee-based services. The increase in lending volume should be achieved without compromising our standards for credit underwriting and relationship management – which means striving for a balance between maximizing the business relationships with our customers thru cross-selling of our other bank products and services and maintaining account profitability levels. The Bank will be conscious of the tremendous competitive pressure to lend at lower rates, and threshold where returns may no longer be commensurate to the credit risk that we are taking on. This requires consistency in executing a disciplined management of credit risks, aided by more sophisticated tools and technology.

CASA generation and the size of the branch network are both key drivers of growth in number of customers and market share. The Bank also expects higher contribution from its cash management, Bancassurance, remittance, and wealth management businesses while launching new income streams that hopefully would contribute to profit growth in 2012.

How many new branches will open in 2012 and where will these be located?

The Bank's objective is to further grow the network from 293 in 2011 to 400 branches by 2014 including China Bank Savings, which will grow from 25 to 85 branches.

The Bank plans to open about 33 branches, 17 branches for China Bank and 16 branches for China Bank Savings. In the first half of 2012, China Bank plans to open branches in Cebu, Pampanga, Isabela, Bukidnon, Nueva Ecija, Cavite, Davao, Bacolod and Bulacan.

What do you think would be the reasons why clients will choose China Bank over other banks in 2012?

The same reason why clients have stayed with China Bank for over 91 years – CBC is the right partner for its customers, a role earned through enduring relationships anchored on trust. China Bank will continue to be a catalyst for wealth creation and enabler of its customers' dreams and goals. This has been founded on our ability to respond to the clients' needs, informed by a clear understanding of their businesses.

Looking forward, what is your prognosis for the Philippine banking industry in 2012 and 2013?

Given the high levels of market liquidity and manageable inflation, interest rates are expected to remain low, given the signals from the US and the Eurozone whose economies are still relatively fragile.

The massive liquidity overhang in the banking system means that continued low interest rate scenario will be favorable to borrowers, perhaps further stimulating loan demand. We expect greater competition in the industry, as banks pursue overlapping market segments and exert further downward pressure on loan rates. However, Fitch Ratings expect that lower trading gains will pull down banks' profitability. Stricter rules on capitalization in preparation for the implementation of Basel III in 2014 would allow Philippine banks to better withstand future economic downturns.

PROPERTY

Property developer SM Land, Inc., which is composed of residential, commercial, and leisure segments, forged ahead with its noteworthy growth in 2011, spearheaded by residential condominium developer, SM Development Corporation (SMDC). SM Land's total revenues from real estate operations for 2011 increased 52% to Php19.7 billion, while net income also from real estate operations rose 39% to Php5.3 billion. Consolidated net income, on the other hand, increased by 31% to Php5.1 billion.

SMDC sharply grew its net income to Php4.2 billion, 38% higher compared to 2010. SMDC's consolidated revenues reached Php17 billion, representing a year-on-year increase of 70%. Of the company's 17 projects, three have been completed while the rest are in various stages of completion. For the rest of 2012, SMDC expects to launch five more new residential condominiums in Metro Manila.

Also in 2011, SM Land's commercial properties group completed the TwoE-Com Center at the Mall of Asia Complex (MOAC) in Pasay City. Supported by the country's booming business process outsourcing (BPO) industry, TwoE-com is already 75% leased out to tenants as of the end of last year. In the pipeline this year is the groundbreaking for ThreeE-Com Center that will similarly respond to the need for first-rate office space coming from BPO firms.

Another noteworthy project currently nearing completion at the MOAC is the 62,000-sqm SM Arena. This ultra-modern sports and multi-event complex will open its doors by the second quarter of 2012. It offers world-class facilities and amenities, and could accommodate up to 20,000 spectators. Major sports tournaments, concerts, and other similar events are already scheduled to be held at the SM Arena.

Hamilo Coast's Pico de Loro Cove in Nasugbu, Batangas, which is SM Land's large-scale ecotourism and leisure project, now benefits from full-swing operations, with all its facilities now open and being used by unit owners, members, and their guests. Amenities include a beach and country club, restaurants, sports facilities, a ferry service and the newly opened Pico Sands Hotel.

SM Land's total revenues from real estate operations for 2011 increased 52% to Php19.7 billion, while net income also from real estate operations rose 39% to Php5.3 billion. Consolidated net income, on the other hand, increased by 31% to Php5.1 billion.

TRENDS & EXPECTATIONS

ROSALINE Y. QUA
President, SM Development Corporation

We have practically exceeded all the targets we have set for 2011 and more significant was that we retained our standing as the number one residential condominium developer in Metro Manila, in terms of sales volume and value.

How did SMDC perform in 2011? Were you able to achieve your targets for the year?

We are very satisfied with our performance last year. We have practically exceeded all the targets we have set for 2011 and more significant was that we retained our standing as the number one residential condominium developer in Metro Manila, in terms of sales volume and value. Compared to the previous year, our financial performance was likewise robust and strong.

How many projects did you launch and how many units were those equivalent to?

We launched four projects last year and these are Mezza II, M Place @ Ortigas, and towards the end of the year, Green Residences and Shell Residences. These new projects significantly replenished our total inventory available for sale by almost 9,000 units.

How are you able to sustain the distinction of being the top developer of residential condominiums in Metro Manila?

This achievement was a result of a combination of a lot of things. Foremost would be business focus, strong market orientation, continued innovation, and a remarkable brand name. I think our tag line of "Five-star homes in prime locations" perfectly fits the demand.

RESIDENTIAL

What makes your products and services highly attractive to the market? What do you think is your strongest competitive advantage over other developers?

Our products are of five-star quality and in prime locations, these are compelling value propositions that we think continue to attract strong market reception. On our comparative advantages, we can cite four factors and these are our capability to offer innovative and integrated developments, the scale we have in terms of product launches, the strong synergy we have with the other SM companies and of course, the SM brand that we carry.

Is there enough demand in the market for SMDC to sustain its growth in the coming years?

The huge housing backlog in the country and in Metro Manila, coupled with the growing middle-income segment and the strong overseas Filipino workers (OFW) remittances will certainly underpin housing demand. We have also observed that there was already a shift in market preference toward condominium living in the city driven by the current economic realities. These factors will certainly sustain our growth moving forward. Moreover, SMDC is mindful of the cyclicality of the Philippine property market, thus measures to broaden and strengthen our revenue base are being undertaken.

How many new projects and units will you be offering in 2012? Of the total, how many units will be under SM Residences and how many will be under the M Place brand?

We will be launching four to five new projects. Most of these projects will be under SM Residences. In addition, we will also be introducing new towers in our existing developments.

How much capital expenditure (capex) have you projected for 2012? How do you plan to raise that amount?

SMDC will invest approximately Php20 billion for its land banking and completion of new and on-going projects. This will be funded through a combination of internally generated funds and refinancing of its existing long term loans.

Of your total capex plan, how much will go into land banking?

SMDC plans to use Php4 billion in acquiring raw land for its future projects.

Aside from your Wind Residences in Tagaytay City, do you plan to put up projects in other areas outside Metro Manila?

We are focused in the Mega-Metro Manila area at the moment. There is still a lot of in-city development opportunities that we would like to tap. But of course, we would also like to consider fast-growing provincial capitals in our forward plans.

What steps have you taken to address challenges brought about by climate change and other extreme natural phenomena that the country is experiencing?

Even before these natural phenomena occurred, our design team had already incorporated measures to make our projects environment friendly. On top of this, suppliers and contractors are carefully being selected and evaluated on the basis of their capabilities and experience. Now, we added new measures such as peer review in our product development on top of the regular safety and security drills for products and projects already delivered.

PROJECT UPDATE


Grass Residences


Sun Residences


Sea Residences

The Year That Was

An Update on SMDC Projects in 2011

In 2011, SM Development Corporation (SMDC) again continued with its on-schedule construction of its various residential condominium projects. As in previous years, many satisfied owners received the keys to their brand new homes and started enjoying the ideal, contemporary lifestyle espoused by SMDC. The faster pace at which units were completed allowed the company to realize more revenues, therefore contributing to SMDC's very robust performance last year.

"We are pleased to note that in 2011, the construction schedules of our condominium projects continued to remain largely on-track, unhampered by long delays. It is also worth noting that our team of highly-skilled and experienced engineers, architects, interior designers, and contractors all worked expertly and seamlessly together. This ensured not only the punctual completion of the homes we built, but also their top-notch and dependable quality, which our clients seek and could very well count on," shared Henry T. Sy, Jr., SMDC vice chairman and chief executive officer.

Described below are SMDC's residential projects and the various stages of completion that they were in, as of the end of December 2011.

During the period, three condominium projects of SMDC were already fully completed, in terms of construction. These projects are **Chateau Elysee** in Parañaque City, **Mezza Residences** in Sta. Mesa, and **Berkeley Residences**, which is along Katipunan Avenue in Quezon City. In terms of unit sales during the period, Chateau Elysee sold 2,330 or 83% of its 2,820 total units. Meanwhile, Mezza Residences was practically sold out, with 98% or 2,285 out of its 2,332 inventory sold. Similarly, Berkeley Residences was able to sell 98% or 1,252 units out of 1,276.

The other project of SMDC, **Grass Residences**, located behind today's largest SM mall, SM City North EDSA in Quezon City, had fully completed the construction of its Tower 1 during the same period. Its two other towers, namely Tower 2 and Tower 3, are 17% and 70% completed, respectively. Out of Grass Residences' 5,997 total number of units launched for sale, 5,444 or 91% have been sold as of December 2011. The project has a gross floor area (GFA) of 240,184 square meters (sqm).

Next is **Field Residences** in Parañaque City. As of December 2011, it has sold 1,450 units or 73% of the 1,974 units that have been launched for sale. SMDC plans to construct ten towers for Field Residences. Of these, Towers 1, 2, and 8 are 100% completed, while Tower 3 is 54% finished. The project has a GFA of 191,654 sqm.

Very near SM's Mall of Asia Complex in Pasay City is SMDC's **Sea Residences**, which has a GFA of 140,032 sqm. Buildings A and B of Sea Residences are fully completed, while its buildings C and E are 97% done and its buildings D and F are at 87% completion. As of the end of December 2011, the project is also almost sold out, as 98% or 2,830 out of its 2,899 total units have already been bought.

A look at SMDC's next project, **Princeton Residences**, which is a single tower residential condominium project located along Aurora Boulevard in Quezon City, shows that as of the period, it was 80% completed and has sold 63% or 691 out of its 1,096 total units. The project's GFA is 51,624 sqm.

Meanwhile, **Sun Residences**, located beside the Mabuhay Rotunda at the boundary of Manila and Quezon City, was 51% and 29% complete with the construction of its Tower 1 and Tower 2, respectively. Out of its 4,039 total units 2,218 or 55% have already been sold. Sun Residences' estimated GFA is 174,686 sqm.


Blue Residences Amenity


Jazz Residences


Blue Residences

Another SMDC project is **Light Residences**. Conveniently located along the northbound side of EDSA in Mandaluyong City, it has a GFA of 213,419 sqm. Its Tower 1 is 59% finished and its Towers 2 and 3 are 16% and 23% completed, respectively. Light Residences offers 4,227 units for sale, of which 2,714 or 64% have been sold as of December 2011.

In Makati's central business district stands SMDC's **Jazz Residences**. It has a GFA of 286,845 sqm. It has completed 60% of its Tower A, 33% of Tower C, 15% of Tower D, and 13% for its Tower B. With its 3,615 units launched for sale, 2,852 units or 79% have already been sold.

Outside Metro Manila, SMDC has its **Wind Residences** in Tagaytay City. As of the end of December 2011, its Tower 1 was 60% completed, its Tower 2 at 57%, and its Tower 3 at 8% completion. Wind Residences is envisioned to have a total of ten towers upon full completion, with a total GFA of 372,201 sqm. It has as of the same period, launched 2,148 units for sale. Out of these, 1,749 units or 81% have already been bought.

Another SMDC project along Katipunan Avenue, Quezon City is **Blue Residences**. A single-tower structure with a GFA of 72,701 sqm, it was as of end December 2011, 20% completed. It has sold 64% or 1,014 units out of its 1,591 total.

All of the residential condominium projects described above are under SMDC's SM Residences brand. In addition, there are two other projects under a separate and distinct brand, known as M Place. As of the end of 2011, there are two projects under the M Place brand, namely **M Place @ South Triangle** in Quezon City and **M Place @ Ortigas** in Ortigas City.

M Place @ South Triangle has a GFA of 143,910 sqm. Its rates of completion are 21% for Tower 1, 9% for Tower 2, and 2% for Tower 3. As of the period, construction for Tower 4 has yet to commence. In terms of unit sales, M Place South Triangle has already sold 67% or 1,779 units out of its 2,651 total.

As for **M Place @ Ortigas**, construction has just recently started. Please refer to page 11 for a more detailed description of the project.

With the construction of all the on-going projects of SMDC humming efficiently like the well-oiled machine that it is, there is little doubt that the market's confidence in the company's capability to complete what it has started will continue growing deeper and better. This in turn will further bolster SMDC's position as the preferred brand in condominium living.

TRENDS & EXPECTATIONS

DAVID L. RAFAEL
Senior Vice President, Commercial Properties, SM Land, Inc.

With the changing landscape of office building development, SM Land – Commercial Properties Group has sought to provide the advantages, benefits, and prestige traditionally associated with a central business district office building.

How did SM Land's commercial properties group perform in 2011? What were your significant achievements during the year?

2011 was a good year for SM Land's Commercial Properties Group (CPG). Total revenues grew by 14 % to Php2.32 billion from Php2.025 billion in 2010, and net income after tax increased by 19% to Php858 million from 2010's figure of Php722 million. Such growth was achieved despite having no new or additional gross leasable area (GLA) added to our existing portfolio. Occupancy rates were near 100% in all the commercial properties that the CPG owns and manages.

We have successfully driven down our direct and other operating expenses, resulting in significant improvement of our operating margins to 46% in 2011, from 39% in 2010. We also achieved dramatic turnaround with the profitability of our Mall of Asia Complex (MOAC) estate, registering a net income of Php60 million from a net loss of Php137 million in 2010. This turnaround was largely due to the marked improvement in retail sales at Mall of Asia.

What helped achieve your growth targets?

Since office leasing contributed 37% of our revenues and comprised more than half (56%) of our net income, we enhanced our ability to generate growth from our existing capacity. We maintained full occupancy rates mostly through good tenant relations as well as active client searches. We also innovated and improved efficiencies in our operations.

In addition to the successful turnaround of the business in MOAC, we also derived growth from retail and warehouse rentals. With increased consumer spending in 2011, we have benefitted from the growth of select SM Department Stores and SM Supermarkets leasing from SM Land-owned buildings. We also added warehouse capacity to support the growth of the retail stores.

COMMERCIAL

With the introduction of additional office inventory such as TwoE-comCenter, we expect substantial growth in revenues and income from 2012 onwards.

How is OneE-comCenter performing and what is its tenant mix?

OneE-com is essentially 100% occupied. For office spaces, we have successfully captured our target market of business process outsourcing (BPO) companies and location-based businesses, such as shipping, maritime crewing, and logistics firms. We also have a number of small- to medium-sized enterprises that rely on the prime and central location of MOAC for efficiency of operations and increased business opportunities. We have a tenant in OneE-com, for instance, who is a distributor of liquor and spirits. They find our location near the mall and near Manila as a convenient talent pool in sourcing staff for their promotional events and activities.

We also have a good mix of retail and commercial tenants in our office buildings' ground floor arcade, which provides for the immediate needs and daily conveniences of our building occupants and tenant employees.

Are you seeing the same kind of tenant mix with TwoE-com?

Yes, BPOs and location-dependent businesses remain to be the primary target market for TwoE-com, along with other types of tenants and locators who, in general, find the need for a prime office address at value-for-money costs. We are also placing more support establishments in the ground floor.

Please tell us about your new offerings in TwoE-comCenter. What makes it more unique as a project compared with OneE-com?

With the changing landscape of office building development, SM Land – CPG has sought to provide the advantages, benefits, and prestige traditionally associated with a central business district office building. We transplanted the concept in an emergent "next wave" city location, and at costs that are value for money not just for locators and tenants, but for their employees and customers as well.

The current realization of this continuing vision is TwoE-comCenter. It is the second in a series of four E-com buildings to comprise the premier business hub of MOAC – a vital aspect of the complex's master plan, synergizing with the Mall of Asia as well as with the other upcoming developments like the SM MOA Arena.

TwoE-com's most important and striking feature is its iconic architecture – a two-storey, 14-level structure conjoined at its uppermost floors to form a virtual archway that frames the prime Manila Bay views inherently unique to MOAC.

In terms of functionality and efficiency, TwoE-com has been built on learnings and improvements from its predecessor. TwoE-com also offers a more compelling and dynamic mixed-use component in Prism Plaza, which is an open-air commercial strip located on its fourth level podium. This venue serves as a convergence point for building occupants and guests, and will be the venue for events such as social gatherings, product launches, and the like.

As proof of TwoE-com's success as a distinctive and pioneering office development, it has received an award in the category of Best Office Development in the 2012 Asia Pacific Property Awards, a precursor to the International Property Awards, which is renowned award-giving organization in the global real estate industry.

How much did it cost you to construct the whole building?

Around Php2.4 billion.

