INVESTMENTS CORPORATION

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SPECIAL EDITION

INVESTOR

ANNUAL REPORT 2008

Your World,
Our World

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.

RETAIL MERCHANDISING



85%	SM Department Stores
100%	Super Value, Inc.
100%	Super Shopping Market, Inc.
50%	Pilipinas Makro




PROPERTY


67%	SM Land, Inc.
100%	Mall of Asia Complex
65%	SM Development Corporation
24%	Highlands Prime, Inc.
94%	Costa Del Hamilo, Inc.
100%	Taal Vista Hotel


MALL OPERATIONS


51%	SM Prime Holdings, Inc.


BANKING




43%	Banco De Oro Unibank, Inc.
20%	China Banking Corporation

Vision. Leadership. Innovation. Focus. Hard Work. Integrity. Prudence.


SM World

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ABOUT THE COVER

Every single day, SM touches the lives of millions of people who go and buy nearly everything they need at SM stores, spend time in SM malls with family and friends, transact with its banks, live in style in SM residences, hotels and resorts, and work in comfort and convenience at one of SM's office buildings. Indeed, over the last five decades, SM has created a world all its own, one that breathes life and growth into empty spaces, builds thriving communities where there once was none, and cares for people and places with its warm smiles and friendly faces. SM knows that your world is our world—it's the SM World.

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"SM's first mall now transformed into the country's largest, SM North EDSA is a symbol of enduring growth and progress."

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TO OUR FELLOW STOCKHOLDERS

"We view the horizon with confidence in the Philippine's potential for long-term growth and development even as we explore new and emerging markets."

We are pleased to report that 2008 was another year of growth for SM, despite the economic downturn which deepened further in the second half of the year. Holding us in good stead are our strict adherence to our core values and our unrelenting drive to serve our millions of customers with innovative, well designed and reasonably priced products of quality — whether in SM stores, in SM malls, in BDO and China Bank branches, or in SM residential, commercial and resort projects. Such drive and dedication has been responded to in kind by our customers' loyal patronage and the profits derived from that response. Overall, your Company posted a 15-percent growth in earnings.

We also take pride in having issued the country's largest ever private bond in July 2008 worth USD350 million. It is the Philippines' first major international corporate bond offering in over two years.

Principles of good corporate governance continue to guide us as we face the next half-century by building up SM's resources with new pool of talents and experts in the field. We also welcome our new independent director, Mr. Ah Doo Lim from Singapore. He joins the SM Board bringing with him a wealth of international experience in the line of finance and corporate governance.

As the Philippine economy faces greater challenges in 2009, SM is steadfast in its commitment to further expand its businesses in retail, mall operations, banking and property development. We view the horizon with confidence in the Philippines' potential for long-term growth and development even as we explore new and emerging markets in China for SM malls.

We sincerely thank you, our valued stockholders, as well as our officers and employees, for helping us preserve our legacy of service at SM. Together, we can take deep pride in what we have built for generations to follow.

HENRY SY, SR. Chairman	HENRY SY, JR. Vice-Chairman	TERESITA SY-COSON Vice-Chairperson

"We will pursue our expansion plans for 2009 with greater focus on areas that we think can make us stronger when the crisis passes."

We all faced a challenging environment in 2008 on account of the global financial crisis and a highly volatile price environment. Through it all, however, SM managed to perform within expectations, supported largely by the strong performance of our retail and property groups.

For the full year 2008, SM reported a 15.6% growth in net income to Php14.0 billion. Excluding extraordinary items, our net recurring income grew 11% to Php11.6 billion, while operating income stood at Php21.7 billion, resulting in an operating margin of 15%. EBITDA increased by 10% to Php28.1 billion, for an EBITDA margin of 19%.

Of total earnings, retail and mall businesses provided the largest contribution with 40% and 36%, respectively. The banks pitched in 16% and real estate, 8% respectively.

Consolidated revenues increased by 19% to Php147.5 billion boosted by retail sales which expanded by 17% to Php114.8 billion and by the 91% surge in real estate sales worth Php3.8 billion.

In 2008, SM reported extraordinary gains from the sale of its San Miguel shares, one that more than compensated for the mark-to-market losses incurred by the group in its trading positions which resulted from the global financial crisis.

SM maintains a strong balance sheet with a yearend net debt-to-equity ratio of 20% while it had a cash balance of Php47 billion. This reflects the strength of SM's financial position which will allow it not only to weather the current financial turmoil, but also to eventually benefit from valuable opportunities that may arise from the crisis.

SM Retail Inc., the holding company of all SM stores, remained strong amid wild fluctuations throughout the year for oil and gasoline prices, inflation and even for the Peso. As in many years past, we remain defensive in our position by carefully offering only what our markets can absorb. We continue to offer the best value products, that is, without sacrificing quality and the trendy appeal from our department stores; and convenience and freshness from our food stores. We make it a point to make our merchandise much more diverse and exciting, even as we re-design our stores to meet global standards in format and style.

As such, SM Retail delivered a strong performance in 2008 with net income increasing by 24% to Php3.4 billion. EBITDA reached Php6.4 billion for an EBITDA margin of 5.5% in 2008, up from 5.1% in 2007. SM Retail opened a total of 11 stores, with two department stores, two supermarkets, two hypermarkets, and five SaveMore stores.

The food group of SM Retail, which consists of the SM Supermarkets, SaveMore stores, SM Hypermarkets, and Makro, turned in a consistent performance moving in step with inflationary swings throughout the year. It also penetrated new markets through its new stores, particularly, SaveMore stores which we are expanding faster than the rest given their inherent ability to go deeper into impulse markets in select residential areas.

SM Retail's non-food group, which are mainly the SM Department Stores, rallied in the second half as consumer confidence got a strong lift from the sudden decline in gasoline prices, easing inflation, and in particular, a weaker Peso given that many of their customers are families of Overseas Filipino Workers.

Overall, SM Retail now has a total of 97 stores consisting of 33 department stores; 37 supermarkets, 13 of which are SaveMore branches; 13 hypermarkets; and 14 Makro outlets. We consolidated the Makro stores in late 2007 after SM increased its stake in Pilipinas Makro, Inc. to 60%.

For 2009, the SM retail group plans to open two new SM Supermarkets, 14 SaveMore branches, four SM Hypermarkets, and two SM Department Stores.

In the mall business, our subsidiary, SM Prime Holdings, Inc. (SM Prime) pursued its expansion plans for the year inaugurating three new malls in 2008, namely SM City Marikina, SM City Rosales, and SM City Baliwag. SM Prime also expanded two existing malls namely SM Megamall and SM City North EDSA. Combined, the new malls and expansions added 9.0% or 353,000 square meters (sqm) of gross floor area (GFA), bringing the total GFA to 4.3 million sqm by yearend.

SM Prime's net income for the year grew 7% to Php6.4 billion from revenues of Php17.8 billion, which increased by 12% over that of the previous year. EBITDA stood at Php12.3 billion for an EBITDA margin of 69% compared with that of 2007 of 71%.

Rental revenues contributed the largest share for the year, increasing by 15% to Php15.4 billion. Cinema ticket sales were flat due to a dearth of movie blockbusters. Income from operations rose to Php9.6 billion, up 9% over the previous year. Operating expenses, on the other hand, increased 15% to Php8.2 billion.

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

As expected, our banks were the most affected by the global crisis in 2008. Trading positions dropped as financial markets across the globe experienced a steep fall. As such, despite a very strong core business, BDO Unibank, Inc. (BDO) posted a net income of Php2.2 billion, down from Php6.52 billion the previous year.

The strength in BDO's core business stems from the benefits it is now reaping from its merger with Equitable PCIBank. Customers are expressing greater confidence in the bank through higher deposits given its current size and dominant position.

In 2008, BDO emerged as the country's largest bank with total resources growing by 30% to Php802 billion, boosted by the very strong growth in deposits which rose 43% to Php636.8 billion. Gross customer loans likewise rose 32% to Php392.8 billion resulting in a 7% increase in net interest income to Php23 billion for the same period.

BDO's NPL ratio for the period was 4% and return on equity was 3.8%. Its capital stood at Php57.8 billion for a capital adequacy ratio of 14.0%.

In the same manner, China Banking Corporation (China Bank) had a good year for its core business but still reported a 21% drop in consolidated net income of Php2.92 billion. The decline was again attributable to the sharp drop in treasury-related revenues due to market volatility.

PRESIDENT'S REPORT

China Bank's performance was strong with resources growing by 19% to Php208.7 billion. Total deposits improved 23.7% to Php173.8 billion, while gross loans rose 24% to Php118.5 billion. The latter's growth came from loans to corporate, SME and consumer sectors. The Bank's non-performing loans (NPL) ratio was down to 5.22%. The loans-to-deposits ratio stood at 63.87%. Net interest income, therefore, increased 0.43% to Php 6.52 billion. China Bank continued its expansion in 2008 opening 35 branches including those of China Bank Savings.

Our real estate operations under SM Land, Inc. delivered a stellar performance with revenues expanding by 66% to Php6.8 billion in 2008. Its net income from real estate grew 89% to Php1.5 billion driven by the sale of residential condominium units by listed subsidiary SM Development Corporation (SMDC). Further contributions came from the leasing activities of the commercial properties group; and the sale of condominium units and club shares in Pico de Loro, our resort project in Hamilo.

SMDC experienced a 116% rise in its 2008 net income from real estate operations to Php1.1 billion from Php513 million in 2007. Its gross profit on real estate sales reached Php1.7 billion, double that of the previous year.

Realized revenues from real estate operations rose 56% to Php3.1 billion, brought about by a strong sales uptake, and the higher completion rates of Mezza Residences, Berkeley Residences, and the completion of cluster six of Chateau Elysee'.

Defying expectations amid a softening and highly competitive market in 2008, SMDC sold units worth Php5.1 billion, a 28% growth in the number of units which stood at 2,622.

SMDC's consolidated net income, however, dropped to Php56.0 million, as compared to Php1.3 billion in 2007 due mainly to unrealized mark-to-market losses from equity investments held in SMDC's portfolio from its previous business as an asset management company.

In 2008, SMDC broke ground for two more condominium projects, the Sea Residences near the Mall of Asia Complex in Pasay City and Field Residences in Sucat, Parañaque City. Both these projects are still experiencing strong demand from the market.

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

SM's two major projects at the Mall of Asia Complex in Pasay City, which are the SMX Convention Center and the OneE-Com Center, continue to enjoy strong market support. As the country's largest exhibit, trade show, convention, and banquet venue, SMX accommodated more than 750,000 delegates to various events in 2008. The fully leased OneE-Com, on the other hand, is a ten-storey building specifically designed for the use of contact center, customer relationship management, business process outsourcing (BPO), and other specialized companies.