With the completion of TwoE-com, when do you intend to kick off the Three and FourE-com buildings?

ThreeE-comCenter is already targeted for groundbreaking by April 2012 and estimated to be completed by the fourth quarter of 2014. Planning for FourE-comCenter will subsequently be underway.

Do you think demand for office space will remain resilient in 2012 and will support the expansion program that you are embarking on?

Yes, office space demand is definitely projected to remain high for the next couple of years, bolstered by the continuously growing BPO industry. With the strategic development of the E-com business hub, we are making SM Land competitive in the market by offering ready inventory. Office clients usually consider the viability of expansion within a site or commercial estate. In fact, many of our pioneer OneE-com tenants have expanded into TwoE-com.

We are also launching in 2012 the SM Cyber West Avenue office building in Quezon City, located on a prime property opposite SM North EDSA mall. This standalone office building has a GFA of over 42,000 sqm and is perfect for a single major BPO locator.

Do you think that the current financial crisis in Europe and in the US will affect the local BPO industry? If so, what steps are you taking to face this challenge?

On the contrary, the Philippines is presented with a huge potential to be on the receiving end of even more offshore operations from these embattled economies. Regarding concerns about US legislation against outsourcing, the latest resolution on this involves federal operations only. We are one with local BPO industry experts who do not foresee any further developments on this situation and any consequences at all on present or future BPO growth in the country.

Aside from BPO and office buildings, do you have plans of going into other types of commercial development? If so, what areas are you looking at?

We are currently venturing into a more leisure and entertainment type of mixed-use development in a prime property in Tagaytay. Taking advantage of the site's premium views and distinctive natural environment, the development is envisioned as an events venue enhanced by casual, family-style dining establishments. This development is right beside the Taal Vista Hotel, to complement its strong presence as a well-known destination in the Tagaytay area. We are definitely moving slowly but surely toward the direction of more lifestyle-oriented mixed-use projects.

TwoE-com's Prism Plaza podium is another example of such. While it is housed within the office building, it is a standalone development that is open to the public and is envisioned to be an additional revenue-generating aspect of our operations.

Do you have plans of expanding in the Visayas and Mindanao?

There are no plans in the immediate future to do so, but in line with the general direction of the SM Group to explore emerging and dynamic markets, we are sure to encounter this expansion strategy eventually.

HOTELS & CONVENTIONS

SM's fifth core business, hotels and conventions, is poised to gain from the country's flourishing tourism industry, which is viewed as one of the next key drivers of economic prosperity. Banking on this vast potential and also in response to the shortage of hotel rooms nationwide, the group launched in April 2011 the Pico Sands, which is a resort hotel at Hamilo's Pico de Loro Cove in Nasugbu, Batangas. Pico de Loro Cove members, condominium owners, and their guests now enjoy the fine amenities of the 154-room Pico Sands. This new hotel joins the other first-rate SM hotels, namely the 261-room Taal Vista in Tagaytay City and the 400-room Radisson Blu in Cebu. Taal Vista Hotel, meanwhile, is celebrating its 75th anniversary this year through special promotional activities. Next year, SM Hotels and Conventions plans to launch another hotel, the 204-room Park Inn Davao in Southern Mindanao.

In the conventions business, SM continues to be a major player, providing more than 27,000 sqm of leasable convention and exhibit space to hundreds of thousands of delegates and participants, most notably in its flagship SMX Convention Center located at the Mall of Asia Complex. A second SMX Convention Center, to be located in Davao City, is scheduled to open by the end of this year. Additional SMX Convention Centers are the group's response to the projected increase in MICE (meetings, incentives, conferences, and exhibitions) events to be held in the Philippines.

Next year, SM Hotels and Conventions plans to launch another hotel, the 204-room Park Inn Davao in Southern Mindanao.

TRENDS & EXPECTATIONS

REYNALDO D. VILLAR
Executive Vice President
SM Hotels and Conventions Corporation

We are becoming the premier choice of discerning business travellers. Our extensive choice of venues have played host to a growing number of meetings, conventions, and social functions.

How did the hotel and conventions group perform in 2011? What drove the growth in the business?

The group generated total revenues of Php425 million in 2011 or 18% higher compared to that of the previous year. This came from a mix of revenues from our three hotels and three convention facilities. Growth was largely driven by our new hotels namely Pico Sands, a 154-room resort-type hotel, located in Hamilo Coast's Pico de Loro in Nasugbu, Batangas and Radisson Blu, a luxury hotel in Cebu. We also saw a continued increase in revenues for SMX Convention Center, the largest convention facility in the Philippines located in the Mall of Asia Complex in Pasay City.

A year after its opening, how is Radisson Blu Hotel Cebu faring? What is the average occupancy of the hotel now?

The Radisson Blu Hotel Cebu continues to increase its average rate and occupancy levels. The hotel ended the year at 43% occupancy, with an average room rate of Php3,170 per day. The last quarter showed a very significant growth across all its business segments, resulting in an average occupancy level of 51% and an average rate of Php3,208. We see the last quarter's trend continuing in 2012.

What steps were taken to make Radisson Blu competitive in Cebu given the presence of a number of new hotels and resorts in the area?

Being a city hotel, we are becoming the premier choice of discerning business travellers. Our extensive choice of venues such as the Event Plaza, two ballrooms, and numerous function rooms have also played host to a growing number of meetings, conventions, and social functions, especially weddings. Our complimentary Wi-Fi service, well-appointed and contemporary facilities, and Radisson Blu's "Yes I Can" service brand and attitude have definitely positioned Radisson Blu as Cebu's leading business hotel. We have also been consistently ranked as the number one hotel in service and facilities by the reputable Trip Advisor, an online traveller's rating site.

Congratulations for the opening of Pico Sands in Hamilo Coast last year. How is the market responding to it thus far?

The hotel was mainly built to complement Hamilo Coast's beach and country club facilities and to provide accommodations to its valued club members and their guests. The response has been very positive and we are encouraged by the growing occupancy levels on weekends and holidays. We have also opened our facilities to a few and selected corporate group meetings during weekdays and this has generated very positive feedback as well. The word of mouth endorsements have translated into more membership sales for the club.

What are the interesting features and offerings of Pico Sands?

Pico Sands is a contemporary first class hotel with bed configurations that can accommodate a family of four in its premier rooms. Taking note of the Filipinos' strong family ties, the hotel offers four rooms that connect to each other, giving the family a sense of togetherness despite having separate rooms. We also offer complimentary Wi-Fi in all our guestrooms for those who need to constantly stay connected.

The Pico Restaurant and Bar located at the lobby level of the hotel offers a wide range of Mediterranean cuisine from 6 a.m. to 10 p.m. For those seeking pampering, our Rain Spa, also located at the lobby level, is open from 10 a.m. to 10 p.m.

How has it complemented Hamilo Coast?

The opening of Pico Sands Hotel has given the members a reason to stay longer at the Pico de Loro Beach and Country Club and, more importantly, a reason to frequent the facility at their most convenient time.

How did Taal Vista Hotel in Tagaytay City perform last year?

Taal Vista Hotel continues to hold the number one position in occupancy and average rate amongst its competitors in Tagaytay City. It is celebrating its 75th Anniversary in 2012, a milestone we are very proud of and look forward to celebrating.

What are the latest developments regarding your announced hotel project in Mindanao, the Park Inn Davao?

Park Inn Davao, the 200-room mid-scale offering of SM Hotels, will open in the first quarter of 2013. This will be managed by Carlson Hotels Asia-Pacific, the same management company currently operating the Radisson Blu Hotel Cebu. The Park Inn Davao will be connected to the SM City Lanang mall via a bridge way.

In conjunction with the operation of our hotel in Davao, we will also be launching the SMX Davao Convention Center, within the SM Lanang property. This SMX convention hall will house 9,130 square meters of convention space and 5,688 square meters of trade hall space. SMX Davao will open in the second half of 2012.

What is your outlook for the tourism industry in 2012? How do you plan to increase your presence among both the domestic and international tourists?

The Department of Tourism forecasts an increase of 11% in international tourist arrivals. Moreover, domestic tourism, which has been consistently growing since 2008, was forecast at 28.7 million travellers for 2011. Our strong sales and marketing and business development teams work hand in hand with the hotel properties to ensure that the group capitalizes on such opportunities.

Do you have plans to launch new projects in 2012?

SMX Davao is scheduled to become operational in the second half of 2012.

How did the SMX Convention Center, as well as your other trade halls, perform in 2011?

For 2011, SMX Convention Center in the Mall of Asia Complex generated an increment in gross revenues of Php37 million or an increase of 16% compared to the previous year. Megatrade Hall in Megamall, Mandaluyong City and Cebu Trade Hall have generated an increment of Php4 million or an increase of 5% and Php3 million or an increase of 18%, respectively, compared to 2010.

What is your near-term outlook for the Philippines' MICE (meetings, incentives, conventions, and exhibitions) industry?

The MICE segment revenue contributes approximately 30% to 40% of our total rooms revenue across all our hotels and has also fueled a significant 19% growth in 2011 for our convention centers.

Given the favourable business climate in the Philippines, we project an 8% to 12% increase in this segment in 2012.

Radisson BLU HOTEL CEBU

1st Anniversary

SM Hotels and Conventions Corporation celebrated the first anniversary of Radisson Blu Hotel Cebu in grand style on November 25, 2011 with a party that evoked New York's Cotton Club of the 1920's.

With an art deco motif, the hotel's Santa Maria Grand Ballroom was transformed into a posh Cotton Club with female guests wearing flapper costumes, feather boas and stunning headdresses and men in fedora hats and brogue shoes. Among the guests who attended the grand celebration were Cebu's prominent business and civic leaders, local government officials and respected media personalities.

The event highlighted the accomplishments of Radisson Blu Hotel Cebu, the first Radisson Blu Hotel in the Asia Pacific region and managed by the Carlson Group, a global hospitality and travel company.

Ms. Elizabeth Sy, President of SM Hotels and Conventions Corporation said, "We are happy to celebrate the first anniversary of Radisson Blu Hotel Cebu, our premier hotel in the Visayas. At the same time, we are pleased to note that in its maiden year, Radisson Blu Hotel Cebu has established itself as one of the leading tourist destinations in Cebu City and a showcase of the best that Cebu has to offer."

The 400-room Radisson Blu Hotel Cebu has consistently ranked #1 among the hotels in Cebu on Tripadvisor.com as well as in the Guest Services Survey among Carlson hotels in Asia-Pacific.

Mr. Simon Barlow, President of Carlson Hotels Asia Pacific said, "I would like to congratulate the team of Radisson Blu Hotel Cebu on their achievements for the past 12 months. This hotel is an excellent showcase of the Radisson Blu brand where guests can truly experience the brand's unique service. We are proud to have the SM Group as our partner for this venture and we share a vision to establish more hotels under the Radisson Blu and Park Inn by Radisson brands in the Philippines."

For his part, Mr. Lyle Lewis, General Manager of Radisson Blu Hotel Cebu and Vice President of Carlson Hotels for the Philippines and Japan shared, "Since our hotel opened, we have been delighting guests and steadily increasing our market share in Cebu. We have a fantastic team here and we share a common goal of creating the best experience for our guests and to continuously give them compelling reasons to stay with us again and again."

Radisson Blu Hotel Cebu's first anniversary celebration likewise ushered in the Christmas season with the ceremonial lighting of the magnificent blue and white 20-foot Christmas tree at the hotel's grand and expansive lobby as the Radisson choir sang a medley of Christmas carols. Lighting up the Christmas tree were Ms. Elizabeth Sy and SM Prime Holdings, Inc. President, Mr. Hans Sy.

Radisson Blu Hotel Cebu is situated near the bustling port area, where Serging Osmeña Boulevard intersects Juan Luna Avenue. The hotel is adjacent to SM City Cebu (the 11th largest mall in the world), strategically located close to the city's major business hubs, entertainment centers, tourist attractions, including cultural heritage sites, sandy white beaches and famous dive spots.

CORPORATE GOVERNANCE

SM Investments Corporation recognizes the key role of good corporate governance in the operations of its businesses, increasing shareholder value and sustaining growth. SMIC's platform of governance remains rooted in its Manual on Corporate Governance and Code of Ethics, which adhere to the principles of fairness, accountability and transparency. The Company promotes these principles to everyone in the organization and to all of its stakeholders and continues to keep pace with global corporate governance best practices under the guidance of its Board of Directors.

Board of Directors

SMIC's commitment to the principles of good corporate governance emanate from the Board of Directors. In line with this commitment 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 in a manner that ensures the best interests of SMIC, its shareholders and its stakeholders.

The SMIC Board of Directors is composed of eight (8) directors, three (3) of whom are independent directors. SMIC adopts the definition of independence from the Securities Regulation Code. An independent director is 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 Chairman of the Board and the President are separate individuals, whose functions and responsibilities are laid out in the Manual on Corporate Governance. Only two (2) members of the Board are executive directors, namely the President, Mr. Harley T. Sy and Executive Vice President and Chief Financial Officer, Mr. Jose T. Sio. Furthermore, to provide guidance and expertise on corporate governance and financial reporting, the Board appointed Mr. Roberto G. Manabat as Board Adviser.

The members of the Board are elected by SMIC stockholders during the Annual Stockholders' Meeting. The directors hold office for one (1) year and until their successors are elected following the procedures set forth in SMIC's By-Laws. All Board members have been duly screened and deemed eligible and highly qualified by the Nomination Committee. They have undergone accredited training and orientations programs on corporate governance in compliance with SMIC's Manual on Corporate Governance.

Board Committees

To help focus on specific corporate governance responsibilities, the Board created three (3) committees, namely the Compensation and Remuneration Committee, the Nomination Committee, and the Audit and Risk Management Committee. Each Committee has adopted a Charter which defines its composition, roles and responsibilities based on the provisions of the Company's Manual on Corporate Governance. The Charters include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

The Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement. The Committee also reviews existing human resource policies to ensure the continued growth and development of SMIC's workforce. It is composed of three (3) members, one (1) of whom is an independent director in the person of Mr. Vicente S. Perez, Jr.

The Nomination Committee

The Nomination Committee evaluates all candidates nominated to the Board in accordance with the requirements set forth by SMIC's Manual on Corporate Governance. The Committee ensures that those nominated to the Board meet all the qualifications for directorship. The Nomination Committee is composed of three (3) members, one (1) of whom is an independent director in the person of Mr. Ah Doo Lim.

The Audit and Risk Management Committee

The Audit and Risk Management Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews SMIC's internal control systems, its audit plans, auditing processes and related party transactions. Under its Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks. The Committee is composed of six (6) members, two (2) of whom are independent directors in the person of Mr. Joseph R. Higdon and the Committee Chairman, Mr. Vicente S. Perez, Jr.

Enterprise Risk Management (ERM)

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit and Risk Management Committee. In 2010, SMIC's Board formalized the ERM platform and took the following initiatives:

- Renamed the Audit and Corporate Governance Committee to the Audit and Risk Management Committee, and consequently expanded the Committee Charter to give impetus to risk management oversight.
- Established the Enterprise Risk Management Committee, chaired by the Chief Finance Officer, to serve as the working group in the development and execution of the ERM framework.
- Realigned the duties and responsibilities of the Corporate Governance Department to include the support and implementation of the ERM framework throughout the SM Group.
- Adopted a Risk Management Policy that establishes a culture of disclosing, evaluating and managing risks throughout the organization.
- Enhanced SMIC's Disaster Preparedness Program (DPP)
- Enhanced SMIC'sBusiness Continuity Plans in key operating units, specifically for Information Technology.

Board Performance

Regular meetings of the Board are held quarterly, but special meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year is a ground for temporary disqualification in the succeeding election.

Evaluation of the Board and President

To ensure that its members continue to perform at the highest level of integrity and professionalism, the SMIC Board of Directors conducts an annual self-evaluation and an evaluation of the President. Each member of the Board is asked to rate himself/herself, the performance of the Board as a whole, and the President's performance for the past year. The evaluation is based on the duties and responsibilities of the Board and the President under the SMIC Manual on Corporate Governance and By-Laws.

Directors are also asked to identify areas for improvement, such as trainings, programs or any other forms of assistance that they may need in the performance of their duties. The evaluation forms also include items on support services given to the Board, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body.

Board Remuneration

Members of the Board of Directors receive a per diem of P10,000 (P20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. The amount of the per diem is openly discussed during the Annual Stockholders' Meeting and approved by SMIC shareholders. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

Directors	Special	Regular	Regular & Organizational	Special	Regular	Regular	Percentage
	2/03/11	3/02/11	4/27/11	7/01/11	8/03/11	11/02/11	
Henry Sy, Sr.	√	√	√	√	√	√	100%
Teresita T. Sy-Coson	√	√	√	√	√	√	100%
Henry T. Sy, Jr.	√	x	√	√	x	√	83%
Harley T. Sy	√	√	√	√	√	√	100%
Jose T. Sio	√	√	√	√	√	√	100%
Vicente S. Perez, Jr.	√	√	√	√	√	√	100%
Ah Doo Lim	√	√	√	√	√	√	100%
Joseph R. Higdon*	n/a	√	√	√	x	√	80%

* Mr. Jospeh R. Higdon was elected on March 2, 2011 as Independent Director in replacement of Mr. Gregory L. Domingo.

CORPORATE GOVERNANCE

Policies

SMIC's good corporate governance culture is embodied in its Manual on Corporate Governance and Code of Ethics. Furthermore, the Company has adopted and implemented several policies and programs relating to corporate governance, which are regularly reviewed and enhanced. (Please visit SMIC's website at www.sminvestments.com to access corporate governance policies.)

Manual on Corporate Governance

The Manual on Corporate Governance institutionalizes the principles of good corporate governance throughout the organization. It lays down the Company's compliance system and identifies the responsibilities of the Board of Directors and Management in relation to good corporate governance. It also states the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance. The Manual further provides for the rights of all shareholders and the protection of the interests of minority stockholders. It likewise sets the penalties for non-compliance with the Manual.

SMIC's Manual on Corporate Governance is regularly reviewed to ensure compliance with regulatory advancements and to keep pace with the constant development of corporate governance best practices.

Code of Ethics

The Code of Ethics reaffirms the Company's commitment to the highest standards of ethics and good corporate governance in the pursuit of SMIC's mission and vision to serve the best interests of its stakeholders. The Code also sets guidelines for the Company's directors, officers and employees in the performance of their duties and responsibilities, and in the manner that they deal with investors, creditors, customers, contractors, suppliers, regulators and the public. The Code stresses the importance of integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the rights of shareholders, the protection of company information assets and promotes corporate social responsibility.

Guidelines on Acceptance of Gifts

Based on the provisions of the Code of Ethics, SMIC directors, officers and employees are prohibited from soliciting or accepting gifts in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate give-aways, tokens or promotional items of nominal value. When it is deemed improper to refuse a gift, the issue is elevated to Management for proper disposition.

In the same manner, travel sponsored by any current or prospective business partner is prohibited under the Guidelines on Travel Sponsored by Business Partners.

Insider Trading Policy

Directors, officers and employees who have access to material, confidential and stock price-sensitive information (i.e., information on business transactions that have not yet been disclosed to the public) are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of quarterly and annual financial results and any other material information.

The Company issues reminders to everyone in the organization before the release of financial reports and the disclosure of material information.

Related Party Transactions

SMIC discloses in detail the nature, extent and all other material information on transactions with related parties in the company's financial statements and quarterly and annual reports to the SEC and PSE. (Please visit SMIC's website at www.sminvestments.com to access financial statements and reports.)

Management regularly presents the details of transactions entered into by the Company with related parties at the meetings of the Audit and Risk Management Committee. This is to ensure that SMIC conducts all related-party transactions on an arms' length basis.

Disclosure and Transparency

To ensure that stakeholders receive timely and accurate information on the Company and its business, SMIC has formally adopted a policy of full and prompt disclosure of all material information in its Manual on Corporate Governance and Code of Ethics. In line with this, SMIC regularly updates its website and ensures prompt disclosures. The Company's website has a separate corporate governance section that features subsections on the CG Working Group, policies, programs and other relevant corporate governance developments.

The Company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on SMIC's various projects, financial and operational results. The presentation materials at these briefings, as well as the company's SEC and PSE reports and annual reports, may be viewed and downloaded from the website. (Please visit SMIC's website at www.sminvestments.com for access to disclosures, write-ups and other company information.)

The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) demonstrates SMIC's commitment to uphold the rights of its shareholders by serving as a venue for them to raise concerns, give suggestions, and vote on relevant issues. Voting methods are clearly defined and explained to shareholders to ensure the observance of their voting rights and continued participation in the voting process. Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, shareholders may cumulatively vote for the election, removal or replacement of Board Directors. Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required.

Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and their corresponding responses are recorded in the minutes of the ASM. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairmen and Members, Senior Management, Corporate Secretary and the External Auditors are always present during the ASM.

Prior to the ASM, shareholders are furnished a copy of the annual report, including financial

Directors	Annual Stockholder's Meeting	
	2009	2010
Henry Sy, Sr. (Non-Executive Director) Chairman of the Board	√	√
Teresita T. Sy-Coson Chairperson, Compensation and Remuneration Committee	√	√
Henry T. Sy, Jr. Chairman, Nomination Committee	√	√
Harley T. Sy President	√	√
Jose T. Sio	√	√
Vicente S. Perez, Jr. Chairman, Audit and Risk Management Committee	√	√
Ah Doo Lim	√	√
Joseph R. Higdon	n/a	√

statements, and all relevant information about the current and nominated directors and key officers.

Orientations and Trainings

SMIC recognizes that awareness and understanding of the principles of good corporate governance are essential to strengthening its corporate governance culture. In this light, the Company continues to invest in corporate governance related training opportunities and orientations for its directors, officers and employees. These training and orientation programs complement programs being offered and implemented by the Company's Human Resources Department.

To further nurture and promote the Company's corporate governance practices, SMIC's Human Resources Department enhanced its Corporate Orientation Program for New Employees. The program, now referred to as ONE SM (Orientation for New Employees of SM), continues to give new employees an overview of the Company's corporate governance framework, policies and its various components. It also covers the importance of ethics in the business, the Company's core values and the roles that each individual plays in the overall development of the corporate governance culture. The orientation drills down the Manual on Corporate Governance and the Code of Ethics, which are meant to inform employees of their rights and obligations, as well as enlighten them on the principles and best practices in promoting good work ethics and values.

SM conducts seminars on the Anti-Money Laundering Law, especially for its finance and sales staff in the property group. The seminars provide an overview of the requirements and prohibitions under the law that applies to real estate transactions. Participants are also given tips and advice on what they can do to avoid money laundering in the performance of their duties.

In July 2011, Mr. Gil L. Gonzales, Vice President for Corporate Governance and Risk Management attended the International Finance Corporation-Institute of Corporate Directors (IFC-ICD) Workshop on Risk Governance and the Board of Directors held at the Peninsula Manila. The seminar focused on practical ways to develop a risk management system.

On December 7, 2011, the Good Governance Advocates and Practitioners of the Philippines held a corporate governance symposium titled "Tips and Traps: A Discussion on the Experience of US and Global Companies in Ethics, Compliance and Corporate Governance" at the Lopez Building, MERALCO in Pasig City. Mr. Steve Priest of the Ethical Leadership Group/Global Compliance Services discussed the key points in the evolving global regulatory environment, innovative practices on governance evaluation and monitoring, whistleblowing systems and other practical and effective methods to promote good governance and right conduct. SMIC was one of the sponsors of the event.

As its name implies, the GGAPP is an association of good governance advocates and practitioners from various publicly-listed companies, the public sector and other organizations. GGAPP was launched last 1 April, 2011 and is duly recognized by the PSE, SEC and ICD. Senior Corporate Governance Manager and Risk Officer, Mr. Reginald H. Tiu serves as the association's Treasurer.

External Projects

On May 25, 2011, SMIC participated in the ICD's Investors' Forum with the theme, "Team PH: Changing the Game to be Asia's Best in Corporate Governance". The forum focused on the corporate governance landscape of the Philippines and the Maharlika Board initiative of the Philippine Stock Exchange (PSE).

SMIC participated once again in the ICD Annual Working Session held November 17-19, 2011 in Palawan. The annual event enables regulators, advocators and publicly-listed companies to tackle relevant corporate governance issues and strengthen best practice in the country.

Corporate Social Responsibility (CSR)

The Company remains ever committed to corporate social responsibility. To give full attention and impetus, SMIC works closely with the SM Foundation, Inc. which ably manages the CSR programs of the SM Group of Companies. In support of its focus on community development and the environment, SMIC adopts various energy conservation measures, such as a policy that ensures that lights are out in the work areas during lunch breaks and that air conditioning units are turned off after office hours to minimize electricity consumption. Similar to the SM Malls, waterless urinals are installed throughout the SMIC offices to help conserve water. Energy conservation tips are posted along the bulletin boards and uploaded onto the Company's intranet regularly. To aid the community, SMIC employees regularly donate and volunteer their time and resources to the SM Foundation and provide emergency assistance to those in need during calamities.

On September 10, 2011 the Corporate Taxes Department of SMIC sponsored and actively participated in the joint SMIC-SM Foundation Community Outreach Program held at the Felicidad Sy Wellness Center for the Elderly in Project 6, Quezon City. The participants helped in the manning of the registration areas, packing of medicines and the assistance of the elderly through the medical mission process. In the same month, SMIC-SM Foundation, in partnership with the Philippine Blood Center of the Department of Health held a company-wide blood drive at SM corporate office at OneE-Com Center in the Mall of Asia Complex. Over two-hundred SM employees participated in the noteworthy activity.

Citations

SMIC and two of its listed subsidiaries, namely SM Prime Holdings, Inc. (SM Prime) and SM Development Corporation (SMDC) were recognized for their corporate governance practices by the Institute of Corporate Directors (ICD), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) during the ICD's Annual Dinner in May 2011 at the Peninsula Manila. SMIC, SM Prime and SMDC were among the awardees for the Silver Category during the ceremony that recognizes companies for their commitment to best practice based on their ICD Scorecard submissions.

For its fifth consecutive year, SMIC was awarded by Corporate Governance Asia (CG Asia) with its Annual Recognition Award – The Best of Asia. The award is bestowed upon companies that demonstrate excellent corporate governance practices in line with Asian values and spirit. CG Asia also recognized SMIC for the following:

- Mr. Harley T. Sy, SMIC President – Best Chief Executive Officer
- Mr. Jose T. Sio, SMIC Executive Director – Best Chief Finance Officer
- Ms. Corazon P. Guidote, SMIC SVP for Investor Relations – Best Investor Relations Professionals
- Best Investor Relations
- Best Corporate Social Responsibility
- Best Website/Promotion

In April 2011, Alpha Southeast Asia recognized SMIC under the categories of Strongest Adherence to Corporate Governance and Most Organized Investor Relations. Alpha Southeast Asia is a Hong Kong-based finance publication that focuses on providing the region with investment information.

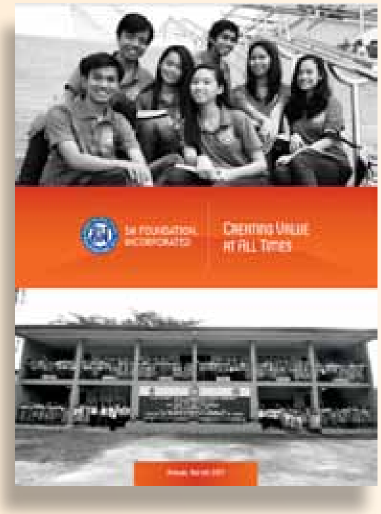
Furthermore, the Asset awarded SMIC with its third consecutive Platinum Award in 2011. The Asset's Platinum Award recognizes companies for all-around excellence in management, financial performance, corporate governance, social responsibility, environmental responsibility and investor relations. The Asset Publishing and Research Ltd. is a Hong Kong based multi-media entity that serves the Asian financial markets, and is the publisher of The Asset magazine.

Moving Forward

The SMIC culture of good corporate governance continues to move in stride with the advancement of best practices and standards in the country and region. Moving forward, SMIC manifests its commitment to corporate governance through the continuous review, benchmarking vis-à-vis industry and improvement of its corporate governance related policies. It will continue to enhance its training and align its systems and operations toward best practice.

The Company will continue to participate and network with the public and private sectors that share the aspiration to improve the performance of the Philippines in regards to good governance.

CORPORATE SOCIAL RESPONSIBILITY



A Note from SM Foundation

2011 turned out to be another meaningful year for SM Foundation, with its advocacies constantly growing and reaching out to more beneficiaries. The Foundation not only receives increasing support from SM and its companies, but also from other donor institutions and individuals who place their trust in it to use their resources for greater empowerment.

SM Foundation's education advocacy, with its two-fold program of providing college scholarships and donating school buildings, sustained its efforts in empowering deserving but financially disadvantaged students while also reaching out to public schools in need of more classrooms. A clear proof of such empowerment is that college scholars under the auspices of SM Foundation strive for excellence in their chosen courses, with an increasing number graduating with Latin honors. Furthermore, many of the graduating scholars who take requisite government board examinations pass, with some of them landing in the top ten.

In 2011, there were 1,068 SM Foundation college scholars enrolled in various four- or five-year courses in 81 colleges and universities nationwide. Of these, 125 successfully completed their bachelor degrees, with 54 graduates or 43%, attaining Latin honors. To date, 1,300 SM Foundation college scholars have graduated and are gainfully employed both here and abroad.

There were also 76 technical-vocational (tech-voc) scholars who finished their studies, bringing the total number of graduates under the program to 124. As of school year 2011-2012, there are 130 tech-voc scholars supported by SM Foundation.

SM Foundation also donated six school buildings in 2011 to public schools in Pampanga, Metro Manila, Antipolo, Taguig, Bulacan, and Cavite. Combined, these school buildings provided 17 new classrooms. Three of the school buildings were constructed in partnership with Deutsche Bank and another German company, GfK Consulting.

SM Foundation's health advocacy staged a total of 85 medical and dental missions in 2011, which directly served 77,865 beneficiaries with the help of volunteer medical and health professionals who are backed by SM Foundation's mobile clinics. Twelve special medical missions under the Operation Tulong Express (OPTE) initiative were also held during the year in four flood and typhoon stricken areas namely, Davao, Bulacan, Pampanga, and Cagayan De Oro. From 2001 to 2011, SM Foundation's health advocacy has conducted 644 medical missions, benefitting 505,190 patients, who were all provided with free diagnoses, treatment, and medication.

Last year, the Foundation also embarked on an innovative project by setting up a blood bank for SM employees, a first of its kind among the country's large private corporations. The blood collected from SM employees is turned over to the Philippine Blood Center of the Department of Health, where it could be withdrawn by the employees and their families when the need arises.

As a result of these noteworthy projects, the Foundation's health advocacy garnered the Best in Health Special Award during the 2nd Management Association of the Philippines - Corporate Social Responsibility (MAP-CSR) Challenge awarding ceremony held last year.

The Foundation's health advocacy also implements the Felicidad T. Sy Wellness Centers program, in which rundown public health centers are refurbished, making them more conducive to patients' recovery and healing. In 2011, seven public health centers were thoroughly renovated, bringing to 69 the total number of centers that were repaired since the start of the project.

SM Foundation's livelihood advocacy, known as Kabalikat sa Kabuhayan, last year conducted farmer-training programs in eight provinces, servicing 162 barangays in 28 municipalities. The program teaches farmers the latest in agricultural technology to improve their productivity and upon graduation, are brought into the SM supply chain so that their produce are sold directly in SM retail stores. We trained some 1,000 farmers in 2011, for a total of 4,091 farmers who have already benefited from the project since it commenced in 2007.

The Foundation's mall-based outreach program, as in previous years, successfully carried out its four quarterly projects in 2011. Share Your Extras, which is implemented during the first quarter of the year, gathered from shoppers in all 41 SM malls nationwide 4,653 bags of assorted donated items, together with 28 donation-filled jumbo Balikbayan boxes from cargo forwarder LBC, and cash donations amounting to Php544,812.43. Bulk of the cash was given to Caritas Manila, while the donated items were distributed to 14,500 families composed of 37,758 individuals in 15 provinces, 13 municipalities, three cities, and 37 barangays.

In the second quarter of 2011, the Donate-A-Book project collected 205,808 books that were donated to 348 day care centers, 463 elementary schools, 415 high schools, and 12 libraries. During the third quarter, the Gamot Para Sa Kapwa project worked closely with our health advocacy's OPTE initiative, to bring relief to calamity stricken areas. In the fourth and last quarter of 2011, the Make A Child Happy - Share A Toy project was staged, with 10,533 underprivileged children becoming beneficiaries of the project.

All these worthwhile accomplishments, as indicated by the robust numbers, were a result of the dedication and hard work of the selfless team behind SM Foundation, who have willingly sacrificed their time and effort to respond to the pressing needs of the less fortunate. Together with the substantial support of partners from both the private and public sectors, they have enabled SM Foundation to further its reach and deliver its mandate to a wider circle of the underprivileged.

2011 AWARDS

SM Investments Corporation

The Asset Corporate Awards
Platinum Awardee (2009, 2010 and 2011)
For All Around Excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations
Finance Asia
Ms. Teresita Sy-Coson, one of Asia's Top 20 Women in Finance
7th Corporate Governance Asia Recognition Awards
One of the recipients of the Annual Corporate Governance Awards - The Best of Asia (2007, 2008, 2009, 2010 and 2011)
Corporate Governance Asia's 2nd Asian Corporate Director Awards
Ms. Teresita Sy-Coson and Mr. Harley T. Sy
Corporate Governance Asia's 1st Asian Excellence Awards 2011
Best CSR
Best Website/Promotion
Mr. Harley T. Sy, Asia's Best CEO
Mr. Jose T. Sio, Asia's Best CFO
Ms. Corazon P. Guidote, Best Investor Relations Professional
Alpha Southeast Asia
Most Organized Investor Relations
Strongest Adherence to Corporate Governance
Asiamoney
Ms. Corazon P. Guidote, Best Investor Relations Officer
Public Relations Society of the Philippines-47th Anvil Awards
Merit Award for the 2010 SM Annual Reports

SM Retail

Retail Asia's Top 500 Awards
Hall of Fame Award
Gold Award as the Philippines' Top Retailer
International Council of Shopping Centers, Inc.-Asia Pacific Shopping Center Awards
My City, My SM Campaign, Citation in Marketing Program, Public Relations Category

SM Prime Holdings, Inc.