SM Hotels Corporation saw the completion of the expansion of the Taal Vista Hotel in Tagaytay City from just 130 rooms to 260 with an additional ballroom that can seat up to 1,000 guests. The new wing is now enjoying high occupancy and is hosting a number of large-scale events at the new ballroom. The company plans to open Radisson Hotel Cebu, which is a 500-room five star hotel situated beside SM City Cebu. In the pipeline at the Mall of Asia Complex are the Radisson and Regent Hotel, and a world-class entertainment facility, to be operated by a foreign company.

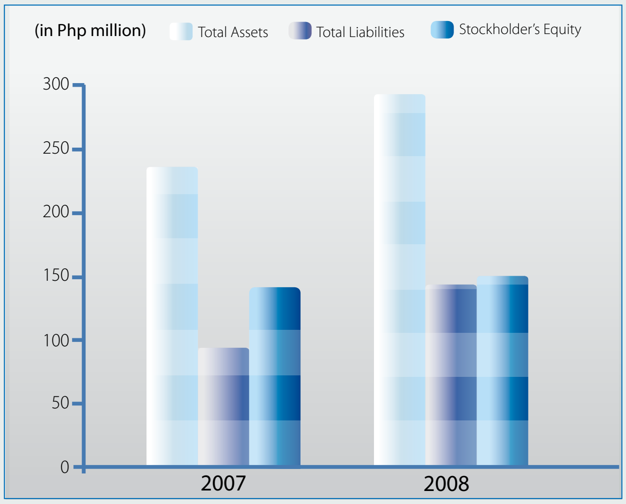
All these developments further attest to SM's commitment to long-term growth and development. Amid every crisis we have experienced over the past 50 years, SM emerges as a stronger business believing in the overall potential of the Philippine economy.

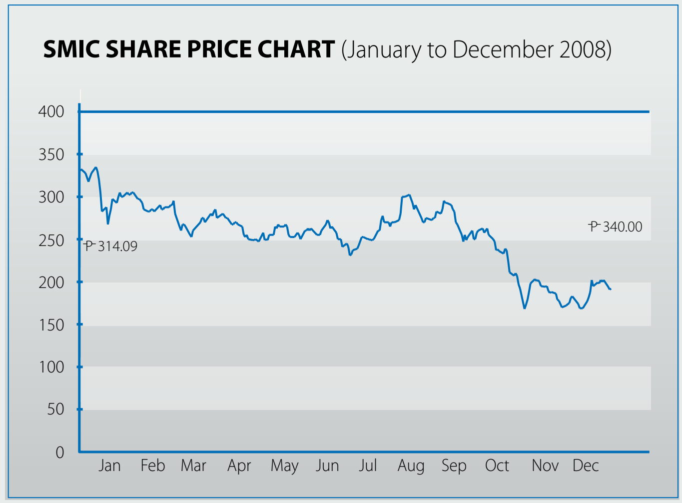
Having said that, we will pursue our expansion plans for 2009 with greater focus on areas that we think can make us stronger when the crisis passes. These are areas we know best and continue to provide long-term growth opportunities, namely retail, mall operations, banking and property development.

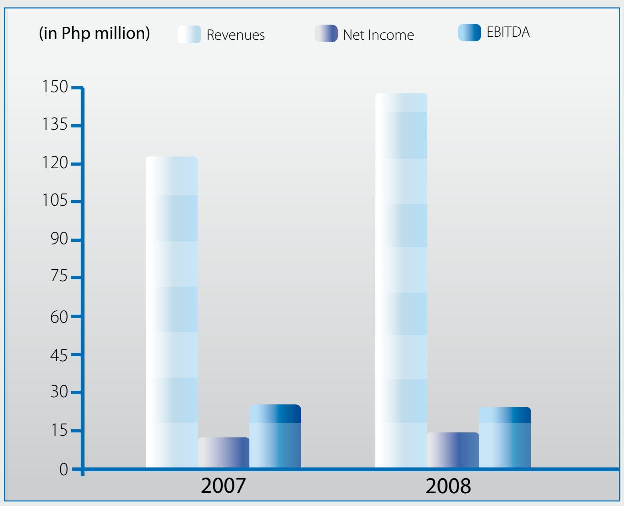
More than in the past, and because of the ongoing crisis, I express greater appreciation to the management and staff of SM and its subsidiaries. Times like this make the SM team shine more and more importantly, grow more as it further learns from the crisis.

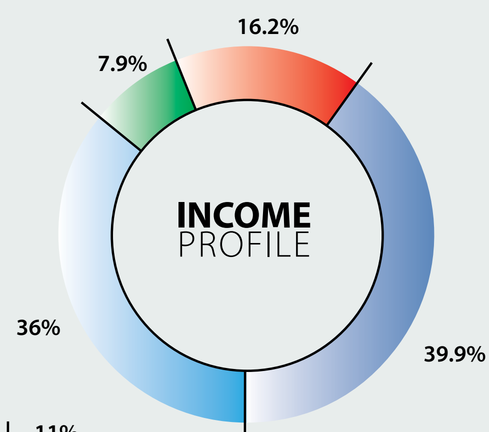
Thank you also to all our stakeholders for their confidence. Our commitment stays in making your Company grow and achieve optimal value for many more years.

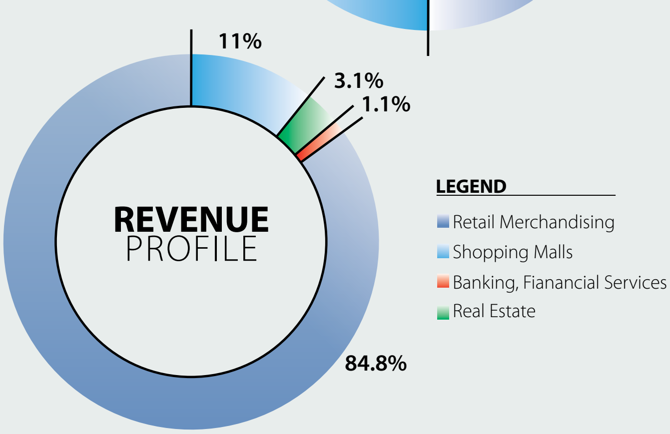
HARLEY T. SY
President











BALANCE SHEET HIGHLIGHTS		
(Php Bn)	Jan - Dec 2008	% Chg
Total Assets	292.39	17%
Current Assets	83.20	17%
Non-current Assets	209.18	17%
Current Liabilities	58.41	29%
Non-current Liabilities	84.21	44%
Total Liabilities	142.62	37%
Stockholder's Equity	149.76	3%
Book Value per share (Php)	180.19	3%
INCOME STATEMENT HIGHLIGHTS		
(Php Bn) except EPS	Jan - Dec 2008	% Chg
Revenues	147.50	19%
Gross Profit	21.69	1%
Other Income/(Expenses)	1.39	294%
Net Profit Before Tax	23.07	11%
Net Income	14.00	16%
Minority Interest	3.39	-21%
Basic EPS (Pesos)	22.92	16%
FINANCIAL RATIOS	2008	2007
Current Ratio (x)	1.42	1.57
Return on Equity (%)	13%	12%
Debt/Equity Ratio (%)	47:53	32:68
Net Debt (Php Bn)	26.86	26.11
Net Debt/Equity (%)	20:80	20:80
Revenue Growth (%)	19%	39%
Net Income Growth (%)	16%	15%
Interest Cover (x)	8.10	5.76
EBITDA (Php Bn)	28.10	25.51
EBITDA Margin (%)	19%	21%
Net Margin (%)	10%	10%
REVENUE PROFILE*	%	
Shopping Malls	11%	
Real Estate	3.1%	
Banking, Financial Services	1.1%	
Retail Merchandising	84.8%	
INCOME PROFILE	%	
Shopping Malls	36%	
Real Estate	7.9%	
Banking, Financial Services	16.2%	
Retail Merchandising	39.9%	

** Revenues from bank affiliates are not consolidated*

Retail Merchandising

In 2008, the SM retail business effectively hurdled an environment made difficult by the wild swings in the Philippine currency, in oil prices, overall inflation, and by the challenges brought about by the global financial crisis. The group's net income for the year amounted to Php3.4 billion, representing a 24% increase over that of 2007. Total sales, on the other hand, jumped 17% to Php114.8 billion.

Apart from expansion, both the food and the non-food groups engaged in introducing further enhancements in their operations and level of service.

For instance, SM Department Stores adopted a new business model that will further improve the range, depth, and style of its merchandise while providing best value for the customers. On the other hand, the food group which consists of supermarkets, SaveMore stores, hypermarkets and Makro stores continues to improve their fresh food section and store layout for the greater convenience of shoppers.

There was also greater momentum in introducing SaveMore stores in residential communities, a trend that is expected to further heighten in the coming years. In 2008, SM opened five SaveMore branches compared with two SM Supermarkets, two SM Hypermarkets. SM also opened two SM Department Stores. All told, SM Retail's total number of stores expanded by 12.6% to 97 stores, composed of 33 SM Department Stores, 24 SM Supermarkets, 13 SaveMore branches, 13 SM Hypermarkets, and 14 Makro outlets. Selling space for the year increased by 5% to 518,236 square meters (sqm) for the non-food group and by 42% to 287,516 sqm for the food retail group.

For 2009, the group intends to pursue its growth and expansion by opening 14 SaveMore branches, two SM Supermarkets, four SM Hypermarkets, and two SM Department Stores.

Trends & Expectations

> We will maintain our strength in servicing the middle market, which could be the least affected by the crisis, but at the same time target the upscale market which may be feeling the impact of the crisis and switch to buying value items.

JORGE T. MENDIOLA
SENIOR VICE PRESIDENT, OPERATIONS
SM RETAIL, INC

Non-Food Retail Operations

How did the SM non-food retail group perform in 2008? Were your targets met?

The SM non-food retail group, which is mainly the SM Department Store chain, performed well with sales increasing by 6.9% for 2008 to Php48.7 billion and earnings, up 5.6% to Php1 billion.

Retail Merchandising

What new concepts and innovations did the non-food group implement during the year?

SM Department Stores make an effort to uplift the image of the stores through constant and extensive renovations, improving merchandise brands and assortments. To meet these objectives, we reorganized our business units to further improve our ability to innovate and to address our customers' needs at a faster rate. This includes the Store Business Unit which manages administrative, logistics and leasing operations; and the Merchandise Business Units which handle the merchandising operations for shoes, men's, ladies' and children's fashion, accessories, smart buy and miscellaneous items.

We have also been promoting events with major players in the business such as pioneering the 0% six-month installment plan with 12 major banks, the 5% rebate on BDO debit cards, and the redemption of points from SM Advantage and BDO Rewards.

Likewise, we rolled-out the business intelligence system, which integrates enterprise-wide data, and allows web-based reporting and analysis for everyone. It aids decision makers who now have more time driving strategic decisions. Business Intelligence gives users the information whenever they need it, and in the format they want.

We also have to be dynamic in providing 'other services' such as foreign exchange, bills payments, phone cards, internet cards, and show tickets. Not only do they augment our income, but they also bring foot traffic into our stores. We consistently introduce other billers so that we can sustain and remain dominant in the bills payment industry.