The Asset Corporate Awards
Platinum Awardee (2010 and 2011)
For All Around Excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations
7th Corporate Governance Asia Recognition Awards (2006-2010)
One of the recipients of the Annual Corporate Governance Awards-The Best of Asia
Corporate Governance Asia's 1st Asian Excellence Awards 2011
Best Environmental Responsibility
Asia Pacific Real Estate Association
Emerging Markets Highly Commended Award
Emerging Markets Merit Awards:
Valuation Category
Corporate Governance
Country Award: Best Submission in the Philippines
ICSC Foundation
SM Prime Holdings, Inc.
(SM City North Edsa)
2011 Asia Community Support Award,
"Breaking the Poverty Chain" Campaign
City of Manila
Awardee, Top Ten Business Taxpayers and Top Ten Real Property Taxpayers
City Government of Valenzuela
Top Taxpayer of the Year
City Government of Parañaque
Top Taxpayer of the Year
City Government of Sta. Rosa, Laguna
Cited as one of the Top 20 Realty Taxpayers
Municipality of Mandaluyong
First Asia Realty Development, Top Taxpayer of the Year

SM Supermalls

Public Relations Society of the Philippines 47th Anvil Awards
Awards of Excellence for the SM Cares Program on Disability Affairs, "There's Life After 60 at SM," and "Rizal at 150@SM"
Awards of Merit for SM City North Edsa's Summer Campaign, Green Film Festival and SM Global Pinoy Program for the Education/Literacy and Entrepreneurship/Job Generation Categories
Reader's Digest
SM City North Edsa-Gold Award, Most Trusted Brand in the Mall Category
Philippine Retailers Association
SM City North Edsa, Shopping Center of the Year, Hall of Fame Large Category
Philippine Foundation for the Rehabilitation of the Disabled, Inc. (The 2011 Apolinario Mabini Awards)
Disabled Friendly Establishments of the Year
Gold - SM City Tarlac
Silver - SM City North Edsa, SM Marikina, SM Rosario
Bronze - Interior Zone, Sky Garden and The Block, SM Megamall, SM Fairview, SM Rosales, SM Pampanga, SM Valenzuela, SM Baliwag, SM Pasig, SM Sucat, SM Bacoor, SM Muntinlupa, SM Calamba, SM Batangas, SM Naga, SM City Cebu Annex, SM Iloilo, SM Cagayan De Oro
"Mapagmahal sa may Kapansanan Award," SM Mall of Asia, SM Cares
Department of Health
Recognition Award for the Implementation of the Exclusive Breastfeeding in the Workplace SM City Baguio, SM City Lucena, SM Cagayan De Oro

BDO

The Asset Corporate Awards
Platinum Awardee (2010 and 2011)
For All Around Excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations
The Asset Triple A Awards
Best SME Bank
Best Trade Finance Bank (Domestic)
Rising Star Cash Management Bank
Best Private Bank (BDO Private Bank)
Asiamoney
Best Domestic Bank in the Philippines
Alpha Southeast Asia
Most Organized Investor Relations
Best Local Bank - BDO
Best Private Wealth Management Bank - BDO Private Bank
Best Investment Bank (5 consecutive years) and Best Foreign Exchange Bank for Corporates and Financial Institutions - BDO Capital and Investment Corporation
Best Vanilla/Structured Loan Deal of the Year in SEA-Quezon Power Philippines' USD 425 million Loan
(Lenders: BDO Capital, BPI Capital, RCBC & China Banking Group)
Corporate Governance Asia
One of the recipients of the Annual Corporate Governance Awards (The Best of Asia)
One of the Best Investor Relations by a Philippine Company
Euromoney
Best Private Banking Services Overall in the Philippines
Finance Asia Country Awards
Best Bank (BDO Unibank, Inc.)
Best Investments Bank (BDO Capital)
Best Private Bank (BDO Private Bank)
Global Finance
Best Foreign Exchange Provider in the Philippines
Best Trade Finance Bank in the Philippines
Reader's Digest
Gold Award, Most Trusted Brand in the Bank Category
Gold Award, Most Trusted Brand in the Credit Card Category
The Asian Banker
Ms. Teresita Sy-Coson, Best Retail Banker in Asia
International Excellence in Retail Financial Services
Best Remittance Business
The Banker
Top Bank in the Philippines
Trade Finance Magazine Awards for Excellence
Best Philippine Trade Bank
Bangko Sentral ng Pilipinas 2011 Stakeholder Awards
Top Commercial Bank in Generating Remittances from Overseas Filipinos for 3 years in a row-Hall of Fame
Bank of America Merill Lynch Straight Through Processing Awards
Top Commercial Payment Partner Bank in the Philippines

China Bank

Bank of America Merrill Lynch (BAML)
Top Commercial Payment Partner in the Philippines
The Asset
Best Wealth Management House
(China Bank Private Banking Group)

SM Development Corporation

Colliers International Philippines
Cited as the largest residential property developer in Metro Manila in terms of number of units sold and the value of sales

SM Foundation, Inc.

Management Association of the Philippines CSR Leadership Challenge
SM Foundation's Health and Medical Programs, Best in Health Special Award

SPOTLIGHT

Mr. Joseph Higdon

INDEPENDENT DIRECTOR
SM Investments Corporation

The role of an independent director is a fairly simple one. We are in the board to represent the independent shareholders. We are not part of management, nor part of the controlling shareholders. We seek to give the company our best advice for the benefit of all shareholders.

What are your specific roles and responsibilities as independent director of the company?

The role of an independent director is a fairly simple one. We are in the board to represent the independent shareholders. We are not part of management, nor part of the controlling shareholders. We seek to give the company our best advice for the benefit of all shareholders.

Which among those you mentioned do you consider the most crucial?

One is not more important than the other; they are intertwined.

Which among your qualifications and competencies do you think made you best suited to be chosen as an independent director?

I had followed SM as an analyst for many years and was familiar with its management. Independent directors bring a different set of experiences to board discussions. We are not there to second-guess management, but to offer a different perspective.

I bring the experience of being an investor, and reflecting what an investor would think of any course of action.

Thus far, how would you describe your experience as an independent director of the company?

First of all, SM is an extremely well-managed company with a long track record of being transparent and interested in the well-being of its shareholders. So, there is no conflict with what management is trying to accomplish. It would be very unpleasant to be on a board where you are constantly having to battle management to protect shareholders.

How much of your time is dedicated to working as the company's independent director?

There are four meetings a year, each take a couple of hours. There are committees to serve on, which meet on an as-needed basis. The audit committee is probably the most important, and all of the independent directors usually show up for that, whether they are on the committee or not. It is the best way to see the inner-workings of the company.

What are your thoughts and views on corporate governance?

It is vital to the good standing and reputation of the company. Without the rigid standards of good governance, it is impossible for the outside investors to have confidence that things are being done the right way.

What is the exact role of an independent director in terms of corporate governance?

We have discussions about this during board meetings. The discussion always revolves around how we can reach a higher standard. We hope that by constantly trying to improve our governance, we can be known as the most respected company, not only in the Philippines, but also in Asia.

How would you measure the success of an independent director?

That's very hard to do. I suppose that if there is never a story in any journal, newspaper, book, or on the Internet that reflects badly on the company, then you could say the independent director is a success.

Given the current domestic and external economic and financial situation, how do you think will the company perform in 2012?

It has become customary for SM to perform in a consistent and excellent manner. I expect 2012 to be no different. There is every indication that the consumers' economic situation is improving and that 2012 should be a great year for the Philippines. It is vital that the government spending programs come through, to allow the whole economy to reach its potential this year.

Kindly share with us a bit about your personal circumstances such as career highlights and education.

As I mentioned, before retirement I was an investment analyst, covering Philippine stocks since 1989 for one of the leading investment firms in the world. We were the leading pioneer in investing in so-called "emerging markets". Since I had been a US Peace Corps volunteer in the Philippines in the early 60s, I was a natural for the job. That Peace Corps experience when I was in my early 20s was the most formative episode in my life, and the one, other than my family, of which I am most proud.

I love the Philippines and its people; and this year, I celebrate my 50th year in the country. That is why I always say I was born in Tennessee, but I grew up in the Philippines.

BOARD OF DIRECTORS

FACES

HENRY SY, SR.
Chairman

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

TERESITA SY-COSON
Vice Chairperson

Ms. Sy-Coson is also the Chairman of the Board of Directors of BDO Unibank, Inc. She has varied experiences in the retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she likewise holds board positions in several companies within the SM Group and is Adviser to the Board of Directors of SM Prime Holdings, Inc.

HENRY T. SY, JR.
Vice Chairman

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

HARLEY T. SY
President

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

JOSE T. SIO
Executive Vice President and Chief Finance Officer

Mr. Sio is a Director of China Banking Corporation, Belle Corporation, SM Keppel Land, Inc., Manila North Tollways Corporation, and Atlas Consolidated Mining and Development Corporation as well as other companies within the SM Group. Mr. Sio is also Adviser to the Board of Directors of BDO Unibank, Inc. and SM Development Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. (a member practice of Ernst & Young).

VICENTE S. PEREZ, JR.*
Independent Director

The career of Mr. Perez 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*
Independent Director

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

JOSEPH R. HIGDON*
Independent Director

Mr. Higdon, an American, 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 and of BanKo, the micro-finance subsidiary of the joint venture between Globe Telecom, Inc. and Bank of the Philippine Islands.

**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.*

BOARD COMMITTEES

Audit and Risk Management Committee

Vicente S. Perez, Jr.	Chairman (Independent Director)
Henry T. Sy, Jr.	Member
Jose T. Sio	Member
Joseph R. Higdon	Member (Independent Director)
Atty. Corazon I. Morando	Member
Serafin U. Salvador	Member

Compensation and Remuneration Committee

Teresita Sy-Coson	Chairperson
Jose T. Sio	Member
Vicente S. Perez, Jr.	Member (Independent Director)

Nomination Committee

Henry T. Sy, Jr.	Chairman
Ah Doo Lim	Member (Independent Director)
Atty. Corazon I. Morando	Member

Advisers to the Board of Directors

Elizabeth T. Sy
Hans T. Sy
Herbert T. Sy
Roberto G. Manabat
Stephen CuUnjieng

Compliance Officers

Atty. Corazon I. Morando	Compliance Officer
Atty. Emmanuel C. Paras	Alternate Compliance Officer

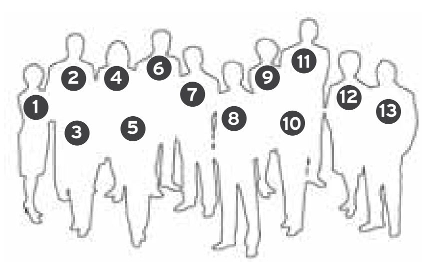
Corporate Information Officers

Jose T. Sio	Corporate Information Officer
Ma. Ruby Ll. Cano	Alternate Corporate Information Officer
Atty. Corazon I. Morando	Alternate Corporate Information Officer
Atty. Emmanuel C. Paras	Alternate Corporate Information Officer

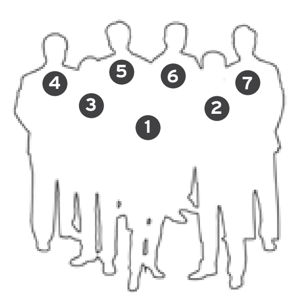
EXECUTIVE OFFICERS

FACES

SM Investments Corporate Executives



1 MA. RUBY LL. CANO Senior Vice President, Controllership **2 GIL L. GONZALES** Vice President, Corporate Governance and Risk Management **3 CORAZON P. GUIDOTE** Senior Vice President, Investor Relations **4 CECILIA R. PATRICIO** Senior Vice President, Corporate Tax **5 GRACE F. ROQUE** Senior Vice President, Treasury **6 FREDERIC C. DYBUNCIO** Senior Vice President, Investments Portfolio **7 JOSE T. SIO** Executive Vice President/Chief Finance Officer **8 HARLEY T. SY** President **9 ELIZABETH ANNE C. UYCHACO** Senior Vice President, Corporate Services **10 ATTY. MARIANNE M. GUERRERO** Senior Vice President, Legal Department **11 LUIS Y. BENITEZ, JR.** Senior Vice President, Internal Audit **12 ATTY. CORAZON I. MORANDO** Senior Vice President, Corporate Legal Affairs/Assistant Corporate Secretary **13 ATTY. EMMANUEL C. PARAS** Corporate Secretary



Retail Operations

1 TERESITA SY-COSON President, SM Retail, Inc. **2 HARLEY T. SY** Executive Vice President, Merchandising, SM Retail, Inc. **3 HERBERT T. SY** Director, SM Food Retail Group **4 JOEY C. MENDOZA** President, SM Supermarkets and SaveMore **5 ROBERT KWEE** President, SM Hypermarkets **6 JORGE T. MENDIOLA** President, SM Department Stores **7 RICKY A. LIM** Senior Vice President, Controllership, SM Retail, Inc.

Hotels and Conventions

SM HOTELS AND CONVENTIONS CORP.
NESTOR OMAR T. ARCE-IGNACIO Senior Vice President, Design and Construction | **ELIZABETH T. SY** President | **CHRISTINA A. BAUTISTA** Vice President, Business Development | **REYNALDO D. VILLAR** Executive Vice President

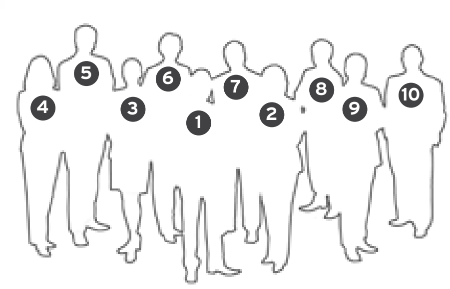
Banking

BDO
JOSEFINA N. TAN President, BDO Private Bank
NESTOR V. TAN President
TERESITA SY-COSON Chairperson
JESUS A. JACINTO Vice Chairman

CHINA BANK
HANS T. SY Chairman
RICARDO R. CHUA Executive Vice President and COO
PETER S. DEE President and CEO

Mall Operations

JEFFREY C. LIM Executive Vice President/Chief Finance Officer, SM Prime Holdings, Inc.
HANS T. SY President, SM Prime Holdings, Inc.
ANNIE S. GARCIA President, Shopping Center Management Corp.



Property

1 HENRY T. SY, JR. Vice Chairman, SM Land, Inc., SM Development Corp., Highlands Prime, Inc. **2 ROSALINE Y. QUA** President, SM Development Corp. **3 ROWENA T. TAN** Senior Vice President, Costa Del Hamilo **4 SHIRLEY C. ONG** Senior Vice President, Highlands Prime, Inc. **5 DAVID L. RAFAEL** Senior Vice President, Commercial Properties, SM Land, Inc. **6 GEMA O. CHENG** Senior Vice President, Finance SM Land, Inc. **7 LEE MENG KONG** Senior Vice President, Head of Planning and Engineering, SM Land, Inc. **8 EFREN L. TAN** Vice President, Sales, SM Development Corp. **9 JOSE T. GABIONZA** Vice President, Business Planning and Special Projects, SM Development Corp. **10 ATTY. EPITACIO B. BORCELIS, JR.** Assistant Corporate Secretary, SM Development Corp.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Calendar Year Ended December 31, 2011 and 2010

Results of Operation
(amounts in billion pesos)

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

Consolidated revenues grew by 13.0% to ₱200.3 billion, as against last year's ₱177.2 billion. Income from operations increased by 16.2% to ₱37.4 billion from last year's ₱32.2 billion. Operating income margin and Net profit margin is at 18.7% and 10.6%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2011 increased by 15.1% to ₱21.2 billion compared to P18.4 billion of the same period last year.

Retail Sales accounts for 74.0% or ₱148.2 billion of the total revenues for the year. Consolidated Retail sales grew by 9.3% from ₱135.6 billion to ₱148.2 billion for the year ended December 31, 2011 due mainly to the opening of the following new stores in 2011:

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

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

Excluding the full year sales of Makro, the retail sales growth would be 12.4% from ₱129.4 billion in 2010 to ₱145.4 billion in 2011. Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.9% or ₱63.6 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.1% or ₱84.6 billion.

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

Real estate sales for the year ended December 31, 2011, derived mainly from condominium projects of SMDC, surged by 64.0% to ₱17.9 billion. The market continues to show strong acceptance of SM Residences and M Place products, backed by a deeper confidence on SMDC's proven ability to complete its projects, thereby fueling to a large extent SMDC's notable 2011 results. The consistent offerings of high-quality and well-designed residential units built by an experienced team composed of the country's top contractors, engineers, architects, and interior designers also allowed SMDC to gain further traction and brand recognition. SMDC has a total of 17 residential projects as of December 31, 2011. In 2011, SMDC launched Mezza II Residences in Quezon City, Green Residences in Manila, Shell Residences in Pasay City and M Place Ortigas in Pasig City. For the whole of 2011, SMDC pre-sold 11,726 residential condominium units worth approximately ₱26.3 billion. Compared to the same period in 2010, the number of units pre-sold increased by 14% and exceeded SMDC's sales target of ₱23.6 billion by 11%.

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

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Rent revenue for the year ended December 31, 2011, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 14.3% to ₱20.5 billion in 2011 from ₱17.9 billion in 2010. SM Prime is the country's leading shopping mall developer and operator which owns 41 malls in the Philippines and four malls in China as of December 31, 2011. The increase in rental revenues is largely due to rentals from new SM Supermalls. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were opened. In 2011, SM Masinag was also opened. The new malls added 380,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 7.0%.

The four malls in China contributed ₱2.0 billion in 2011 and ₱1.4 billion in 2010, or 9.9% and 7.7%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these four malls in China increased by 46.4% in 2011 compared to the same period in 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 sqm of gross floor area. Average occupancy rate for the four malls is now at 95%.

For the year 2011, cinema ticket sales and amusement revenues increased by 11.2% to ₱4.1 billion in 2011 from ₱3.7 billion in 2010 largely due to the success of local blockbuster movies shown in 2011 compared to 2010 and higher sponsorship revenues in 2011. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 17.9% to ₱6.4 billion in 2011 from P5.4 billion in 2010, primarily due to the increase in the net income of BDO which is attributed to the bank's recurring fee-based income from its service businesses which rose 18%. Amid a volatile external environment, BDO generated a 10% increase in trading and foreign exchange gains. Along with other miscellaneous income, BDO recorded a 17% growth in non-interest income. BDO continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service activities. Having completed its investment in capacity, BDO is now starting to benefit from scale with operating expenses increasing only moderately by 4% with ongoing initiatives to enhance operational efficiency.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives decreased by 55.7% to ₱0.4 billion in 2011 from ₱0.9 billion in 2010 primarily due to the gain on sale of various available-for-sale investments of certain subsidiaries in 2010.

Dividend income increased by ₱0.1 billion or 21.6% in 2011 to ₱0.4 billion from ₱0.3 billion in 2010 due to increase in dividends received from investees. Management and service fees, which is computed based on percentage of sales, increased by ₱0.1 billion or 9.1% from ₱0.8 billion in 2010 to ₱0.9 billion in 2011 mainly due to increase in sales of retail affiliates.

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

Total cost and expenses went up by 12.3% to ₱162.9 billion for the year ended December 31, 2011 compared to 2010. Retail cost of sales increased by 8.4% from ₱103.5 billion to ₱112.2 billion while real estate cost of sales and others increased by 71.6% from ₱6.0 billion to ₱10.3 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 13.8% from ₱35.5 billion in 2010 to ₱40.4 billion in 2011. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to ₱34.2 billion in 2011 or a growth of 14.8% from ₱29.8 billion in 2010. The increase is primarily associated with new malls, department stores, supermarkets, savemore and hypermarkets and residential projects.

Other charges of ₱1.7 billion in 2011 decreased by 10.9% or ₱0.2 billion from last year's other charges of ₱1.9 billion. Gain on disposal of investments and properties increased by 61.3% to ₱2.6 billion from ₱1.6 billion mainly due to the gain on Belle-PLAI share swap in 2011 of ₱1.5 billion (net of minority interest). Interest income increased by 15.0% to ₱4.3 billion in 2011 from ₱3.7 billion in 2010 mainly due to higher average balance of temporary investments and time deposits and higher interest rates during 2011. These were offset by the increase in interest expense by 15.5% or ₱1.2 billion to ₱8.8 billion in 2011 from ₱7.6 billion in 2010 mainly due to new loans availed of in 2011 (refer to Note 20 of the consolidated financial statements) and the decrease in foreign exchange gains by 40.4% from ₱0.4 billion in 2010 to ₱0.2 billion in 2011 mainly from restatement of loans availed during the year wherein foreign exchange rate of peso to dollar is lower as compared with year-end exchange rate.

Provision for income tax increased by 1.7% to ₱5.5 billion for the year 2011 from ₱5.4 billion in 2010 mainly due to the increase in taxable income.

Minority interest increased to ₱9.0 billion in 2011 from ₱6.4 billion in 2010 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

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

On the Balance Sheet side, consolidated total assets as of December 31, 2011 amounted to ₱449.1 billion, higher by 10.2% from ₱407.4 billion in previous year. On the other hand, consolidated total liabilities grew by 8.2% to ₱226.8 billion in 2011 from ₱209.6 billion in previous year.

Total current assets decreased by 2.9% to ₱101.3 billion as of December 31, 2011 from ₱104.3 billion as of last year. Cash and cash equivalents decreased by 16.3% to ₱56.1 billion in 2011 from ₱67.0 billion in 2010 mainly due to payments for investment acquisitions and capital expenditures. This was partially offset by the increase in receivables by 19.7% to ₱11.8 billion from ₱9.8 billion primarily due to increase in receivable from tenants and real estate buyers. Merchandise inventories increased by 28.1% to ₱13.4 billion from ₱10.5 billion primarily due to new departments stores, supermarkets, savemore and hypermarkets. Other current assets increased by 21.6% to ₱17.2 billion from ₱14.1 billion resulting mainly from the advances to contractors of the real estate group from its current projects.

Total consolidated noncurrent assets amounted to ₱347.8 billion as of December 31, 2011, a growth of 14.7% from ₱303.1 billion as of December 31, 2010. Investments available for sale increased by 12.2% to ₱12.4 billion in 2011 from ₱11.1 billion in 2010 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 24.8% to ₱88.4 billion in 2011 from ₱70.9 billion in 2010 mainly due to additional investment in and purchase of shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2011. The increase in investment properties, property and equipment and land and development by 15.5% or ₱17.6 billion, 12.9% or ₱1.7 billion and 16.8% or ₱3.3 billion, respectively, arose from new mall constructions, real estate

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

developments and purchase of commercial lots in 2011. Deferred tax assets increased by 20.5% to ₱0.7 billion in 2011 from ₱0.6 billion in 2010 mainly due to tax effect of unrealized foreign exchange loss, unamortized past service cost and defined benefit liability and accrued leases. Other noncurrent assets increased by 14.4% to ₱24.1 billion from ₱21.0 billion mainly due to the non-current receivable from real estate buyers.

Total consolidated current liabilities increased by 27.8 % to ₱79.8 billion as of December 31, 2011 mainly due to availment of bank loans which increased by 26.2% to ₱25.7 billion in 2011 from P20.4 billion in 2010 and increase in accounts payable and other current liabilities by 14.6% to ₱44.7 billion in 2011 from ₱39.0 billion in 2010 mainly arising from trade transactions, subscriptions payable and accrued expenses. See note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 12.3% to ₱1.3 billion in 2011 from ₱1.2 billion in 2010 mainly due to higher taxable income in 2011. The 348.3% or ₱6.2 billion increase in current portion of long-term debt is mainly due to the reclassification from Long-term debt of loans which will mature in 2011. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. The 5.8% increase in dividends payable represents dividends to minority stockholders of certain subsidiaries.

Total Noncurrent Liabilities slightly decreased by ₱0.1 billion to ₱147.0 billion in 2011 from ₱147.2 billion in 2010. Defined benefit liability decreased by ₱0.1 billion or 57.1% to ₱0.1 billion from ₱0.2 billion in 2010. Deferred tax liabilities decreased by 2.8% to ₱4.5 billion in 2011 from ₱4.6 billion in 2010. Noncurrent derivative liability decreased by 82.4% to ₱0.2 billion from ₱1.4 billion mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans. See note 30 to the audited consolidated financial statements for further discussion regarding derivative transactions. Long-term debt – net of current portion decreased by ₱0.1 billion or 0.1% to ₱128.5 billion in 2011 from ₱128.6 billion in 2010. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt. These were partially offset by the increase in Tenants' deposits and others by 10.8% to ₱13.7 billion in 2011 from ₱12.4 billion in 2010 mainly due to new malls and expansions and from new condominium projects of the real estate group.

Total Stockholders' equity amounted to ₱222.3 billion as of December 31, 2011, while total Equity attributable to equity holders of the parent amounted to ₱157.7 billion. The 48.0% or ₱0.1 billion increase in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Non-controlling interest increased by 14.8% to ₱64.6 billion in 2011 from ₱56.3 billion in 2010 mainly due to increase in net assets of certain subsidiaries. See Note 21 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

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

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

Key Performance Indicators

The following are the major financial ratios of the Company for the years ended December 31, 2011 and 2010:

Accounts	12 / 31/ 2011	12 / 31/ 2010
Current Ratio	1.27 : 1.00	1.67 : 1.00
Debt-equity Ratios:		
On Gross Basis	51% : 49%	50% : 50%
On Net Basis	28% : 72%	22% : 78%
Return on Equity	14.2%	13.8%
Net Income to Revenue	10.6%	10.4%
Revenue Growth	13.0%	12.1%
Net Income Growth	15.1%	15.1%
EBITDA (In Billions of Pesos)	₱44.6B	₱38.4B

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

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

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

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

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

1. Current Ratio — $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

2. Debt – Equity Ratio

   a. Gross Basis — $\dfrac{\text{Total Interest Bearing Debt less Pledged time deposits}}{\text{Total Equity Attributable to Equity Holders of the Parent + Total Interest Bearing Debt less Pledged time deposits}}$

   b. Net Basis — 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, 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) - 1 Total Revenues (Prior Period)
6.	Net Income Growth	Net Income Attributable to Equity Holders of the Parent (Current Period) - 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 2012, SM Prime plans to open SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City Olongapo in Zambales, SM City San Fernando in Pampanga and SM Chongqing in China.

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

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

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

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

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

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

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

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

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

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

TERESITA T. SY-COSON
Vice Chairperson of the Board

HARLEY T. SY
President

JOSE T. SIO
Chief Financial Officer

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

Under its Charter, the Audit and Risk Management Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity and adequacy of the financial reporting process, the internal control system, the audit process, the Company's risk management system and compliance with laws and regulations and the Code of Conduct. The Committee also oversees special investigations as may be necessary and reviews its Charter annually.

Principal Activities for 2011

The Committee met four (4) times in 2011 (on March 2, April 27, August 3 and November 2) and reviewed and discussed the following:

- the consolidated audited financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2010, 1st quarter ended March 31, 2011, six month period ended June 30, 2011, and 3rd quarter ended September 30, 2011.
- SGV & Co.'s audit plan, including its scope of work, preliminary audit strategy, and audit time table.
- SGV & Co.'s significant accounting and audit issues, changes in accounting policies applicable to the SM Group, and tax updates.
- the Internal Audit Group's audit plan and results of its internal audit work.
- the details of the Company's related party transactions.
- the results of initial risk assessments of priority risk areas and effectiveness of the Company's over-all risk management system.
- the Company's compliance with laws and regulations.
- the performance and independence of the independent auditor and concluded that except for the regular audit of financial statements and assistance in the preparation of the annual income tax returns, SGV & Co. did not render any other professional services in 2011.

Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board has approved, the consolidated audited financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2011. Based on the review of their performance and qualifications, the Committee also recommends the re-appointment of SGV & Co. as independent auditors for 2012.

7 March 2012

VICENTE S. PEREZ, JR.
Chairman (Independent Director)

HENRY T. SY, JR.
Member

JOSE T. SIO
Member

ATTY. CORAZON I. MORANDO
Member

SERAFIN U. SALVADOR
Member

JOSEPH R. HIGDON
Member (Independent Director)

ATTY. EMMANUEL C. PARAS
Corporate Secretary

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

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

March 7, 2012

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands,)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 18, 22, 29 and 30)	**₱56,050,322**	₱66,961,010
Time deposits and short-term investments (Notes 8, 20, 22, 29 and 30)	**879,410**	876,800
Investments held for trading and sale (Notes 9, 12, 22, 29 and 30)	**1,939,709**	2,007,801
Receivables (Notes 10, 17, 22, 29 and 30)	**11,764,852**	9,826,776
Merchandise inventories - at cost (Note 23)	**13,436,456**	10,485,903
Other current assets (Notes 11, 16, 22, 29 and 30)	**17,189,740**	14,133,252
Total Current Assets	**101,260,489**	104,291,542
Noncurrent Assets		
Available-for-sale investments (Notes 12, 22, 29 and 30)	**12,453,181**	11,097,407
Investments in shares of stock of associates (Note 13)	**88,417,849**	70,860,181
Time deposits (Notes 8, 20, 22, 29 and 30)	**37,416,562**	37,419,095
Property and equipment (Note 14)	**15,092,354**	13,368,539
Investment properties (Notes 15 and 20)	**131,275,911**	113,667,244
Land and development (Note 16)	**23,012,453**	19,703,595
Intangibles (Note 17)	**15,354,200**	15,354,200
Deferred tax assets - net (Note 27)	**694,644**	576,364
Other noncurrent assets (Notes 10, 17, 22, 26, 29 and 30)	**24,084,415**	21,045,636
Total Noncurrent Assets	**347,801,569**	303,092,261
	₱449,062,058	₱407,383,803
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 29 and 30)	**₱25,747,920**	₱20,408,800
Accounts payable and other current liabilities (Notes 19, 22, 29 and 30)	**44,749,807**	39,039,326
Income tax payable	**1,331,046**	1,185,678
Current portion of long-term debt (Notes 15, 20, 22, 29 and 30)	**7,920,961**	1,766,761
Dividends payable (Notes 29 and 30)	**25,696**	24,287
Total Current Liabilities	**79,775,430**	62,424,852
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15, 20, 22, 29 and 30)	**128,464,019**	128,600,570
Derivative liabilities (Notes 29 and 30)	**237,980**	1,351,441
Deferred tax liabilities - net (Note 27)	**4,507,979**	4,636,174
Defined benefit liability (Note 26)	**76,487**	178,274
Tenants' deposits and others (Notes 15, 28, 29 and 30)	**13,713,302**	12,375,013
Total Noncurrent Liabilities	**146,999,767**	147,141,472
Total Liabilities	**226,775,197**	209,566,324
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**6,121,640**	6,119,826
Additional paid-in capital (Note 21)	**35,536,615**	35,456,200
Equity adjustments from business combination under common control (Note 5)	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 21)	**(263,195)**	(263,195)
Cumulative translation adjustment of a subsidiary	**428,058**	289,260
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**7,008,067**	6,798,095
Retained earnings (Note 21):		
Appropriated	**5,000,000**	5,000,000
Unappropriated	**106,167,942**	90,475,674
Total Equity Attributable to Owners of the Parent	**157,666,331**	141,543,064
Non-controlling Interests	**64,620,530**	56,274,415
Total Equity	**222,286,861**	197,817,479
	₱449,062,058	₱407,383,803

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Equity Attributable to			
	Capital Stock (Note 21)	**Additional Paid-in Capital** (Note 21)	**Equity Adjustments from Business Combination Under Common Control** (Note 5)	**Cost of Parent Common Shares Held by Subsidiaries** (Note 21)
Balance at December 31, 2010	**₱6,119,826**	**₱35,456,200**	**(₱2,332,796)**	**(₱263,195)**
Net income for the year	**–**	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Issuance of Parent common shares	**1,814**	**80,415**	**–**	**–**
Cash dividends - ₱9.04 a share (Note 21)	**–**	**–**	**–**	**–**
Increase in previous year's non-controlling interests	**–**	**–**	**–**	**–**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**
Balance at December 31, 2011	**₱6,121,640**	**₱35,536,615**	**(₱2,332,796)**	**(₱263,195)**
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)
Net income for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Issuance of Parent common shares	9,596	425,490	–	–
Acquisition of Parent common shares held by a subsidiary	–	–	–	(249,812)
Disposal of Parent common shares held by a subsidiary	–	–	–	10,695
Cash dividends - ₱7.88 a share (Note 21)	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Balance at December 31, 2010	₱6,119,826	₱35,456,200	(₱2,332,796)	(₱263,195)
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)
Net income for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share in equity adjustment from business combination	–	–	(21,717)	–
Cash dividends - ₱6.88 a share (Note 21)	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)

See accompanying Notes to Consolidated Financial Statements.