How did these new concepts and innovations help your over-all performance?

Despite the global crisis, SM Department Stores enjoyed a double-digit business growth, particularly during the last quarter of 2008.

How many new stores did you open in 2008?

We opened two (2) department stores in 2008. These were SM Marikina and SM Baliwag.

The global financial crisis is expected to affect consumer spending this year. What are you doing to address this issue in order to mitigate its impact on sales?

We remain very challenged and will continue to strive and make up for last year's missed opportunities. We will also ensure that there is consistency in the level of our inventory so that we will be able to provide the right merchandise at the right time.

We will maintain our strength in servicing the middle market, which could be the least affected by the crisis, but at the same time target the upscale market which may be feeling the impact of the crisis and switch to buying value items.

Despite the crisis, do you intend to pursue your expansion plans? If so, how many new stores do you plan to open in 2009?

We will be opening three (3) more stores in 2009 and seven (7) stores in the year 2010. In 2009, we will open SM Naga in the Bicol region, SM Rosales in Pangasinan, and SM Rosario in Cavite.

In 2010, we plan to open even more stores in Commonwealth, Taguig, Novaliches, Tarlac, San Pablo, Calamba, and Caloocan.

How much additional selling space will they create?

We are looking at adding a total of 43,000 sqm in additional selling space this year of which 11,000 sqm will be for the store in Naga, 16,000 sqm for Rosales, and 16,000 sqm for Rosario.

Trends & Expectations

> 2009 will be a very interesting year for the SM Food Retail Group as we are embarking on the most aggressive expansion plan to date, with the combined opening of approximately 20 new branches with 14 SaveMore branches, four SM Hypermarkets, and two SM Supermarkets.

ROBERT KWEE
EXECUTIVE VICE PRESIDENT
SM HYPERMARKETS

Food Retail Operations

How did the SM food retail group perform in 2008? Were your targets met?

2008 was generally a good year for the food retail group. We were able to open new stores and meet the individual companies' earnings target.

What new concepts and innovations did the food group implement during the year?

We improved our systems and operational efficiencies in line with our expansion plans. In our desire to bring the SM food retail experience closer to different communities, the whole organization developed an ideal store format to make us cope with our aggressive expansion program. In the process, we have become more efficient and effective in opening new stores with a shorter lead time and lower cost per store. That said, we continue to look for even better ways.

We are particularly focusing on further improving our fresh section based on our studies of consumer habits and shopper expectations. We want to bring and improve the wet market experience to our customers and combine that with SM's standards in terms of service, range of merchandise, cleanliness and security.

We promote practices which ensure accurate measurements of our merchandise and the preferred unit sizes of our customers. We are aggressively addressing the need for convenience by offering ready-to-cook and ready-to-eat food items, and continuously introduce items that are hard to find such as specialty foods and deli products.

How did these new concepts and innovations help your over-all performance?

With an ideal store format in place, the group is now able to shorten its start-up period, enabling us to achieve optimal returns through increased efficiency and the ability to take advantage of peak seasons. This contributed substantially in meeting our projections, and in reducing the payback period of our new branches.

The modern and enhanced wet market experience that we now offer has strengthened customer loyalty and brand image, making SM the most preferred food retail chain.

How many new stores were opened for each food retail group format in 2008?

We opened two SM Supermarkets in SM City Marikina and in SM Cubao; two SM Hypermarkets in SM City Rosales and SM City Baliwag; and five SaveMore branches in Metro Manila namely Taft Avenue, Parkmall Cebu, Nagtahan, Tanay, and in The Annex of SM City North EDSA.

What is the rationale behind opening more SaveMore branches? Won't these compete with SM Supermarkets and Hypermarkets located in the same vicinity?

The strategic intent for SaveMore is primarily to bring the SM experience closer to communities and address their day-to-day needs. SaveMore branches are generally smaller and carry less variety compared to SM Supermarkets and SM Hypermarkets. With very few exceptions, they are located outside SM malls. They showcase a big fresh food section which is the preferred destination for daily food shoppers. The SaveMore format is meant to complement SM Supermarkets and SM Hypermarkets which address the needs of customers when they search for a greater variety of items and desire to do other things in malls where these stores are located.

The global financial crisis is expected to affect consumer spending this year. What are you doing to address this issue in order to mitigate its impact on your sales?

We realize that there will be constant pressure coming from tighter consumer spending, higher operating expenses, and even on margins due to increased competition. However, the whole organization is financially fit and stable to weather this crisis. To further strengthen our position, we will work toward enhancing customer loyalty by continuing to provide the following: value for money, convenience, and excellent service.

We make it a point to offer the best value as we provide, not only a wide range of choices in terms of price points, but also a practical option through our in house brand, SM Bonus. In addition, our TLC (total lower cost) and mailer items are year-round programs that continuously provide the best price and best value to our customers. For convenience, we provide more than just location. We provide other services such as bills payments and foreign exchange. In terms of customer service, we put in place systems to help customers immediately find what they need and provide hassle-free check out counters that are supported by our customer assistance personnel.

Despite the crisis, do you intend to pursue your expansion plans? If so, how many new stores do you plan to open in 2009?

2009 will be a very interesting year for the SM Food Retail Group as we are embarking on the most aggressive expansion plan to date, with the combined opening of approximately 20 new branches with 14 SaveMore branches, four SM Hypermarkets, and two SM Supermarkets.

Which areas are you targeting this year and how much additional selling space will they create?

Most of the stores will be within the Metro Manila area, except for two SM Supermarkets which will be in provinces in Luzon. Total additional space is estimated at 99,000 square meters (sqm), broken down as follows: SM Supermarket - 12,000 sqm; SM Hypermarket - 48,000 sqm; and SaveMore 39,000 sqm.

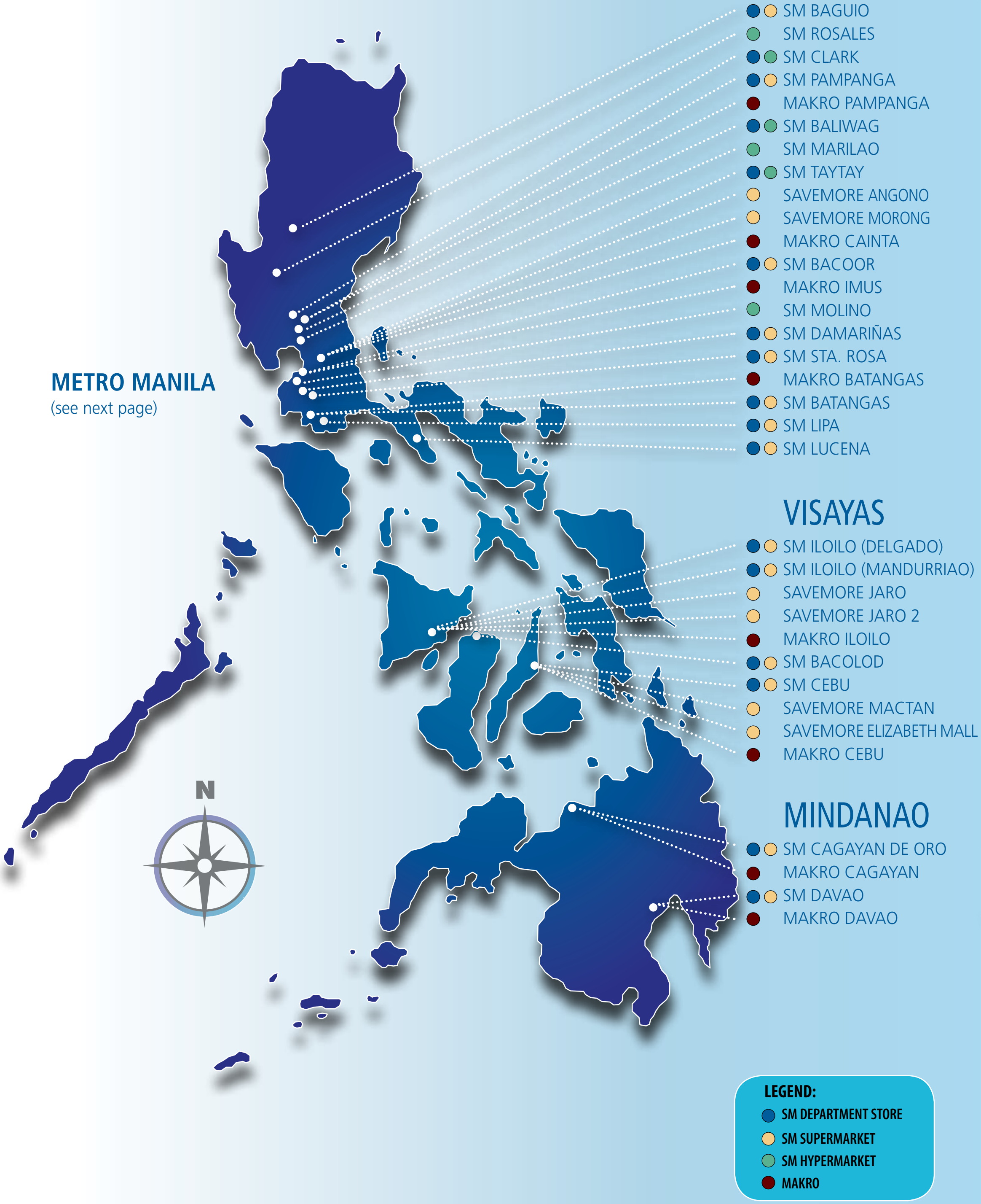
What are your immediate plans for Makro?

Now that Makro is back to profitability, we will work on improving its revenues. This involves increasing transaction count through a one-on-one customer marketing approach. We also plan to change customers' perception about Makro. We will aggressively reach out, welcome, and target not only entrepreneurs but also loyal SM patrons such as SM Advantage Card (SMAC) members.

We will aggressively communicate that it is now under the SM Group, making Makro more friendly and accommodating with customers. We will accomplish this by showcasing Makro's fresh section, welcoming the whole family including children, offering a wider array of merchandise at best prices, accepting major credit cards, free membership, and providing other customer services such as bills payment and foreign currency exchange counters.