Owners of the Parent					Non-controlling Interests	Total Equity
Cumulative Translation Adjustment of a Subsidiary	**Net Unrealized Gain on Available-for-Sale Investments** (Notes 12 and 13)	**Appropriated Retained Earnings**	**Unappropriated Retained Earnings** (Note 21)	**Total**		
₱289,260	**₱6,798,095**	**₱5,000,000**	**₱90,475,674**	**₱141,543,064**	**₱56,274,415**	**₱197,817,479**
–	**–**	**–**	**21,224,592**	**21,224,592**	**8,973,232**	**30,197,824**
138,798	**209,972**	**–**	**–**	**348,770**	**41,342**	**390,112**
138,798	**209,972**	**–**	**21,224,592**	**21,573,362**	**9,014,574**	**30,587,936**
–	**–**	**–**	**–**	**82,229**	**–**	**82,229**
–	**–**	**–**	**(5,532,324)**	**(5,532,324)**	**–**	**(5,532,324)**
–	**–**	**–**	**–**	**–**	**1,562,422**	**1,562,422**
–	**–**	**–**	**–**	**–**	**(2,230,881)**	**(2,230,881)**
₱428,058	**₱7,008,067**	**₱5,000,000**	**₱106,167,942**	**₱157,666,331**	**₱64,620,530**	**₱222,286,861**
₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266
–	–	–	18,440,169	18,440,169	6,437,780	24,877,949
(55,042)	2,981,498	–	–	2,926,456	629,277	3,555,733
(55,042)	2,981,498	–	18,440,169	21,366,625	7,067,057	28,433,682
–	–	–	–	435,086	–	435,086
–	–	–	–	(249,812)	–	(249,812)
–	–	–	–	10,695	–	10,695
–	–	–	(4,814,862)	(4,814,862)	–	(4,814,862)
–	–	–	–	–	9,688,915	9,688,915
–	–	–	–	–	(1,411,491)	(1,411,491)
₱289,260	₱6,798,095	₱5,000,000	₱90,475,674	₱141,543,064	₱56,274,415	₱197,817,479
₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334
–	–	–	16,025,038	16,025,038	5,082,164	21,107,202
(70,524)	2,967,535	–	–	2,897,011	676,055	3,573,066
(70,524)	2,967,535	–	16,025,038	18,922,049	5,758,219	24,680,268
–	–	–	–	(21,717)	(2,694)	(24,411)
–	–	–	(4,203,838)	(4,203,838)	–	(4,203,838)
–	–	–	–	–	(2,786,981)	(2,786,981)
–	–	–	–	–	(1,703,106)	(1,703,106)
₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱35,692,642**	₱30,279,002	₱25,884,945
Adjustments for:			
Interest expense (Note 25)	**8,836,013**	7,652,557	6,266,135
Depreciation and amortization (Notes 14, 15 and 24)	**7,193,100**	6,321,252	5,968,144
Equity in net earnings of associates (Note 13)	**(6,415,424)**	(5,440,826)	(3,908,242)
Interest income (Note 25)	**(4,274,640)**	(3,716,452)	(3,458,066)
Gain on disposal of investments and properties (Notes 13, 14 and 15)	**(2,623,864)**	(1,626,816)	(207,971)
Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**(410,522)**	(926,799)	(769,691)
Dividend income	**(368,919)**	(303,518)	(364,950)
Unrealized foreign exchange loss (gain)	**190,586**	(435,321)	(282,928)
Provision for (reversal of) impairment loss (Notes 10, 11, 12, 13, 15 and 24)	**72,567**	557,536	(1,209,646)
Income before working capital changes	**37,891,539**	32,360,615	27,917,730
Decrease (increase) in:			
Land and development	**(14,042,798)**	(13,991,134)	(3,080,324)
Merchandise inventories	**(2,950,553)**	(2,725,140)	(549,559)
Receivables	**(1,861,758)**	(4,529,308)	(773,740)
Other current assets	**(405,838)**	(1,374,622)	204,343
Increase (decrease) in:			
Accounts payable and other current liabilities	**4,362,657**	4,442,599	3,392,912
Tenants' deposits and others	**1,300,123**	2,411,126	2,167,004
Defined benefit liability	**(101,787)**	(170,977)	(162,594)
Net cash generated from operations	**24,191,585**	16,423,159	29,115,772
Income tax paid	**(5,390,172)**	(4,991,668)	(4,514,091)
Net cash provided by operating activities	**18,801,413**	11,431,491	24,601,681
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments in shares of stock of associates	**289,416**	1,506,807	182,514
Property and equipment	**265,060**	210,586	341,554
Investment properties	**141,361**	194,208	86,087
Available-for-sale investments	**84,604**	2,878,859	4,014,430
Investments held for trading	**–**	3,713,156	95,030
Additions to:			
Investment properties (Note 15)	**(21,140,911)**	(15,426,869)	(13,566,283)
Investments in shares of stock of associates	**(7,109,378)**	(1,598,303)	(3,242,909)
Property and equipment (Note 14)	**(4,791,062)**	(4,403,485)	(2,868,231)
Available-for-sale investments	**(1,619,334)**	(3,384,105)	(2,603,561)
Investments held for trading	**–**	(2,491,297)	(1,573,150)
Decrease (increase) in:			
Other noncurrent assets	**1,923,878**	(1,639,195)	(1,933,100)
Time deposits and short-term investments	**–**	2,583,891	(19,157,056)
Interest received	**4,152,181**	4,113,667	3,114,030
Dividends received (Note 13)	**1,910,255**	1,669,398	990,240
Net cash used in acquisition of subsidiaries (Note 5)	**–**	–	(588,900)
Acquisition of non-controlling interest in a subsidiary (Note 2)	**–**	–	(3,384,213)
Net cash used in investing activities	**(25,893,930)**	(12,072,682)	(40,093,518)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**27,594,082**	33,964,598	56,439,930
Bank loans	**23,428,370**	22,828,100	9,141,811
Payments of:			
Long-term debt	**(21,874,200)**	(20,988,993)	(15,182,416)
Bank loans	**(18,228,800)**	(6,608,400)	(21,885,000)
Interest	**(8,747,952)**	(8,301,873)	(5,521,272)
Dividends	**(7,761,796)**	(6,224,317)	(5,949,212)
Increase (decrease) in non-controlling interests	**1,562,422**	9,688,915	(2,623,843)
Acquisition of Parent common shares held by subsidiaries	**–**	(249,812)	–
Disposal of Parent common shares held by subsidiaries	**–**	10,695	–
Net cash provided by (used in) financing activities	**(4,027,874)**	24,118,913	14,419,998
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,120,391)**	23,477,722	(1,071,839)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**209,703**	(63,713)	(54,820)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**66,961,010**	43,547,001	44,673,660
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱56,050,322**	₱66,961,010	₱43,547,001

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On April 29, 2009, the shareholders approved the amendment of SMIC's articles of incorporation for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

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

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

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

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

Basis of Preparation
The consolidated financial statements of the Group have been prepared on the historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) investments, which have all been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand, except when otherwise indicated.

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

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

Amendments to Standards and Interpretations

- PAS 24 (Amendment), *Related Party Disclosures*, became effective for annual periods beginning on or after January 1, 2011.
- PAS 32 (Amendment), *Financial Instruments: Presentation*, became effective for annual periods beginning February 1, 2010.
- Philippine Interpretaion IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, became effective for annual periods beginning January 1, 2011.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, became effective for annual periods beginning July 1, 2010.

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

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

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

  The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2010. The Group, however, adopted these as at January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.
- PFRS 7, *Financial Instruments - Disclosures*, effective January 1, 2011, intended to simplify the disclosures provided by reducing the volume of disclosures about collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment is applicable for annual periods beginning on or after July 1, 2010.
- PAS 1, *Presentation of Financial Statements*, effective January 1, 2011, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. This has no significant impact on the Group's consolidated financial statements.

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

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

Future Changes in Accounting Policies

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

New Standards and Interpretations

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

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

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

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

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

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

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

Amendments to Standards and Interpretation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SM Prime
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.

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

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

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Summary of Significant Accounting Policies

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

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

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

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

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

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

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

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

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

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

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

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

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

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

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

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

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

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

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Land and Development, Condominium Units for Sale and Club Shares for Sale
Land and development, condominium units for sale (included under "Other current assets" account in the consolidated balance sheets) and club shares for sale (included under "Other current assets" account in the consolidated balance sheets) are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Cost includes those costs incurred for development and improvement of the properties.

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

Under the equity method, investment in an associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

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

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

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

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

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

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

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

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each reporting period.

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

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

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

Investment Properties
Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

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

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

Land improvements	3–5 years
Land use rights	40–60 years
Buildings and improvements	10–35 years
Building equipment, furniture and others	3–15 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each reporting period.

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

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

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

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

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

Business Combinations

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

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

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

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

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

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

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

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

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

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

Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

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

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

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

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

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

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

Intangible Assets

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

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

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

Impairment of Nonfinancial Assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statements of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Capital Stock</u>
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.

<u>Revenue</u>
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Merchandise Inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at sales shown in the consolidated statements of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

<u>Management Fees</u>
Management fees are recognized as expense in accordance with the terms of the agreements.

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

<u>Pension Benefits</u>
The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension cost

includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains or losses and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

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

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at reporting period. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

Foreign Currency Translation

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

Leases

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

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

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

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Costs

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Contingencies</u>
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.

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

5. Business Combinations

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

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

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

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

<u>Acquisition of Magenta</u>
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).

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

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

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

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

6. Segment Information

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

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

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

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

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

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

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

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

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

Business Segment Data

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

	2010						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Financial Services and Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱19,318,278	₱138,007,620	₱12,974,161	₱600,679	₱6,272,238	₱–	₱177,172,976
Inter-segment	4,273,228	3,110,643	3,043,464	–	10,338,408	(20,765,743)	–
	₱23,591,506	₱141,118,263	₱16,017,625	₱600,679	₱16,610,646	(₱20,765,743)	₱177,172,976
Segment results:							
Income before income tax	₱10,796,848	₱8,371,466	₱8,778,124	(₱111,965)	₱10,253,381	(₱7,808,852)	₱30,279,002
Provision for income tax	(2,656,715)	(2,429,969)	(217,396)	(3,663)	(104,286)	10,976	(5,401,053)
Net income (loss)	₱8,140,133	₱5,941,497	₱8,560,728	(₱115,628)	₱10,149,095	(₱7,797,876)	₱24,877,949
Net income (loss) attributable to:							
Owners of the Parent	₱7,856,348	₱5,783,035	₱8,552,486	(₱116,449)	₱10,149,095	(₱13,784,346)	₱18,440,169
Non-controlling interests	283,785	158,462	8,242	821	–	5,986,470	6,437,780
Segment assets (excluding deferred tax)	₱119,193,199	₱65,302,951	₱94,117,055	₱2,485,527	₱190,577,330	(₱64,868,623)	₱406,807,439
Segment liabilities (excluding deferred tax)	₱56,069,831	₱30,496,617	₱35,150,201	₱1,525,299	₱116,317,898	(₱34,629,696)	₱204,930,150
Net cash flows provided by (used in):							
Operating activities	₱13,913,250	₱6,283,721	₱6,561,292	₱675,210	(₱12,548,272)	(₱3,453,710)	₱11,431,491
Investing activities	(14,382,761)	1,328,401	(10,933,360)	(889,640)	11,477,877	1,326,801	(12,072,682)
Financing activities	6,402,803	(6,512,363)	16,421,135	1,908,623	3,823,818	2,074,897	24,118,913
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱5,900,870	₱–	₱64,959,311	₱–	₱70,860,181
Equity in net earnings of associates	–	–	530,499	–	4,910,327	–	5,440,826
Capital expenditures	11,373,974	4,010,949	15,602,168	25,432	2,808,965		33,821,488
Depreciation and amortization	3,616,926	1,724,578	374,859	57,850	547,039	–	6,321,252
Provision for impairment losses	–	–	36,108	–	521,428	–	557,536

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

7. Cash and Cash Equivalents

This account consists of:

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

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

8. Time Deposits and Short-Term Investments

This account consists of:

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

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

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

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

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

9. Investments Held for Trading and Sale

This account consists of:

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

The Group recognized a gain of ₱13.4 million and ₱5.7 million from fair value adjustments of investments held for trading for the years ended December 31, 2011, and 2010, respectively, and loss of ₱81.5 million for the year ended December 31, 2009. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income. Interest income earned on investments held for trading and sale is further discussed in Note 25.

10. Receivables

This account consists of:

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

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

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

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

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

The movements in allowance for impairment loss are as follows:

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

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

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

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

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

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

11. Other Current Assets

This account consists of:

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

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

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

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

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

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

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

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

12. Available-for-Sale Investments

This account consists of investments in:

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

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

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

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

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

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

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

Gain on disposal of AFS investments recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income amounted to ₱30.8 million for the year ended December 31, 2011 and ₱481.3 million for the year ended December 31, 2010 and none for the year ended December 31, 2009. The amounts are exclusive of the share of the non-controlling interests.

13. Investments in Shares of Stock of Associates

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

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

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

The major associates of the Group are as follows:

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

Atlas

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

Belle

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

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

BDO

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

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

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

HPI

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

China Bank

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

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

SHDC

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

The condensed financial information of significant associates is shown below:

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

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

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

14. Property and Equipment

The movements in this account are as follows:

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

15. Investment Properties

The movements in this account are as follows:

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

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

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

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

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

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

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

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

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

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

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

16. Land and Development and Condominium Units for Sale

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

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

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

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

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

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

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

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

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

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

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

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

17. Intangibles and Other Noncurrent Assets

Intangibles
This account consists of:

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

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

Other Noncurrent Assets
This account consists of:

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

The movements in goodwill are as follows:

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

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

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

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

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

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

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

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

18. Bank Loans

This account consists of:

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

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

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

19. Accounts Payable and Other Current Liabilities

This account consists of:

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

The terms and conditions of the above liabilities follow:

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

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

20. Long-term Debt

This account consists of:

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

Parent Company

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

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

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱10,768.1 million and ₱12,023.7 million as at December 31, 2011 and 2010, respectively, which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed at the option of the relevant holder beginning July 18, 2011 at the principal amount.

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

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted or purchased and cancelled. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2011 and 2010, the bondholders of US$1.7 million (₱82.2 million) and US$9.0 million (₱435.1 million) bonds, respectively, opted to convert their holdings into 181,364 and 959,631 of SMIC's shares (see Note 21). The conversion resulted to a gain of ₱11.3 million and ₱84.8 million in 2011 and 2010, respectively, shown under "Gain on disposal of investments and properties" account in the consolidated statements of income. The fair value of the related derivative liability derecognized upon conversion amounted to US$0.3 million (₱11.0 million) and US$2.3 million (₱97.8 million) in 2011 and 2010, respectively (see Notes 19 and 30).

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

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

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

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

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

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

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

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

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

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

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

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

The Series 1 preferred shares carry a fixed dividend rate of 7.51% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus an agreed margin. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

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

Other Peso Bank Loans
This account includes the following:

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

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

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

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

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

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

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

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Philippine Peso-denominated Five-year, Seven-year and Ten-year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained by SM Prime on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000.0 million was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4.0 million (see Note 30).

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

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

Philippine Peso-denominated Five-year Floating Rate Notes
This represents a five-year bullet term loan obtained by SM Prime on June 18, 2007 and July 9, 2007 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan amounting to ₱1,000.0 million and ₱3,000.0 million was prepaid on December 20, 2010 and March 18, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱6.0 million in 2011 and ₱3.0 million in 2010.

Other Bank Loans - Subsidiaries
This account includes the following:

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

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

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

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

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

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

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

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

Debt Issue Cost

The movements in unamortized debt issue cost in 2011 and 2010 are as follows:

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

Repayment Schedule

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

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

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2011 and 2010, the Group is in compliance with the terms of its loan covenants.

21. Equity

Capital Stock

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

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

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

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

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

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

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

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

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

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

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

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

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱75,086.8 million and ₱63,566.9 million as at December 31, 2011 and 2010, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

22. Related Party Transactions

Terms and Conditions of Transactions with Related Parties
For the years ended December 31, 2011, 2010 and 2009, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year-end by examining the financial position of the related party and the market in which the related party operates. There have been no guarantees provided or received for any related party receivables or payables. Affiliate refers to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

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

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

Management Fees
The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. (affiliates) for the management of the office and mall premises. Total management fees amounted to ₱779.8 million, ₱656.1 million and ₱611.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

SMIC and SM Retail also receive management fees from retail affiliates for management and consultancy services. The annual management fees are based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱564.2 million, ₱695.4 million and ₱565.7 million for the years ended December 31, 2011, 2010 and 2009, respectively, included as part of "Management and service fees" account in the consolidated statements of income.

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

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

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

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

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

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

Relationship	Nature of Transactions/ Outstanding Accounts	**2011**	2010	2009
			(In Thousands)	
Bank Associates	Interest income	**₱3,125,270**	₱3,013,880	₱2,511,819
	Interest expense	**738,231**	1,161,073	673,149
	Rent income	**40,408**	27,744	30,812
	Service income	**360**	360	360
	Cash and cash equivalents (see Note 7)	**50,226,026**	61,561,555	–
	Time deposits and short-term investments (see Note 8)	**38,293,363**	38,293,363	–
	Investments held for trading (see Note 9)	**161,114**	159,750	–
	AFS investments (see Notes 9 and 12)	**1,162,545**	1,000,000	–
	Advances and other receivables (see Note 11)	**841,418**	754,064	–
	Long-term notes (see Note 17)	**506,724**	506,724	
	Payables -			
	Accrued interest (see Note 19)	**190,583**	115,581	–
	Bank loans (see Note 18)	**21,055,920**	15,062,000	–
	Current portion of long-term debt (see Note 20)	**5,949,514**	–	–
	Long-term debt - net of current portion	**9,684,492**	11,543,558	–
Retail affiliates and others	Rent income	**2,945,053**	2,985,019	2,744,458
	Management fee expense	**779,814**	656,131	611,835
	Management fee income	**564,160**	695,395	565,731
	Dividend income	**222,089**	188,472	139,744
	Service income	**127,589**	26,202	50,120
	Receivables:			
	Receivable from a related party and advances for project development (see Notes 11 and 17)	**7,121,565**	7,121,653	–
	Due from related parties (see Note 10)	**2,684,558**	3,350,787	–
	Related party tenants (see Note 10)	**1,267,728**	878,452	–
	Management fees (see Note 10)	**95,892**	353,691	–
	AFS investments (see Notes 9 and 12)	**52,650**	77,679	–
	Payables:			
	Due to related parties (see Note 19)	**2,734,415**	1,967,940	–
	Accrued expenses (see Note 19)	**74,848**	58,440	–

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

23. Cost of Sales

This account consists of:

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

24. Selling, General and Administrative Expenses

This account consists of:

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

25. Interest Income and Interest Expense

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

	2011	2010	2009
		(In Thousands)	
Interest income on:			
Time deposits and short-term investments (see Note 8)	**₱1,921,384**	₱2,071,015	₱1,602,868
AFS investments and others (see Notes 9 and 12)	**1,227,952**	849,554	862,388
Cash in banks and temporary investments (see Note 7)	**1,083,460**	763,649	950,409
Investments held for trading (see Note 9)	**41,844**	32,234	42,401
	₱4,274,640	₱3,716,452	₱3,458,066
Interest expense on:			
Long-term debt (see Note 20)	**₱6,249,515**	₱7,177,322	₱5,579,959
Bank loans (see Note 18)	**2,288,844**	132,967	608,418
Others (see Note 30)	**297,654**	342,268	77,758
	₱8,836,013	₱7,652,557	₱6,266,135

26. Pension Benefits

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

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

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

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

Defined Benefit Liability

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

Changes in the Present Value of the Defined Benefit Obligation

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

Changes in the Fair Value of Plan Assets

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

Unrecognized Actuarial Gain

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

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

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

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

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

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

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

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

Changes in the Present Value of the Defined Benefit Obligation

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

Changes in the Fair Value of Plan Assets

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

Unrecognized Actuarial Gain

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

The amounts for the current and previous four periods follow:

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

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

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

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

	2011	2010
Government securities	**46%**	45%
Common trust funds	**35%**	37%
Bonds	**7%**	10%
Shares of stock	**5%**	3%
Cash and cash equivalents	**5%**	3%
Others	**2%**	2%

The Group expects to contribute about ₱371.5 million to its defined benefit pension plan in 2012.