SM STORE LOCATIONS

PHILIPPINE MAP



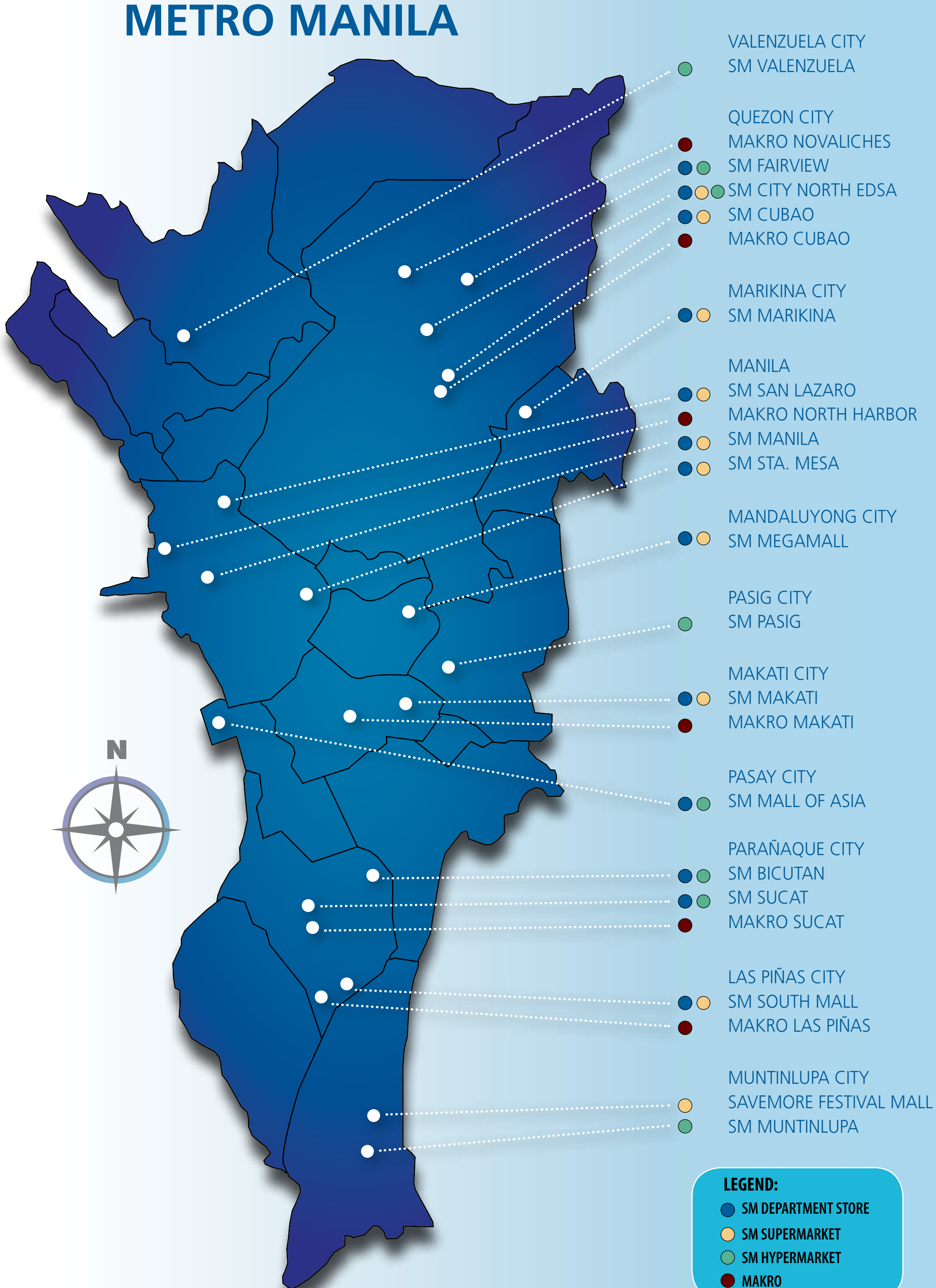
SM DEPARTMENT STORES

BRANCH	DATE OPENED
SM QUIAPO	March 1972
SM MAKATI	September 1975
SM CUBAO	October 1980
SM HARRISON	October 1984
SM NORTH EDSA *(Q.C.)*	November 1985
SM STA. MESA *(Q.C.)*	September 1990
SM ORTIGAS *(Mandaluyong City)*	June 1991
SM CEBU	November 1993
SM LAS PIÑAS	April 1995
SM BACOOR *(Cavite)*	July 1997
SM FAIRVIEW *(Q.C.)*	October 1997
SM MANDURRIAO *(Iloilo City)*	June 1999
SM MANILA	April 2000
SM PAMPANGA	November 2000
SM DAVAO	November 2001
SM CAGAYAN DE ORO	November 2002
SM BICUTAN	November 2002
SM LUCENA	October 2003
SM BAGUIO	November 2003
SM MARILAO *(Bulacan)*	November 2003
SM DASMARIÑAS *(Cavite)*	May 2004
SM BATANGAS	November 2004
SM DELGADO *(Iloilo City)*	December 2004
SM SAN LAZARO *(Manila)*	July 2005
SM SUCAT *(Parañaque City)*	November 2005
SM STA. ROSA *(Laguna)*	February 2006
SM CLARK *(Pampanga)*	May 2006
SM MALL OF ASIA *(Pasay City)*	May 2006
SM LIPA *(Batangas)*	September 2006
SM BACOLOD	March 2007
SM TAYTAY	November 2007
SM MARIKINA	September 2008
SM BALIWAG	December 2008

SM HYPERMARKETS

BRANCH	DATE OPENED
SUCAT *(Parañaque City)*	May 2001
BICUTAN *(Parañaque City)*	November 2002
MARILAO *(Bulacan)*	November 2003
VALENZUELA	October 2005
MOLINO *(Bacoor, Cavite)*	November 2005
CLARK *(Pampanga)*	May 2006
MALL OF ASIA *(Pasay City)*	May 2006
NORTH EDSA *(Q.C.)*	June 2006
PASIG	August 2006
TAYTAY *(Rizal)*	November 2007
MUNTINLUPA	November 2007
ROSALES	November 2008
BALIWAG	December 2008

METRO MANILA



SM SUPERMARKETS

BRANCH	DATE OPENED
NORTH EDSA *(Q.C.)*	December 1985
STA. MESA *(Q.C.)*	September 1990
MEGAMALL *(Mandaluyong City)*	July 1991
SOUTHMALL *(Las Piñas City)*	April 1995
BACOOR *(Cavite)*	April 1995
FAIRVIEW *(Q.C.)*	October 1997
MANILA	April 2000
NORTH RECLAMATION *(Cebu City)*	August 1998
MANDURRIAO *(Iloilo City)*	June 1999
SAN FERNANDO *(Pampanga)*	November 2000
DAVAO	November 2001
CAGAYAN DE ORO	November 2002
LUCENA	October 2003
BAGUIO	November 2003
SAN LORENZO *(Makati City)*	February 2004
DASMARIÑAS *(Cavite)*	May 2004
BATANGAS CITY	November 2004
DELGADO *(Iloilo City)*	December 2004
SAN LAZARO *(Manila)*	July 2005
STA. ROSA *(Laguna)*	February 2006
LIPA CITY *(Batangas)*	September 2006
BACOLOD	March 2007
MARIKINA	September 2008
CUBAO	December 2008

STAND ALONE SUPERMARKETS (SAVEMORE)

BRANCH	DATE OPENED
JARO *(Iloilo City)*	October 1998
MARIKINA CITY	April 1999
MACTAN *(Cebu)*	June 2002
ELIZABETH MALL *(Cebu)*	December 2003
FESTIVAL MALL *(Alabang)*	February 2004
JARO 2 *(Iloilo City)*	August 2006
ANGONO *(Rizal)*	November 2006
MORONG *(Rizal)*	December 2007
SQC *(Taft)*	February 2008
PARKMALL	May 2008
NAGTAHAN	August 2008
TANAY	October 2008
NORTH EDSA	December 2008

MAKRO

BRANCH	DATE OPENED
CAINTA	March 1996
IMUS	November 1996
NOVALICHES	November 1997
SUCAT	May 1999
NORTH HARBOR	May 2000
CEBU	November 2000
DAVAO	November 2000
PAMPANGA	October 2001
BATANGAS	January 2002
CAGAYAN DE ORO	November 2003
ILOILO	December 2003
CUBAO	November 2004
LAS PIÑAS	April 2005
MAKATI	October 2005

Mall Operations

SM, through subsidiary SM Prime Holdings, Inc. (SM Prime or SMPH), continues to be the dominant player in the Philippine mall industry, with 33 world-class malls nationwide. It also now owns three malls in China. Put together, SM Prime's malls in the Philippines have a gross floor area (GFA) of 4.3 million square meters (sqm), roughly equivalent to 900 soccer or football fields. In China, it has a GFA of 467,000 sqm.

In 2008, SM Prime reported a steady earnings growth of 7% to Php6.4 billion. Revenues expanded by 12% to Php17.8 billion, while income from operations grew by 9% to Php9.6 billion. Its EBITDA, at Php12.3 billion, likewise grew by 9%, for an EBITDA margin of 69%.

Mall Operations

Same mall sales in 2008 of 5% were slightly lower than the 6% in 2007. This was due to the combined effects of higher food and gasoline prices, particularly during the first half of the year.

Additional space from new malls and mall expansions in 2008 largely contributed to the company's satisfactory performance. The new malls opened during the year were SM City Marikina in Metro Manila, SM City Rosales in Pangasinan, and SM City Baliwag in Bulacan. The expansions were in The Annex at SM City North EDSA and at The Atrium of SM Megamall. Combined, these malls with a total GFA of 353,000 sqm, added 9% to SM Prime's total GFA.

Average occupancy rate of the new malls already stands at 93%, indicating the strong tenant interest in SM, as the malls assure high foot traffic and crowd generating events.

For its 2009 expansion plans, SM Prime is set to open SM City Naga in Camarines Sur, SM City Rosario in Cavite, SM City Pamplona in Las Piñas, and the Sky Garden at SM City North EDSA. It also intends to expand SM City Rosales. By the end of 2009, the company will have 36 malls in the Philippines and three malls in China, with an estimated GFA of 4.9 million sqm.

Trends & Expectations

"We have introduced a different business format in Metro Manila as our way of further establishing our presence and our name as a full service provider to our communities."

JEFFREY C. LIM
EXECUTIVE VICE PRESIDENT/CFO
SM PRIME HOLDINGS, INC.

How did SM Prime perform in 2008?

We had a steady performance, despite a more challenging environment. The company posted a net income of Php6.4 billion, for a 7% increase. Rent, which is the largest contributor at 85% to total operating revenues, grew 15%. Same store sales increased by 5%, while new areas and expansions contributed 10%.

We opened three new malls in Marikina, Rosales (Pangasinan), and Baliwag (Bulacan), while we expanded SM Megamall and SM City North EDSA. We also completed the acquisition of the three SM malls in China.

Mall Operations

How are the three new malls in the country faring thus far?

Their average occupancy is now at 96% despite SM Rosales and SM Baliwag having opened late in 2008. An annex building in SM Rosales is now under construction and is set to open in May 2009.

What major factors do you consider when choosing a site for a new mall?

We consider location, accessibility, and demographics.

Given the current global situation, which may affect Philippine consumption spending, will you still pursue your expansion plans this year?

Yes, because we always view things from a long-term perspective. We should also be cognizant of opportunities in the market and be positioned to take advantage of a resurgence in the economy.

How many malls will open in 2009 and where will they be located?

We will open three malls. These will be in Naga, with a gross floor area of 73,000 square meters (sqm); in Pamplona, Las Piñas with 40,000 sqm; and in Rosario, Cavite with 50,000 sqm. We are also opening the Skygarden at SM North EDSA with an additional GFA of 34,000 sqm and expanding SM Supercenter Rosales with an additional 17,000 sqm.

How much CAPEX do you plan to spend in 2009 and what are your funding sources?

We plan to spend Php12 billion in 2009, of which Php6.5 billion will be for our Philippine malls while the balance of Php5.5 billion will be for China. The funds will come from internally generated funds and external borrowings.

SM City North EDSA is now your largest mall. What made you decide to expand it in such a grand scale, even surpassing Mall of Asia's GFA?

Our expansion of SM North EDSA is reminiscent of its ambitious beginnings. Back in 1985, it was the largest and the only mall of its kind with a GFA of 120,000 sqm. It was launched at a very challenging period in the country's political history. In 2008, amidst serious global challenges, we opened The Annex at the SM North EDSA. We always strive hard to ensure that we provide the needs of our millions of customers who grow in sophistication, while constantly looking for value products and services.

Some say that Metro Manila is already saturated with shopping malls. Do you agree with this observation?

I don't think Metro Manila is a saturated market at this time. There are still opportunities given the density of its population.

We have introduced a different business format in Metro Manila as our way of further establishing our presence and our name as a full service provider to our communities. We have adopted the supercenter concept, which is like a community mall and carries the SM Hypermarket as its main anchor store. This format is smaller in size and is niched in residential communities.

How are the SM malls in China doing? Are there plans to further expand in that country?

The three malls in China look very promising and have shown significant improvements. Revenues in 2008 expanded by 33% to Php825 million, while net income turned positive to almost Php100 million from a loss in 2007.

There are no plans to aggressively expand and acquire more locations in China in 2009. Our focus this year is to further improve the operational efficiency and enhance the returns of the three operating malls.

The fourth mall in Suzhou, with a GFA of 73,000 sqm, is under construction and will open early 2010. Our next two other locations, in the cities of Chongqing and Zibo are scheduled to open in 2011 and 2012, respectively.

What are your plans to overcome the effects of the global financial crisis in your operations?

Our main thrust right now is to protect and possibly even increase our market share. We constantly look for ways to preserve, if not improve, our margins. Financial prudence has been a long-standing policy and as we grow, we also benefit from economies of scale both from the standpoint of construction and maintenance. We likewise invest in information technology to efficiently support our front-end and back office operations.

SM PRIME Offers Total Mall Experience to More Filipinos

2008 marks another year of milestones for SM Prime Holdings, Inc. (SM Prime) as it unveiled three new malls and expanded two of its existing malls.

THE THREE NEW MALLS OPENED IN 2008 were SM City Marikina with a gross floor area (GFA) of 122,067 square meters (sqm); SM City Rosales, with a GFA of 60,989 sqm; and SM City Baliwag with a GFA of 61,554 sqm.
Meanwhile, SM Megamall had an additional GFA of 15,109 sqm while SM City North EDSA added 92,830 sqm to its GFA.

As of end 2008, SM Prime's 33 malls nationwide, 14 of which are in Metro Manila, had a combined GFA of 4.3 million sqm, with an average daily pedestrian count of over 2.5 million. The total number of mall tenants has likewise grown to 9,960 from 9,144 in 2007.

For 2009, the company is scheduled to open three new malls and expand three existing ones. This is expected to add 242,000 sqm of GFA to SM Prime's chain of shopping centers nationwide. By the end of 2009, SM Prime is expected to have 36 malls all over the country with a total GFA of approximately 4.5 million sqm.

SM CITY NORTH EDSA: FROM FIRST TO LARGEST

FIVE HUNDRED METERS before motorists reach the north end of EDSA, a large edifice comes into view. SM's first mall now transformed into the country's largest, SM North EDSA is a symbol of enduring growth and progress amid intermittent periods of political or economic adversity. Its grandeur and glory convey a message of focused determination and undivided loyalty to its customers — a classic story of success, any which way its history is seen and told.

It has been a generation since that fateful opening day of SM City North EDSA in 1985. From a medium-sized mall with just 125,000 square meters (sqm) and with only an SM Department Store for its main tenant, SM City North EDSA now stands proud as the Philippines' largest mall with 424,691 sqm of gross floor area (GFA) housing over 700 tenants in four buildings all connected by the stylish Skygarden.

SM City North EDSA was also a precursor for many things to come from SM Prime, which now owns 33 world-class malls in the Philippines and another three in China, making it the Philippines' most dominant mall operator.

Yet as more malls mushroomed in the last two decades, SM North EDSA went through a series of expansions in lockstep with its growing market. In no time, even its own loyal customers are in awe of the mall's admirable standing of being in the league of the world's largest malls.

"Our latest expansion of SM North EDSA is reminiscent of its ambitious beginnings," explains Mr. Hans T. Sy, SM Prime president. "We opened The Annex in late 2008 amidst a crisis like no other. And now, SM North EDSA is once again the Philippines' largest mall."

A tinge of déjà vu, the present-day expansion of SM City North EDSA, with the opening of The Annex and the Skygarden, was done also at a time when global financial markets tumbled particularly affecting the economies of many developed countries.

The Annex now stands to the left of SM North EDSA's main building bringing an additional 90,000 sqm of GFA. A door at the second level leads to the Skygarden, which is a landscaped walkway lined with coffee shops, dining outlets, boutiques, a four-story waterfall, and uniquely, a 1,000-seater amphitheatre that can host small concerts and various events. While it primarily links all of SM North EDSA's buildings, the Skygarden elevates the mall experience to yet another level as it connects with earthly elements of open skies, flora, and fauna.

Soon to come is an IMAX theatre in the main building.

Prior to these recent projects, the mall had undergone a series of earlier expansions to include the first annex built in 1990, the car park building which also had space for retail shops in the mid 90s, and The Block in 2006.

The Annex and the Skygarden were designed by the renowned Miami-based Arquitectonica, which also did the SM Mall of Asia and The Podium, among many others worldwide. The firm says, "With a new annex, renovated and remodelled interiors, an exciting new facade, and a lush, landscaped park, SM City North EDSA is set to break new ground in retail and entertainment."

The project included renovating the mall's façade with an undulating exterior, composed of perforated aluminum panels, an impressive departure from the traditional plain and concrete facade of older malls. This modern exterior, as part of a total redevelopment package, includes the main mall and The Block.

The Annex's interiors are visually stunning, with sunlight generously pouring in through many circular glass windows set into the ceiling of the six-level structure, blending with the bright orange-lined balconies, giving visitors a bright, airy, upbeat feeling. Its hallways are wide and curved, in a ribbon-like manner. Equally wide are the escalators and elevators found at opposite ends of the building. In level four, a glass wall looks out into the Skygarden and gives a panoramic view of the whole complex.

The Annex can accommodate up to 230 tenants, with a mix of food and non-food retailers. Its major tenants include SaveMore supermarket and Ace Hardware. Its main offerings include the Cyberzone, offering the latest in modern gadgetry, and an SM Bowling Center.

"SM's first mall now transformed into the country's largest, SM North EDSA is a symbol of enduring growth and progress amid intermittent periods of political or economic adversity. Its grandeur and glory convey a message of focused determination and undivided loyalty to its customers."

BIG NUMBERS

As the largest mall in the Philippines today, the numbers that SM North EDSA generates are formidable. Take for example cinema ticket sales, which as of end 2008 amounted to Php136 million suggesting an annual count of at least 1.4 million moviegoers. When it comes to an SM staple, like shoes, SM North EDSA sold about 1.4 million pairs, amounting to Php736 million. As for bags, it sold 344,000 pieces, which were worth roughly Php211 million. For rainy days, it sold 22,000 umbrellas.

To keep SM North EDSA running smoothly, it directly employs up to 120 officers and staff. To keep its premises clean and safe, it retains 520 janitors and 421 security guards, a veritable army battalion in size. Including its mall tenants and affiliates, however, it provides much-needed jobs for over 8,000 employees. "It's like running a country," Ms. Annie S. Garcia, president of SM Prime subsidiary Shopping Center Management Corporation, quips.

GENUINE CONCERN

Looking beyond SM North EDSA's physical transformation, one can see the more essential reason why the mall continues to grow and evolve.

Ms. Garcia continues, "We must have the capacity to understand the ever-changing needs of our market, of the people whom we serve. I distinctly remember the time when Mr. Henry Sy, Sr. himself told me that we should extend our mall hours at night so that shoppers could eat at the food court before going home because they may be too tired already to cook their dinner. For me, that meant Mr. Sy truly understands and cares for our customers. With that kind of genuine concern, then we must always change and evolve according to the needs of our customers."

With that kind of management philosophy, expect even greater dynamism from SM's first and largest, the SM City North EDSA.