27. Income tax

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

	2011	2010
	(In Thousands)	
Deferred tax assets - net:		
Unamortized past service cost and defined benefit liability	**₱188,582**	₱208,929
Unrealized foreign exchange loss and others	**305,681**	204,381
Accrued leases	**105,585**	84,266
MCIT	**61,248**	50,688
Unrealized marked-to-market loss on investments	**36,708**	28,100
Deferred income on sale of real estate	**(12,823)**	–
NOLCO	**9,663**	–
	₱694,644	₱576,364
Deferred tax liabilities - net:		
Trademarks and brand names	**₱1,879,000**	₱1,837,429
Capitalized interest	**1,293,396**	1,313,177
Unrealized foreign exchange gain	**783,361**	872,549
Unrealized gross profit on sale of real estate	**366,982**	275,549
Accrued/deferred rent income	**88,842**	165,114
Unrealized marked-to-market gain on investments	**63,052**	77,735
Unamortized past service cost and defined benefit asset	**46,969**	51,496
Others	**(13,623)**	43,125
	₱4,507,979	₱4,636,174

The Group's consolidated deferred tax assets as at December 31, 2011 and 2010 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

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

	2011	2010
	(In Thousands)	
Net unrealized foreign exchange loss	**₱2,011,810**	₱1,656,228
Allowance for impairment losses	**1,889,215**	1,395,119
MCIT	**297,013**	144,651
Accretion on convertible bonds	**296,428**	230,391
Non-refundable advance rentals	**65,280**	86,241
Accrued expenses	**46,682**	–
Past service cost	**15,817**	–
NOLCO	**1,614**	467,458
	₱4,623,859	₱3,980,088

As at December 31, 2011, the Group's MCIT and NOLCO are as follows:

Date Paid/Incurred	Carryforward Benefit Up To	MCIT	NOLCO
		(In Thousands)	
December 31, 2009	December 31, 2012	₱21,805	₱–
December 31, 2010	December 31, 2013	133,746	1,614
December 31, 2011	December 31, 2014	141,462	–
		₱297,013	₱1,614

NOLCO and MCIT applied as deduction from taxable income and income tax due amounted to ₱465.8 million and nil in 2011, respectively, ₱173.0 million and ₱27.8 million in 2010, respectively, and ₱447.5 million and ₱21.5 million in 2009, respectively.

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

	2011	2010	2009
Statutory income tax rate	**30%**	30%	30%
Add (deduct) income tax effects of reconciling items:			
Equity in net earnings of associates	**(5)**	(5)	(5)
Interest income subjected to final tax	**(3)**	(3)	(4)
Gain on sale of shares of stock	**(3)**	(2)	–
Dividend income exempt from tax	**(1)**	(1)	(1)
Others	**(2)**	(2)	(2)
Change in unrecognized deferred tax assets	**(1)**	1	–
Effective income tax rates	**15%**	18%	18%

28. Lease Agreements

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

The Parent Company's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants' deposits amounted to ₱10,104.6 million and ₱9,503.8 million as at December 31, 2011 and 2010, respectively.

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

	2011	2010
	(In Thousands)	
Within one year	**₱661,086**	₱584,714
After one year but not more than five years	**1,752,399**	2,127,508
After five years	**202,718**	311,124
Balance at end of year	**₱2,616,203**	₱3,023,346

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

The minimum lease payables under the noncancellable operating leases of SM Prime as at December 31 are as follows:

	2011	2010
	(In Thousands)	
Within one year	**₱528,634**	₱373,895
After one year but not more than five years	**2,261,560**	1,737,603
After five years	**12,562,693**	7,814,374
Balance at end of year	**₱15,352,887**	₱9,925,872

SVI has finance leases for several computer equipment included under "Property and equipment" account. The leases provide options to SVI to purchase the computer equipment at the end of the lease terms.

SVI's obligation under finance lease ended on May 27, 2011. Total lease payments amounted to ₱3.6 million in 2011 and ₱8.6 million in 2010.

29. Financial Risk Management Objectives and Policies

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

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

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

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Group's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2011 and 2010:

				2011				
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost**	**Carrying Amount**
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$378,649	₱16,599,952	(₱160,739)	₱16,439,213
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	379,156	–	–	16,622,199	(146,602)	16,475,597
Interest rate	–	–	6.00%	–	–			
US$350 million fixed rate bonds	–	245,623	–	–	–	10,768,112	(49,831)	10,718,281
Interest rate	–	6.75%	–	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱990	₱2,000,990	₱990	₱9,194,060	₱800,000	11,997,030	(67,129)	11,929,901
Interest rate	9.60%	6.76%	9.60%	7.73%-9.60%	9.85%			
Five-year and seven-year retail bonds	–	–	8,400,000	1,000,000	–	9,400,000	(47,421)	9,352,579
Interest rate	–	–	8.25%	9.10%	–			
Five-year fixed rate notes	–	–	–	6,700,000	–	6,700,000	(49,708)	6,650,292
Interest rate	–	–	–	6.16%	–			
Five-year and ten-year corporate notes	5,550	–	5,550	2,978,850	1,100,000	4,089,950	(23,804)	4,066,146
Interest rate	8.4%	–	8.4%	8.4%	10.11%			
Seven-year and ten-year corporate notes	–	–	–	–	5,000,000	5,000,000	(42,578)	4,957,422
Interest rate	–	–	–	–	5.75%-6.63%			
Five-year, seven-year and ten-year corporate notes	20,000	20,000	20,000	1,105,960	814,040	1,980,000	(16,074)	1,963,926
Interest rate	5.79%-6.65%	–	5.79%-6.65%	5.79%-6.65%	5.79%-6.65%			
Other bank loans	500	500	–	4,236,000	3,250,000	7,487,000	(19,660)	7,467,340
Interest rate	8.57%	8.57%	–	7%-8.57%	6.71%-9.75%			

	2011							
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**	**Over 5 Years**	**Total**	**Debt Issue Cost**	**Carrying Amount**
				(In Thousands)				
Variable Rate								
Foreign Currency Loans:								
US$ five-year term loans	$–	$–	$–	$145,000	$–	₱6,356,800	(₱255,267)	₱6,101,533
Interest rate	–	–	–	LIBOR+margin %	–			
China Yuan renminbi loans	¥40,000	¥–	¥501,382	¥60,900	¥–	4,176,648	–	4,176,648
Interest rate	5.32%-6.65%	–	5.32%-6.65%	5.32%-6.65%	–			
US$ bilateral loans	$–	$–	$25,000	$–	$–	1,096,000	(11,071)	1,084,929
Interest rate	–	–	LIBOR+margin %	–	–			
US$300 million convertible bonds	23,446	–	–	–	–	979,645	(8,256)	971,389
Interest rate	6.65%	–	–	–	–			
Other bank loans	–	20,000	–	50,000	–	3,068,800	(38,021)	3,030,779
Interest rate	–	LIBOR+margin %	–	LIBOR+margin %	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱5,950,000	₱–	₱–	₱3,000,000	₱–	8,950,000	(15,070)	8,934,930
Interest rate	PDST-F+margin%	–	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	4,800,000	–	4,950,000	(29,755)	4,920,245
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year floating rate loan	50,000	–	50,000	100,000	4,800,000	5,000,000	(37,587)	4,962,413
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%			
Redeemable preferred shares - Series 2	200,000	–	–	–	–	200,000	(131)	199,869
Interest rate	PDST-F+margin%	–	–	–	–			
Corporate notes	300	–	300	198,800	–	199,400	(653)	198,747
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
Five-year bilateral loans	46,875	–	–	–	500,000	546,875	(2,584)	544,291
Interest rate	PDST-F+margin%	–	–	–	PDST-F+margin%			
Other bank loans	10,000	–	5,010,000	6,245,000	–	11,265,000	(26,490)	11,238,510
Interest rate	PDST-F+margin%	–	PDST-F+margin%	PDST-F+margin%	–			
						₱137,433,411	(₱1,048,431)	₱136,384,980

	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%	–	–	–			
China Yuan renminbi eight-year bilateral loans	¥75,000	¥40,000	¥–	¥–	¥–	763,071	–	763,071
Interest rate	5.35%	5.35%	–	–	–			
Other bank loans	$–	$–	$20,000	$30,000	$–	2,192,000	(46,968)	2,145,032
Interest rate	–	–	LIBOR+spread	LIBOR+spread	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱6,000,000	₱–	₱1,500,000	₱–	7,500,000	(18,092)	7,481,908
Interest rate	–	PDST-F+margin%	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	–	–	–	3,000,000	–	3,000,000	–	3,000,000
Interest rate	–	–	–	PDST-F+margin%	–			
Five-year floating rate loan	2,000	2,992,000	–	–	–	2,994,000	(8,562)	2,985,438
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Redeemable preferred shares - Series 2	–	200,000	–	–	–	200,000	(336)	199,664
Interest rate	–	PDST-F+margin%	–	–	–			
Corporate notes	–	–	–	199,700	–	199,700	(1,433)	198,267
Interest rate	–	–	–	PDST-F+margin	–			
Five-year bilateral loans	62,500	46,875	–	–	–	109,375	(458)	108,917
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Other bank loans	–	10,000	840,000	9,045,000	2,960,000	12,855,000	(40,548)	12,814,452
Interest rate	–	PDST-F+margin	PDST-F+margin	PDST-F+margin	PDST-F+margin			
						₱131,323,872	(₱956,541)	₱130,367,331

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed interest rates. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional amount. These swaps economically hedge the underlying debt obligations. As at December 31, 2011 and 2010, after taking into account the effect of interest rate swaps, approximately 56% and 60%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

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

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2011	**100**	**(₱482.7)**	**(₱265.7)**
	50	**(241.3)**	**(174.2)**
	(100)	**482.7**	**112.5**
	(50)	**241.3**	**14.5**
2010	100	(467.9)	(327.5)
	50	(233.9)	(163.8)
	(100)	467.9	327.5
	(50)	233.9	163.8

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

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

The following tables show the Group's foreign currency-denominated financial assets and liabilities and their peso equivalents as at December 31, 2011 and 2010:

	2011	
	US$	**PhP**
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**$11,636**	**₱510,101**
Time deposits and short-term investments	**24,999**	**1,095,974**
Investments held for trading	**5,175**	**226,872**
Receivables	**222,916**	**9,772,656**
Noncurrent assets:		
AFS investments	**133,237**	**5,841,108**
Time deposits	**853,480**	**37,416,563**
Derivative assets	**2,637**	**115,619**
Total foreign currency-denominated financial assets	**1,254,080**	**54,978,893**
Current liabilities:		
Bank loans	**88,000**	**3,857,920**
Accounts payable and other current liabilities	**19,024**	**834,001**
Current portion of long-term debt	**23,258**	**1,019,613**
Noncurrent liabilities:		
Long-term debt - net of current portion	**1,228,338**	**53,850,334**
Derivative liabilities	**7,262**	**318,359**
Total foreign currency-denominated financial liabilities	**1,365,882**	**59,880,227**
Net foreign currency-denominated financial liabilities	**$111,802**	**₱4,901,334**

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

As at December 31, 2011 and 2010, approximately 36.4% and 46.4%, respectively, of the Group's total consolidated bank loans and long-term debt were denominated in US Dollars. Thus, appreciation of the Philippine peso against the US Dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income, net foreign exchange gain of ₱242.9 million, ₱407.2 million and ₱224.0 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2011, 2010 and 2009, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso as shown in the following table:

	U.S. Dollar to Peso
December 31, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

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

	Appreciation (Depreciation) of ₱	Effect on Income Before Tax
		(In Millions)
2011	**1.50**	**₱167.7**
	1.00	**118.0**
	(1.50)	**(167.7)**
	(1.00)	**(118.0)**
2010	1.50	(179.6)
	1.00	(119.7)
	(1.50)	179.6
	(1.00)	119.7

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

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

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

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments-bonds and corporate notes amounting to ₱56,050.3 million, ₱879.4 million, ₱457.5 million and ₱1,000.0 million, respectively, as at December 31, 2011 and ₱66,961.0 million, ₱876.8 million, ₱444.7 million and ₱1,000.0 million, respectively, as at December 31, 2010 (see Notes 7, 8 and 9). The Group also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2011 and 2010 based on the contractual undiscounted payments:

			2011		
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
			(In Thousands)		
Bank loans	**₱–**	**₱25,947,425**	**₱–**	**₱–**	**₱25,947,425**
Accounts payable and other current liabilities*	**–**	**43,323,757**	**–**	**–**	**43,323,757**
Long-term debt (including current portion)	**–**	**10,010,330**	**120,904,570**	**36,026,066**	**166,940,966**
Derivative liabilities:**					
Non-deliverable forwards	**–**	**–**	**43,842**	**–**	**43,842**
Interest rate swaps	**–**	**–**	**237,980**	**–**	**237,980**
Multiple derivatives on convertible bonds	**–**	**80,380**	**–**	**–**	**80,380**
Dividends payable	**–**	**25,696**	**–**	**–**	**25,696**
Tenants' deposits	**–**	**290,923**	**13,459,693**	**–**	**13,750,616**
	₱–	**₱79,678,511**	**₱134,646,085**	**₱36,026,066**	**₱250,350,662**

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

**Excluding payable to government agencies of ₱1,426.2 million and ₱1,458.1 million as at December 31, 2011 and 2010, respectively, the amounts of which are not considered as financial liabilities.*
***Based on estimated future cash flows.*

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

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

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

Receivable from sale of real estate has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2011 and 2010, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2011 and 2010, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

		2011	
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱54,991,002**	**₱–**	**₱54,991,002**
Time deposits and short-term investments (including noncurrent portion)	**38,295,972**	**–**	**38,295,972**
Investments held for trading -			
Bonds	**457,496**	**–**	**457,496**
AFS investments	**13,930,761**	**4,633**	**13,935,394**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**16,428,092**	**3,873,746**	**20,301,838**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**8,816,370**	**–**	**8,816,370**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**6,000,000**	**–**	**6,000,000**
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	**₱200,000**	**₱–**	**₱200,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**506,724**	**–**	**506,724**
Derivative assets	**159,461**	**–**	**159,461**
	₱139,785,878	**₱3,878,379**	**₱143,664,257**

		2010	
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱66,077,142	₱–	₱66,077,142
Time deposits and short-term investments (including noncurrent portion)	38,295,895	–	38,295,895
Investments held for trading -			
Bonds	444,676	–	444,676
AFS investments	12,656,288	4,244	12,660,532
Receivables - net (including noncurrent portion of receivables from real estate buyers)	11,379,096	2,791,810	14,170,906
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	5,546,152	–	5,546,152
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,000,000	–	6,000,000
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	500,000	–	500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	506,724	–	506,724
Derivative assets	1,253,129	–	1,253,129
	₱142,659,102	₱2,796,054	₱145,455,156

Equity Price Risk
The Group's exposure to equity price pertains to its investments in quoted equity shares which are classified as AFS investments in the consolidated balance sheets. Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2011 and 2010) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2011	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+17.58%**	**₱1,209.09**
	-17.58%	**(1,209.09)**

	2010	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+14.03%	₱1,184.2
	-14.03%	(1,184.2)

Capital Management

Capital includes equity attributable to the owners of the Parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50. The Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt was 28:72 and 22:78 as at December 31, 2011 and 2010, respectively, while the ratio of interest-bearing debt to total capital plus interest-bearing debt were 51:49 and 50:50 as at December 31, 2011 and 2010, respectively.