MALL TRIVIA

33
Malls Nationwide

4.3 million sqm.
Total Gross Floor Area

10,043
Mall Tenants

913
Food Tenants

572
Food Court Tenants

21,992
Food Court Seats

2,381
Kiosks and Carts

193
Movie Screens

123,254
Cinema Seats

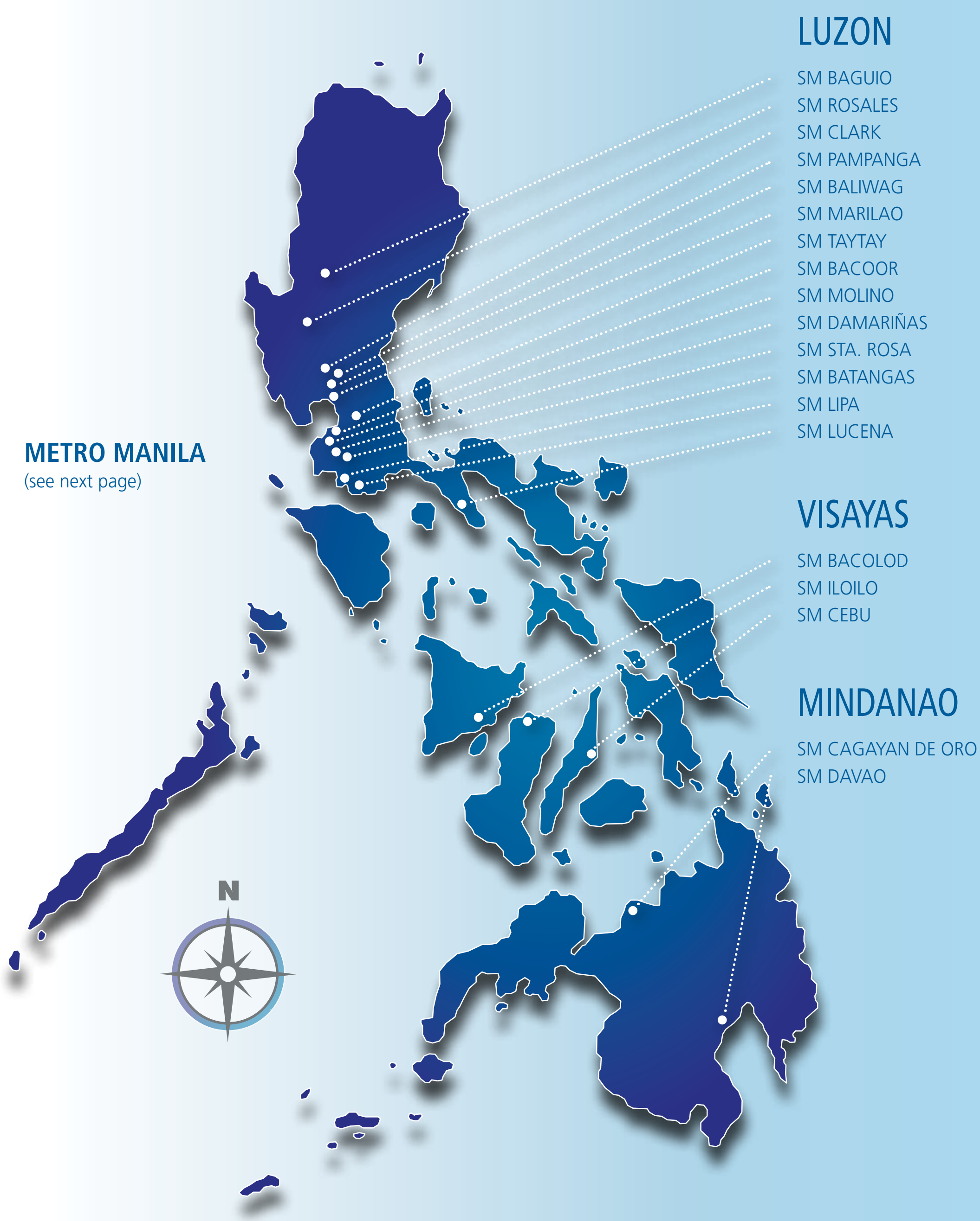
124
Bowling Lanes

51,461
Parking Slots

2.5 million
Average Daily Pedestrian Count

SM MALL LOCATIONS

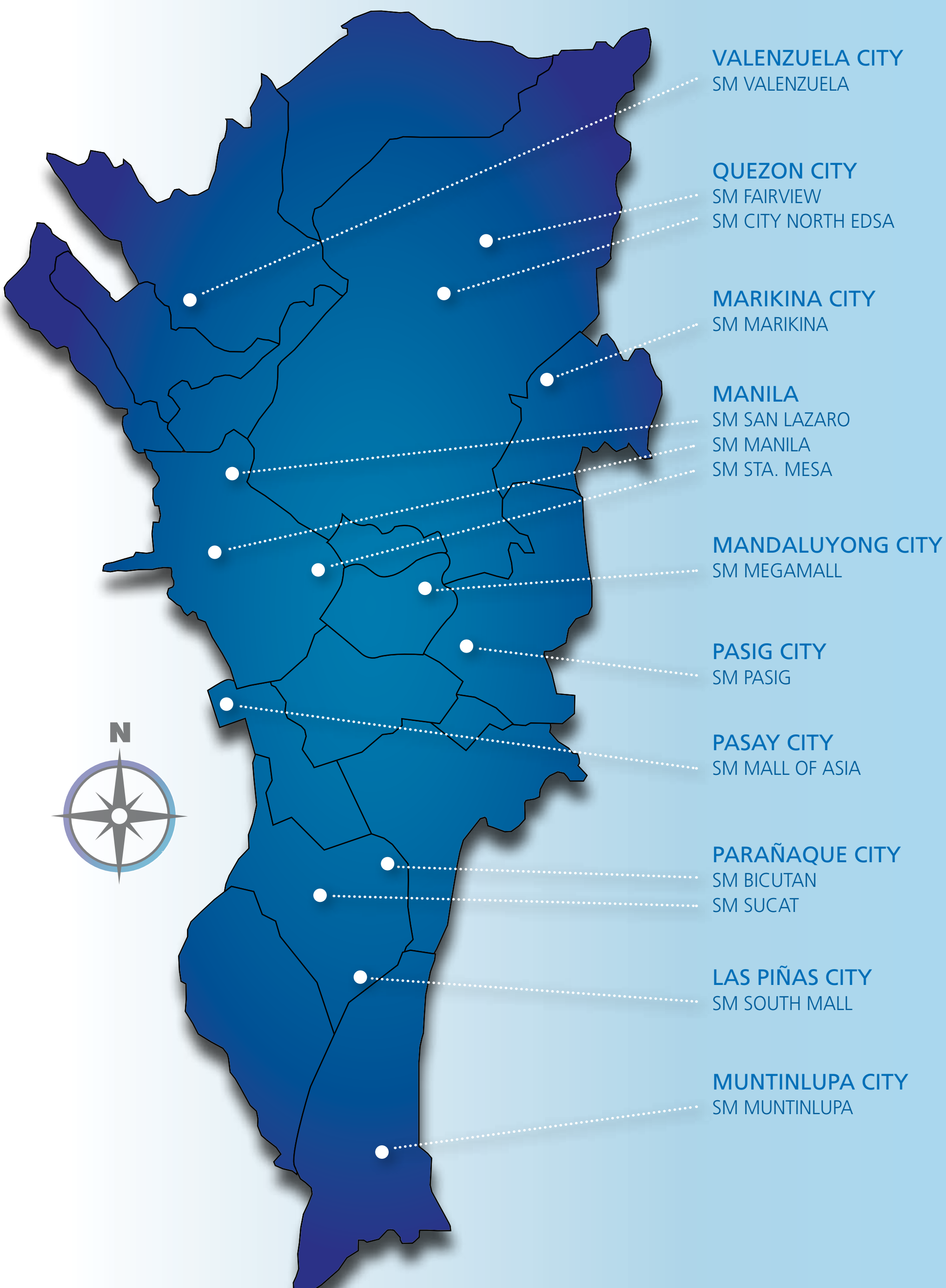
PHILIPPINE MAP



PROVINCIAL

MALL *Address*	DATE OPENED *Gross Floor Area (In sqm.)*
CEBU *North Reclamation Area, Cebu City*	**November 1993** *268,611 sqm.*
BACOOR *Tirona Highway cor. Aguinaldo Highway, Bacoor, Cavite*	**July 1997** *116,892 sqm.*
ILOILO *Benigno Aquino Avenue Diversion Road, Manduriao, Iloilo City.*	**June 1999** *101,735 sqm.*
PAMPANGA *Brgy. San Jose, City of San Fernando Pampanga*	**November 2000** *129,102 sqm.*
DAVAO *Quimpo Blvd. cor. Tulip Drive Ecoland, Matina, Davao City*	**November 2001** *75,439.81 sqm.*
CAGAYAN DE ORO *Masterson Avenue cor. Coranvia Carmen, Cagayan de Oro*	**November 2002** *56,010.55 sqm.*
LUCENA *Dalahican Road cor. Maharlika Highway, Lucena City*	**October 2003** *78,654.61 sqm.*
BAGUIO *Luneta Hill, Upper Session Road Baguio City*	**November 2003** *105,330.76 sqm.*
MARILAO *McArthur Highway, Brgy. Lias Marilao, Bulacan*	**November 2003** *88,654 sqm.*
DASMARIÑAS *Barrio Pala-pala, Dasmariñas, Cavite*	**May 2004** *79,792 sqm.*
BATANGAS *Pallocan West, Batangas City*	**November 2004** *76,818.98 sqm.*
MOLINO *Brgy. Molino, Bacoor , Cavite City*	**November 2005** *48710.29 sqm.*
STA. ROSA *Barrio Tagapo, Sta. Rosa, Laguna*	**February 2006** *79,324.94 sqm.*
CLARK *M.A. Roxas Highway, Clark Special Economic Zone Angeles City, Pampanga*	**May 2006** *98,824 sqm.*
LIPA *Ayala Highway, Lipa City , Batangas*	**September 2006** *79,832.19 sqm.*
BACOLOD *Rizal St., Bacolod City, Negros Occidental*	**March 2007** *61,413.13 sqm.*
TAYTAY *Manila East Road, Brgy. Dolores Taytay, Rizal*	**November 2007** *91,920 sqm.*
ROSALES *Brgy. Carmen East, Rosales Pangasinan*	**November 2008** *60,989.35 sqm.*
BALIWAG *Brgy. Pagala, Baliwag, Bulacan*	**December 2008** *61,554.48 sqm.*

METRO MANILA



METRO MANILA

MALL *Address*	**DATE OPENED** *Gross Floor Area (In sqm.)*
SM CITY NORTH EDSA *EDSA cor. North Avenue Quezon City*	**November 1985** *424,691 sqm.*
STA. MESA *Magsaysay Avenue corner Araneta Avenue, Sta. Mesa, Manila*	**September 1990** *133,327 sqm.*
MEGAMALL *EDSA cor. Julia Vargas Avenue Ortigas Center, Mandaluyong City*	**June 1991** *346,788.56 sqm.*
SOUTHMALL *Alabang Zapote Road Las Piñas City*	**April 1995** *205,120 sqm.*
FAIRVIEW *Quirino Highway cor. Regalado Avenue Greater Lagro, Fairview, Quezon City*	**October 1997** *182,794.62 sqm.*
MANILA *Concepcion Avenue cor. Arroceros and San Marcelino Sts., Manila*	**April 2000** *166,554 sqm.*
SUCAT *Sucat Road Parañaque City*	**July 2001** *98,106 sqm.*
BICUTAN *Doña Soledad Avenue cor. West Service Road, Parañaque City*	**November 2002** *112,737 sqm.*
SAN LAZARO *Cor. Felix Huertas St. and A. H. Lacson Ext., Sta. Cruz, Manila*	**July 2005** *178,516 sqm.*
VALENZUELA *Mc Arthur Highway Brgy. Karuhatan, Valenzuela City*	**October 2005** *70,615.76 sqm.*
MALL OF ASIA *SM Central Business Park J.W. Diokno Blvd., Pasay City*	**May 2006** *406,961 sqm.*
PASIG *Frontera Verde Ortigas, Pasig City*	**August 2006** *29,017.12sqm.*
MUNTINLUPA *Manila South Road, Brgy. Tunasan Muntinlupa City*	**November 2007** *53,986 sqm.*
MARIKINA *Marcos Highway, Brgy. Calumpang Marikina City*	**September 2008** *122,067.16 sqm.*

Banking

SM owns two banks in its portfolio, with a 40% interest in BDO Unibank, Inc. (BDO) and a 20% interest in China Banking Corporation (China Bank).

In 2008, BDO rose in ranks to become the Philippines' largest bank in terms of total resources, trust assets, loans, and deposits. This comes as a direct benefit from its successful merger two years ago with Equitable PCIBank. Its scale and dominant position now attract greater confidence from its old and new customers.

In spite of highly challenging conditions brought about by the global financial turmoil, BDO turned in a net income of Php2.2 billion, down 68% from the previous year's level. Its core banking business proved much stronger, achieving substantial growth in

deposits, loans, and net interest income. In fact, gross customer loans jumped 32% to Php392.8 billion, as demand from corporates, mid-market, and consumers all increased. Deposits, on the other hand, surged by 43% to Php636.8 billion, driven mainly by low-cost deposits. As a result, net interest income increased by 7% to Php23.0 billion.

BDO's strong balance sheet enabled it to absorb pressures from trading losses, which beset the whole banking industry. It ended the year with capital worth Php57.8 billion, for a capital adequacy ratio or CAR of 14%. This is well above the statutory requirement of 10%. Its non-performing loan or NPL ratio improved to 4%, as compared to 5.2% in 2007.

BDO has one of the country's largest banking networks, having more than 700 branch licenses and over 1,200 ATMs all over the Philippines.

Meanwhile, China Bank was likewise affected by volatilities resulting from the US financial crisis. For full year 2008, it reported a net income of Php2.9 billion, down 20.8%. The bank's total revenues reached Php14.6 billion, for a 3.1% growth. Like BDO, China Bank's growth was driven by a strong core business. Gross loans grew sharply by 23.8% to Php118.5 billion, due mainly to higher loan volumes from corporates, small and medium enterprises (SMEs), and the consumer sector. Deposits grew just as fast, by 23.7% to Php173.8 billion.

China Bank's financial position remained healthy, with capital funds reaching Php25.9 billion, for a CAR of 13.5%. Consolidated assets expanded 18.8% to Php208.7 billion.

China Bank ranks tenth largest in assets. It has a network of 216 branches and 324 ATMs nationwide. For the fifth time, it was cited as the most outstanding commercial bank by the Consumers Union of the Philippines.

Trends & Expectations

> We believe innovation is best taken in small steps, with the view of making each and every transaction with BDO a truly satisfying experience.

NESTOR V. TAN
PRESIDENT
BDO UNIBANK, INC.

BDO

In 2008, BDO was ranked as the country's biggest bank in terms of assets. How were you able to accomplish this?

Size was never the objective for us; it was simply a by-product of doing what we do, relatively well. Growth naturally follows when you are able to meet the needs of your clients.

How do you intend to maintain that ranking?

We have to keep the customer at the center of everything we do. We need to remain focused on their needs and how we can best meet those needs. We should remain true to our service philosophy of "We Find Ways".

Banking

BDO

How would you describe the bank's 2008 performance?

BDO had mixed results in 2008. On the positive side, the Bank's underlying business continued to be strong, with solid growth in loans, deposits, and service-based fee income. Loan delinquencies have declined substantially from 5.2% to 4%, and on a net basis, BDO has now the lowest loan delinquencies among its peer group.

As with most financial institutions, however, BDO was affected by the financial crisis. We experienced lower trading income due to mark-to-market revaluations and we also increased provisions to cover for potential losses from our exposure in the US financial sector. Overall, even with what may be considered one-off charges from the difficult economic environment, the Bank still registered a decent net income for the year.

How did the financial meltdown in the United States affect your profitability? What steps did you take to manage the effects of the crisis?

The contagion had a major impact on our securities investment portfolio. We had to set aside substantial provisions to cover for potential losses due to credit. In addition, growing negative sentiment on the economic outlook took a toll on the values of our US Dollar securities portfolio in terms of mark-to-market revaluations.

While we cannot do much to change what has happened in 2008, we have taken steps to minimize its impact on the bank going forward. We gradually adjusted the mix in our portfolio to favor cash bonds and local Philippine risks. We adjusted our risk management process to reflect stress scenarios in our portfolio and tightened our credit underwriting process to keep delinquencies under control.

How do you see 2009 in terms of the bank's performance? What challenges do you expect to come your way?

We expect 2009 to be a difficult year as we are likely to experience the full impact of the economic slowdown from the financial crisis this year. However, we still expect some growth opportunities in the market. The challenge is how we sift through all of these to find the right opportunities. We remain confident that 2009 will be better than 2008.

What opportunities for growth and expansion do you see in 2009?

The lending and deposit-taking businesses should continue to prosper in 2009. We just have to be more prudent in assessing credit risks. Service businesses generating fees should also remain buoyant.

What are your key business strategies for the year?

We just completed the integration of EPCI and BDO and our focus is to maximize the synergy from that transaction. With a nationwide distribution network, we will continue to expand our coverage of the market and try to reach the previously under-banked population of the market. In addition, our size now requires us to look at re-engineering our service delivery processes to take full advantage of scale efficiencies.

What innovations could BDO's depositors and clients expect in 2009?

We do not look for big transformational ideas, although we welcome it if it comes. Our depositors and clients should expect to see continuous improvement in our services and products. These could be in the form of quicker turnaround time, enhanced product offerings, or further expansion in our distribution network. We believe innovation is best taken in small steps, with the view of making each and every transaction with BDO a truly satisfying experience.

Is the bank's merger with Equitable PCIBank fully complete? Are there still merger issues that need to be addressed?

The integration of the business units and the conversion of the former EPCI branches were completed in May 2008. The Bank is now operating as one entity with one face and one set of services. We are currently looking into an efficiency program which entails re-engineering our operations to reflect the scale, scope, and service requirements of the combined entity. The rationalization of the group's organizational structure should continue as well as part of the normal course of doing business.

What benefits are you now reaping from the consolidation of the two banks?

The consolidation of BDO and EPCI created market-leading positions in most of the Bank's core business lines. It also created one of the largest branch networks in the country enabling the Bank to cross-sell a wide array of financial products and services. These benefits are already apparent in the top line numbers given the growth in loans, deposits and service income. The next challenge is to realize the same synergies on the cost and service efficiency side. We are at this stage and its completion by December 2009 should likewise lead to enhanced operational efficiency as well as an optimized capital structure for the group.

What are you targeting for branch expansion?

We are looking at redeploying our remaining 37 branch licenses in high-growth areas. This would bring BDO's network to over 700 operating branches, one of the largest nationwide.

Are there plans to acquire another entity this year?

There are no plans at the moment, although we are always open to looking at opportunities if such can enhance the value of our business franchise.

Trends & Expectations

> The Bank's initiatives will underpin its "back to basics" focus, while strengthening its ability to scale up when the economic situation improves making us a better, stronger competitor.

PETER S. DEE
PRESIDENT AND CEO
CHINA BANKING CORPORATION

CHINA BANK

How did China Bank perform in 2008? Were you able to meet your targets?

Given the extraordinary environment and market shocks of the year, China Bank performed creditably. Its net profits amounted to Php2.9 billion for the year, a 20.8% drop which represents the softest earnings decline in the industry that reeled from trading losses related to the global financial crisis.

China Bank continued to be among the most profitable banks in the country with a return on equity (11.98%) and a return on assets of 1.53%. Our net interest margin was also among the healthiest, owing to the sustained growth in our low-cost deposits. We also maintained our cost-efficiency, which is somewhat remarkable considering that we are in the midst of our most rapid network expansion in China Bank history.

Our total assets grew to Php208.6 billion, 18.7% or Php32.86 billion above the 2007 level. Our gross loan portfolio from customers expanded by 24% to Php118.87 billion, despite the shift to a more selective borrowing base. China Bank remained among the best capitalized banks in the industry with a capital adequacy ratio of 13.5%. As a result of our strong financials, we are gratified that Fitch Ratings affirmed our financial strength rating of "AA-" on the National credit rating scale, one of the highest ratings in the industry.

How did the global financial crisis affect China Bank last year?

The financial crisis was, indeed, global. While Philippine banks in general were better positioned to face the crisis compared to their Asian counterparts and compared to the 1997 Asian crisis, there was still a significant impact on everyone's balance sheets and profitability. Fortunately, the impact on China Bank was not as severe.

What steps are you taking to weather the on-going crisis this year?

China Bank viewed the global slowdown as an opportune time for revisiting its three-year business plans and targets. We reassessed our goals in the light of the market shocks that we witnessed in 2008, and focused on adjusting our goals in terms of what we considered were acceptable levels of risk. The key factors that would carry a financial institution in a challenging environment such as this would be liquidity, asset quality by pursuing quality of loans more than just growth, strength of the balance sheet and capital position. The prudence and conservative management approach that China Bank has been known for is well suited for this environment, and better appreciated by clients and shareholders.

How do you look at 2009? What do you think are the opportunities and challenges that China Bank faces?

We expect 2009 to be a critical period. The full impact of the global crisis has not been played out yet in terms of second or third wave effects. But even as we preserve our resources and consolidate our position, it is also the right time for China Bank to go back to the basics of banking. We have been through many challenging times in the 88-year history of China Bank, and the values of integrity and being true partners with our customers have been proven time and again. The key milestones we achieved such as the acquisition of Manila Bank and the forging of the bancassurance joint venture with Manulife have set the foundation for enabling China Bank to continue its network expansion and revenue diversification strategies. We believe we are in a good position to pursue new opportunities as they arise.

What would be your core business strategies in 2009?

The bank's core strategies for 2009 are anchored on the theme, "To be the best bank for our customers". This calls for us to be a customer-centric organization and to become the primary banker to our customers. This means clearly identifying market segments and strengthening relationships, offering complete financial solutions and redesigning processes around the customers, which will lead to a heightened emotional bond with them thru a unique customer experience.

Sustaining our ability to generate low-cost deposits is crucial to maintaining a healthy net interest margin. The role of fee-based businesses in revenue diversification has become more critical, as contributions from bancassurance, private banking, remittances, trade finance and foreign exchange transactions are expected to grow. With a renewed focus on quality of loans, intensive monitoring of the environment and closer supervision of accounts has become even more important to reduce or limit NPLs. Nevertheless, a healthy loan-loss cover of at least 90% is envisioned for the year.

Internally, strengthening accountability for results will be enhanced thru the use of the Balanced Scorecard framework, particularly with clearly spelled-out service level standards for external and internal customers. A major priority area to strengthen and energize the organization will call for the continued hiring of key people and fresh talent to support the rapid expansion of the branch network and the growth in new businesses.

How many new bank branches will be opened in 2009? Which areas are you looking to expand and why?

The bank will open 58 new branches, of which 23 will come from the unused Manila Bank branch licenses. They will be located in key cities in Metro Manila and the provinces with good market potential. This will bring the total China Bank branch network to 272 from 214 at the start of the year, bringing us closer to our threshold of 300 branches, including the start-up network of our savings bank subsidiary. The ATM network will grow from 320 to 393, with about one-third in strategic off-branch locations.

The growth in geographic footprint is critical to the broadening of the customer base, especially in the commercial and middle market segments. Prior experience has shown the SME market to be more resilient during times of crisis, because the owners are very much involved in the day-to-day management of their businesses.

What innovative concepts and initiatives do you plan to implement this year?

While we will continue to pursue opportunities for product innovation, it appears that the so-called "boring" banks are in a better position to pull thru during the crisis. The Bank's initiatives will underpin its "back to basics" focus, while strengthening its ability to scale up when the economic situation improves making us a better, stronger competitor.