As at December 31, 2011 and 2010, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

	2011	2010
	(In Thousands)	
Bank loans	**₱25,747,920**	₱20,408,800
Current portion of long-term debt	**7,920,961**	1,766,761
Long-term debt - net of current portion and pledged time deposits	**107,640,019**	121,147,770
Less cash and cash equivalents, time deposits (net of pledged) and short-term investments, investments in held for trading bonds, AFS investments (bonds and corporate notes and redeemable preferred shares) and long-term notes included under "Other noncurrent assets" account	**(81,327,623)**	(103,980,018)
Total net interest-bearing debt (a)	**59,981,277**	39,343,313
Total equity attributable to owners of the Parent	**157,666,331**	141,543,064
Total net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱217,647,608**	₱180,886,377
Gearing ratio (a/b)	**28%**	22%

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

	2011	2010
	(In Thousands)	
Bank loans	**₱25,747,920**	₱20,408,800
Current portion of long-term debt	**7,920,961**	1,766,761
Long-term debt - net of current portion and pledged time deposits	**107,640,019**	121,147,770
Total interest-bearing debt (a)	**141,308,900**	143,323,331
Total equity attributable to owners of the Parent	**157,666,331**	141,543,064
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱298,975,231**	₱284,866,395
Gearing ratio (a/b)	**47%**	50%

30. Financial Instruments

Fair Values
The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as at December 31, 2011 and 2010:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading -				
Bonds	**₱457,496**	**₱457,496**	₱444,676	₱444,676
Derivative assets	**159,461**	**159,461**	1,253,129	1,253,129
	616,957	**616,957**	1,697,805	1,697,805
Loans and receivables:				
Cash and cash equivalents	**56,050,322**	**56,050,322**	66,961,010	66,961,010
Time deposits and short-term investments (including noncurrent portion)	**38,295,972**	**42,325,254**	38,295,895	43,063,118
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**20,504,264**	**19,517,334**	14,794,788	14,111,749
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	**8,816,370**	**8,816,370**	5,546,152	5,546,152
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheets)	**6,000,000**	**6,292,484**	6,000,000	6,400,621
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	**506,724**	**523,977**	506,724	574,530
	130,173,652	**133,525,741**	132,104,569	136,657,180
Held-to-Maturity -				
Treasury bonds (included under "Other current assets and other noncurrent assets" account in the consolidated balance sheets)	**200,000**	**200,750**	500,000	519,454
AFS Investments:				
Shares of stock	**7,088,955**	**7,088,955**	7,430,829	7,430,829
Bonds and corporate notes	**6,841,109**	**6,841,109**	5,120,431	5,120,431
Redeemable preferred shares	**–**	**–**	104,162	104,162
Club shares	**5,330**	**5,330**	5,110	5,110
	13,935,394	**13,935,394**	12,660,532	12,660,532
	₱144,926,003	**₱148,278,842**	₱146,962,906	₱151,534,971
Financial Liabilities				
Financial Liabilities at FVPL -				
Derivative liabilities	**₱237,980**	**₱237,980**	₱1,351,441	₱1,351,441
Other Financial Liabilities:				
Bank loans	**25,747,920**	**25,747,920**	20,408,800	20,408,800
Accounts payable and other current liabilities*	**43,323,577**	**43,323,577**	37,581,201	37,581,201
Long-term debt (including current portion and net of unamortized debt issue cost)	**136,384,980**	**150,553,342**	130,367,331	142,521,216
Dividends payable	**25,696**	**25,696**	24,287	24,287
Tenants' deposits and others	**13,713,302**	**13,718,285**	12,375,013	12,352,285
	219,195,475	**233,368,820**	200,756,632	212,887,789
	₱219,433,455	**₱233,606,800**	₱202,108,073	₱214,239,230

** Excluding payable to government agencies of ₱1,426.2 million and ₱1,458.1 million as at December 31, 2011 and 2010, respectively, the amounts of which are not considered financial liabilities.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are based on the quoted market prices of the instruments.

Cash and Cash Equivalents. The carrying amounts reported in the consolidated balance sheets approximate its fair value, due to its short-term nature.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 1.13% to 1.65% and 1.10% to 2.80% as at December 31, 2011 and 2010, respectively.

Receivables and Advances and Other Receivables included under "Other current assets" account. The carrying values of short-term receivables approximate their fair values due to their short-term maturities. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of Group's accounts receivable. Average discount rates used is 6.70% and 9.00% as at December 31, 2011 and December 31, 2010, respectively.

Receivable from a Related Party and Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of receivable from a related party and long-term notes are based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 2.21% to 5.41% aand 1.79% to 2.50% as at December 31, 2011 and 2010, respectively. Discount rates used for long-term notes range from 2.21% to 5.41% and 1.29% to 5.68% as at December 31, 2011 and 2010, respectively.

Held-to-Maturity Investments. The fair value is based on quoted market prices of the investments ranging from 100.85% to 108.21% and 103.75% to 104.10% as at December 31, 2011 and 2010, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used is 4.24% and 3.31% to 4.33% as at December 31, 2011 and 2010, respectively. For unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.60% to 6.48% and 1.31% to 5.43% as at December 31, 2011 and 2010, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.98% to 2.70% and 1.94% to 3.55% as at December 31, 2011 and 2010, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.97% to 3.67% and 2.31% to 9.19% as at December 31, 2011 and 2010, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the Parent Company's convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3 and redeemable preferred shares categorized as AFS investments under Level 2;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Those with inputs for the asset or liability that are not based on observable market data(unobservable inputs).

The following tables shows the Group's financial instruments carried at fair value as at December 31:

		2011	
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading -			
Bonds	**₱457,496**	**₱–**	**₱–**
Derivative assets	**–**	**159,461**	**–**
	457,496	**159,461**	**–**
AFS investments:			
Shares of stocks	**7,031,822**	**–**	**–**
Bonds and corporate notes	**6,841,109**	**–**	**–**
Club shares	**5,330**	**–**	**–**
	13,878,261	**–**	**–**
	₱14,335,757	**₱159,461**	**₱–**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱281,822**	**₱80,380**

		2010	
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading -			
Bonds	₱444,676	₱–	₱–
Derivative assets	–	1,253,129	–
	444,676	1,253,129	–
AFS investments:			
Shares of stocks	7,374,086	–	–
Bonds and corporate notes	5,120,431	–	–
Redeemable preferred shares	–	104,162	–
Club shares	5,110	–	–
	12,499,627	104,162	–
	₱12,944,303	₱1,357,291	₱–
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	₱–	₱1,224,810	₱126,631

During the years ended December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instrument classified under Level 3 pertains to the derivative liability arising from the options in the Parent Company's convertible bonds. This was classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values.

Shown below is the rollforward analysis of the fair value changes from these financial instruments for the year ended December 31:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**(₱126,631)**	(₱1,810,699)
Fair value of derivatives on settled contracts	**9,972**	1,736,460
Net change in fair value	**36,279**	(52,392)
Balance at end of year	**(₱80,380)**	(₱126,631)

The balance at beginning of 2010 includes positive fair value at inception of the option arising from investment in convertible bonds amounting to ₱0.9 million and negative fair value at the beginning of the year of the options arising from the Parent Company's convertible bonds amounting to ₱1,811.6 million. The fair value changes during the year were recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income. The options arising from investment in convertible bonds have nil values as at December 31, 2011 and 2010.

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2011	**100 bps**	**(₱2,278)**
	(100) bps	**2,294**
2010	100 bps	(12,934)
	(100) bps	13,156

Derivative Financial Instruments

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

Derivative Assets

	2011	2010
	(In Thousands)	
Parent -		
Non-deliverable forwards	**₱43,842**	₱514,900
Subsidiary:		
Non-deliverable forwards	**–**	541,278
Interest rate swaps	**115,619**	196,951
	₱159,461	₱1,253,129

Derivative Liabilities

	2011	2010
	(In Thousands)	
Parent:		
Non-deliverable forwards	**₱43,842**	₱514,900
Options arising from convertible bonds	**80,380**	126,631
Subsidiary:		
Non-deliverable forwards	**–**	541,278
Interest rate swaps	**237,980**	168,632
	₱362,202	₱1,351,441

Derivative liabilities of the Parent Company are included under "Accounts payable and other current liabilities" account (see Note 19) while presented as derivative liabilities in the 2011 and 2010 consolidated balance sheets, respectively.

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

		2011	
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
		(Amounts in Thousands)	
Floating-Fixed			
Outstanding notional amount	**$145,000**	**$145,000**	**$145,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%-3.28%**	**2.91%-3.28%**	**2.91%-3.28%**
Outstanding notional amount	**$50,000**	**$50,000**	**$50,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.18%-3.53%**	**3.18%-3.53%**	**3.18%-3.53%**
Outstanding notional amount	**$25,000**	**$25,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**4.10%**	**4.10%**	
Outstanding notional amount	**$20,000**	**$20,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.41%**	**3.41%**	
Fixed-Floating			
Outstanding notional amount	**₱980,000**	**₱970,000**	**₱960,000**
Receive-floating rate	**5.44%**	**5.44%**	**5.44%**
Pay-fixed rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**980,000**	**970,000**	**960,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F +margin%**	**3MPDST-F +margin%**	**3MPDST-F +margin%**

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
		(Amounts in Thousands)	
Floating-Fixed			
Outstanding notional amount	$30,000	$30,000	$30,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.53%	3.53%	3.53%
Outstanding notional amount	$40,000	$40,000	$–
Receive-floating rate	6 months	6 months	–
	LIBOR +margin%	LIBOR +margin%	–
Pay-fixed rate	3.41%	3.41%	–
Outstanding notional amount	$20,000	$20,000	$20,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR +margin%	LIBOR +margin%	LIBOR +margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	$115,000	$115,000	$25,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR +margin%	LIBOR +margin%	LIBOR +margin%
Pay-fixed rate	4.10% to 5.40%	4.10% to 5.40%	4.10%
Outstanding notional amount	₱750,000	₱750,000	₱750,000
Receive-floating rate	3 months	3 months	3 months
	PHIREF+margin%	PHIREF+margin%	PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-Floating			
Outstanding notional amount	₱1,000,000	₱1,000,000	₱1,000,000
Receive-floating rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000	₱1,000,000	₱1,000,000
Receive-floating rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%
Outstanding notional amount	₱985,000	₱980,000	₱975,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options which were accounted for as compound derivatives. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 (₱26.9 at present) per share with a fixed exchange rate of US$1.0 to ₱40.6 until January 31, 2013, subject to cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option pertains to the right of the Parent Company to require the issuer to redeem the bonds at the 115.6%, this option expired on February 11, 2011.

As at December 31, 2011 and 2010, all outstanding embedded derivatives have nil values.

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

Short equity call option pertains to the option of the bondholders to convert the bonds into SMIC's common shares prior to maturity. If a bondholder exercised its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares, and such option on the part of the Parent Company is a long call option.

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

As at December 31, 2011 and 2010, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱80.4 million and ₱126.6 million, respectively. Net fair value changes recognized by the Group in 2011 and 2010 amounted to positive ₱36.3 million and negative ₱51.5 million, respectively, which are reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Cross Currency Swaps. In 2004, SM Prime entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.3 to US$1.0. Under these agreements, SM Prime effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet-term loan with semi-annual interest payments up to October 2009 (see Note 20). Fair value changes from these cross currency swaps contracts recognized in the consolidated statements of income amounted to ₱185.2 million in 2009.

Interest Rate Swaps. In 2011, SM Prime entered into US$ interest rate swap agreements with notional amount of US$145 million. Under the agreements, SM Prime effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 20). As at December 31, 2011, the floating to fixed interest rate swap has negative fair value of ₱142 million.

SM Prime also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 20). As at December 31, 2011, the floating to fixed interest rate swaps has negative fair value of ₱15 million.

In 2010, SM Prime entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30.0 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As at December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱38.0 million and positive fair value of ₱20.0 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000.0 million each, with amortization of ₱10.0 million every anniversary. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As at December 31, 2011 and 2010, these swaps have positive fair values of ₱116.6 million and ₱87.5 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 20). As at December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱6.4 million. On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4.0 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 20). As at December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱3.2 million and ₱1.9 million, respectively.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 20). SM Prime preterminated the US$30.0 million on November 30, 2010 and the US$90.0 million on May 16, 2011. Fair value changes from the preterminated swap recognized in the consolidated statements of comprehensive income amounted to ₱6.0 million gain in 2010 and ₱9 million loss in 2011. As at December 31, 2011 and 2010, the outstanding US$25 million floating to fixed interest rate swap has negative fair values of ₱39.8 million and ₱41.1 million, respectively. As at December 31, 2010, the outstanding US$90 million floating to fixed interest rate swaps has negative fair value of ₱88.7 million.

In 2009, SM Prime entered into Philippine peso interest rate swap agreement with a notional amount of ₱750.0 million. Under these agreement, SM Prime effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 20). As at December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱30.6 million. On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Negative fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱0.87 million in 2011.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 20). As at December 31, 2010, the fixed to floating interest rate swaps have positive fair values of ₱90.3 million. On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27.0 million loss in 2011.

Foreign Currency Options. In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As at December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

In 2009, SM Prime entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38 million. Under the option contracts, at each expiry date, SM Prime compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As at December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US$1.00 and ₱49.02 to US$1.00, respectively. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2009.

Non-deliverable Forwards. In 2011, 2010 and 2009, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. It entered into sell US$ and buy ₱ with the same aggregate notional amount. The Parent Company and SM Prime recognized derivative asset and derivative liability amounting to ₱43.8 million and ₱1,056.2 million from the outstanding forward contracts as at December 31, 2011 and 2010, respectively.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as at December 31 are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**(₱98,312)**	(₱1,842,293)
Net change in fair value	**(295,268)**	327,386
Fair value of derivatives on settled contracts	**190,839**	1,416,595
Balance at end of year	**(₱202,741)**	(₱98,312)

In 2011, the net changes in fair value amounting to negative ₱295.3 million comprise of interest paid amounting to ₱22.0 million, which is included under "Interest expense" account in the consolidated statements of income and net marked-to-market loss on derivatives amounting to ₱273.3 million, which is included under "Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

In 2010, net changes in fair value amounting to ₱327.4 million comprise of interest paid amounting to ₱71.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱256.4 million, which is included under "Gain on available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets as follows:

	2011	2010
	(In Thousands)	
Derivative assets (see Note 17)	**₱159,461**	₱1,253,129
Derivative liabilities	**(362,202)**	(1,351,441)
Balance at end of year	**(₱202,741)**	(₱98,312)

31. EPS Computation

	2011	2010	2009
	(In Thousands, Except for Per Share Data)		
Net Income Attributable to Common Owners of the Parent			
Net income attributable to common owners of the Parent for basic earnings (a)	**₱21,224,592**	₱18,440,169	₱16,025,038
Effect on net income of convertible bonds, net of tax	**43,813**	–	747,104
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱21,268,405**	₱18,440,169	₱16,772,142
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period (c)	**612,038**	611,218	611,023
Dilutive effect of convertible bonds	**2,132**	–	29,552
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**614,170**	611,218	640,575
Basic EPS (a/c)	**₱34.68**	₱30.17	₱26.23
Diluted EPS (b/d)	**₱34.63**	₱30.17	₱26.18

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱30.32 in 2010.

32. Reclassification

The comparative information has been reclassified from the financial statements previously presented to conform to the presentation of the financial statements for the period ended December 31, 2011.

33. Other Matters

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

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

The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration with the Court of Appeals and on November 9, 2007, the Court of Appeals issued a resolution denying the appellees' Motion for Reconsideration. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC Makati. On December 23, 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on October 24, 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated June 21, 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court.

34. Events After the Reporting Period

In February 2012, the Company launched and priced its 5-year convertible bonds of US$250 million (₱10,660.0 million). The yield to maturity of the bonds is 2.875% per annum, based on 1.625% coupon and a conversion premium of 20%. The Company will use the proceeds of the offering to refinance existing debt and for general corporate purposes.

INVESTMENTS CORPORATION

Company Headquarters

SM Investments Corporation
One E-com Center, 10th Floor, Harbor Drive
Mall of Asia Complex, CBP-1A, Pasay City 1300 Philippines

Legal Counsel

Andres Marcelo Padernal Guerrero & Paras Law Offices
Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan Law Offices
Villaraza & Angangco Law Offices
Tan Acut and Lopez
Yorac Arroyo Chua Caedo & Coronel Law Firm

External Auditor

SyCip, Gorres, Velayo & Co. CPAs

Bankers

Allied Banking Corporation
Australian New Zealand Bank (ANZ)
Banco De Oro Unibank, Inc.
BDO Capital and Investments
Bank of the Philippine Islands
Bank of Tokyo - Mitsubishi UFJ
Barclays Bank
China Banking Corporation
Citibank, N.A.
Hongkong and Shanghai Banking Corp. Ltd.
JPMorgan Chase Bank, N.A.
Land Bank of the Philippines
Metropolitan Bank & Trust Company
Philippine National Bank
Rizal Commercial Banking Corp.
Security Bank Corporation
Union Bank of the Philippines

Stockholder Inquiries

SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Banco De Oro Unibank, Inc. - Trust and Investments Group
BDO Corporate Center, 7899 Makati Avenue, Makati City
Tel. (632) 840-7000 loc. 6975 to 6980; 878-4052 to 54
Fax (632) 878-4056

SEC Form 17-A

The financial information in this report, in the opinion of Management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request addressed to the Office of the Corporate Secretary.

Institutional Investor Inquiries

SM Investments Corporation welcomes inquiries from analysts, the financial community, and institutional investors.

Please contact	:	Corazon P. Guidote Senior Vice President, Investor Relations SM Investments Corporation
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