In this respect, apart from the substantial capital expenditures allotted for the branch expansions, about half of the capex budget for the year will be invested in key infrastructure projects such as the acquisition of a new core banking system, a new ATM switch, a new phone banking software, a customer relationship module, an enhanced HR management system, and cash management platform to include supply chain functionalities. In addition, the year will also see the continued implementation of ongoing projects such as the new Treasury system, the full roll out of the browser-based tellering system for China Bank and China Bank Savings, the roll out of the new remittance system and a document management system, among others.

What benefits have you derived from the merger with Manila Bank?

The acquisition bolstered the Bank's ongoing branch expansion program. Manila Bank's 75 branch licenses made it more achievable for us to reach the critical mass target of 300 branches that will serve as a platform for a higher growth trajectory. Of the 27 operating branches of Manila Bank, 26 were absorbed into the China Bank network.

Manila Bank was re-launched as the thrift bank subsidiary China Bank Savings, Inc. last September 8, 2008 with the Ayala-based office as its headquarters. It will more closely focus on the needs of the retail and consumer markets. It is expected to open its first batch of five branches by the middle of the year, and another 5 branches towards the end of the year.

What would be your competitive edge over the other banks this year?

The global crisis has highlighted the inherent strengths of China Bank that have served us well and earned the trust and loyalty of our customers over the years. These strengths include financial muscle, responsiveness to the needs and expectations of our customers and sustained adherence to timeless values of integrity and time-tested partnerships. We have every confidence that we can sustain our goal TO BE THE BEST BANK FOR OUR CUSTOMERS.


BDO
If you're looking for a partner in the Philippines,
please take a moment to browse through some of our credentials.
2008
• Best Bank, Euromoney
• Best Domestic Equity House, Asiamoney
• Best Domestic Debt House, Asiamoney
• Best Local Currency Cash Management Services, Asiamoney
• Best Investment Bank, FinanceAsia
• Best Bond House, FinanceAsia
• Best Private Bank, FinanceAsia
• Best Investment Bank and Best Bond House in the Philippines, Alpha Southeast Asia Magazine
• Best Equity House, Alpha Southeast Asia Magazine
• Best Cash Management Bank, Alpha Southeast Asia Magazine
• Best Private Wealth Management House, Alpha Southeast Asia Magazine
• Best Domestic Investment Bank, The Asset
• Best Equity House, The Asset
2007
• Best Bank, Euromoney
• Bank of the Year in the Philippines, The Banker
• Best Domestic Investment Bank in the Philippines, The Asset
• Best Investment Bank, Best Equity House and Best Bond House, FinanceAsia
• Among the Best Managed Companies in the Philippines, FinanceAsia
2006
• Asia's Best Managed Mid-Cap Corporate of the Year, Asiamoney
• Best Managed Banking / Financial Company in Asia, Euromoney
• Best Investment Bank, FinanceAsia
• Best Domestic Investment Bank, The Asset
• Among the Best in Corporate Governance, FinanceAsia
• Among the Best Managed Companies in the Philippines, FinanceAsia
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Pico de Loro Beach Club

Property

SM's property business showed significant growth in 2008, gaining more traction in residential, commercial, tourism, and hotel development. For the year, the group achieved impressive financial results. Its revenues surged 66% to Php6.8 billion, and its net income, jumped 89% to Php1.5 billion.

Mid-range residential development is the fastest growing segment with SM Development Corporation (SMDC) selling 2,622 condominium units worth Php5.1 billion in 2008. Its net income from real estate operations jumped a hefty 116%, to Php1.1 billion from Php513 million in 2007. SMDC has seven ongoing projects. In addition to the Sea Residences in Pasay City and the Field Residences in Sucat, Parañaque which were unveiled in 2008, its other

Lobby of Mezza Residences

projects include the Chateau Elysée in Parañaque City; Mezza Residences in Sta. Mesa, Manila; Berkeley Residences along Katipunan Road in Quezon City; the Grass Residences beside SM City North EDSA; and the Lindenwood Residences subdivision in Muntinlupa City.

On the commercial front, SM's two major commercial properties at the Mall of Asia Complex continue to benefit from robust market uptake. The SMX Convention Center, which is the Philippines' largest, proves to be a highly successful venture as it accommodated more than 750,000 delegates to various large-scale events in 2008. The OneE-Com Center, a 10-storey building designed for business process outsourcing (BPO) companies, is now fully leased. TwoE-com will break ground in 2009 for completion in 2011.

In leisure, Hamilo's pilot project Pico de Loro launched two new clusters Miranda and Carola following the successful sales of Jacana and Myna, both of which are 90% sold. Carola and Miranda are selling 248 units each. In addition, the Pico de Loro beach club was launched in February 2009.

For hotels, SM Hotels Corporation completed its Php650 million expansion of the Taal Vista Hotel in Tagaytay City which doubled the number of rooms from 130 to 260 and added a ballroom that can seat up to 1,000 guests. This year, it is scheduled to open the Radisson Hotel Cebu, a 500-room five star hotel just beside SM City Cebu. It is also scheduled to break ground the Radisson and Regent Hotels and a sports arena within the Mall of Asia Complex.

Trends & Expectations

> In commercial properties, we develop in phases and we can ride the cycle as needed. In Hamilo, 2009 will be a period of development and construction for us, in preparation for the possible market upturn by 2011.

JOSEFINO C. LUCAS
EXECUTIVE VICE PRESIDENT
SM LAND, INC.

Commercial Properties

How did SM's commercial properties group perform in 2008?

The group's performance was on target. We were able to add a total of about 144,000 square meters of office building space to the group's portfolio of rental properties, which were 97% leased out on the average. Revenues increased by 57.3% to Php1.7 billion, as we now reap the benefits from new space in OneE-com and the build-to-suit projects in Makati and Baguio.

Has your business been affected thus far by the global financial crisis?

To date, we see cautiousness and the possible hedging of expansion plans by the call center-IT-BPO sector. On the other hand, certain benefits accrue to those able to provide offshore cost- savings and cost management services to various industries affected by the meltdown. It's a win or lose scenario in this case, depending on how well one is positioned to take advantage of upcoming opportunities. We expect that the effects of the current global crisis will be seen more clearly by the middle of 2009.

What are your general expectations for 2009?

2009 will be a period of development and construction for us, in preparation for the possible market upturn by 2011. The current inventory and pipeline of office spaces are substantially large, which may take at least two years to lease out under existing conditions.

Has the crisis altered your plans and programs?

Not in a significant way because our plans are calibrated and in support of the development initiatives in the Mall of Asia Complex. We have the ability to adjust our timetable if the market turns out to be more difficult.

What steps are you taking to address the possible weakness in the property sector?

We are reviewing our capital expenditure (capex) program and evaluating various scenarios that may emerge out of this situation. We are likewise keeping a close watch of tenancies and how our clients are coping with the challenging business environment.

Are you launching new projects in 2009?

Yes. We will break ground for TwoEcomCenter, the second of four BPO buildings planned in the Mall of Asia Complex. This will be an iconic and modern building that will add to the strong character and branding of the complex. Construction of our ferry terminal project will also commence this year, for completion in 2010, affording us a direct ferry connection to Hamilo Coast by then.

Apart from the office towers and the ferry terminal, the Regent and Radisson hotel and casino building projects are in the pipeline. These projects, however, will be handled by SM Hotels.

How much will these projects cost?

Combined, we are looking at a capex of Php2.7 billion.

What will be your funding sources for these projects?

Fund sources will be a mix of internally generated funds and debt.

What are your views about the demand for BPO space?

We will see possible contraction in the voice-contact center sector but growth will continue in the non-voice and business and knowledge process outsourcing sectors. Off-shoring will continue as foreign companies struggle to keep costs down and improve margins to survive in a difficult market. The Philippines is still positioned to be a preferred out-sourcing location in terms of costs and talent.

Hamilo Coast

How did SM's Hamilo project perform in 2008?

Despite a more challenging market with the looming global crisis, Hamilo's performance was consistent with the previous year's, exhibiting similar sales absorption rates and incremental growth.

Has your business been affected thus far by the global financial crisis?

It will be interesting to see how the market will respond by the middle of 2009. We are targeting a niche market with affordability levels that may be less susceptible to downturns, but lifestyle selling and second home purchases can be subject to deferrals and slower commitments.

What are your expectations for 2009? Do you expect a softening of demand for your projects in 2009?

2009 will definitely be challenging, and a market softening is not totally unexpected, although Hamilo enjoys a position where no large competitor comes close to what it offers.

Are you pursuing your plans and programs?

We are closely monitoring the market and will make the adjustments as we see fit. The Pico de Loro development program will proceed as planned, with the opening of the beach and country club and the turnover of the Jacana and Myna condominiums happening this year. In addition, we are set to start with the construction of the Hamilo ferry terminal in conjunction with the Mall of Asia ferry project.

What steps are you taking to address the possible weakness in the property sector?

We develop in phases and we can ride the cycle as needed. However, as this is a virgin project, we need to complete the basic elements of the project and establish a critical mass to give meaning and personality to the Hamilo brand. We can have a combination of product types whether vertical or horizontal that would address market specifics at manageable capex levels.

Do you have new projects that will be launched in 2009?

We launched two condo clusters in November last year and that should carry us through 2009. The hotel project will start this year and should be open in a year and a half. We also anticipate operating our ferry services and terminal next year.

How much will these projects cost?

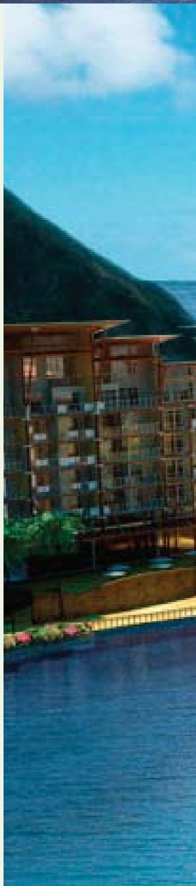
We're looking at a capex of Php1.6 billion, excluding the hotel, which will be borne by SM Hotels.

What will be your funding sources for these projects?

It will be from the internal funds and borrowings of Costa del Hamilo.

FEATURE STORY

Hamilo Steps Up The Pace with Carola and Miranda



Hamilo Coast—SM Land's premier sustainable leisure destination in Nasugbu, Batangas—sustains its progress with the launch of additional Carola and Miranda condominium buildings at one of its coves, Pico de Loro Cove.

Pico de Loro Cove is the first of thirteen to be developed in the sprawling Hamilo Coast property. It aims to build a unique leisure community for families and individuals who seek an active nature experience.

Carola and Miranda are among the 11 clusters of low-impact residential condominiums to rise near Pico de Loro's impressive coastline. Jacana and Myna, the first of the clusters at Pico de Loro Cove, have been successfully taken up since its launch in 2007. These condominium units are designed to be stylish yet functional, with its contemporary tropical architecture evoking a relaxed, laid back feel. Spacious interiors, airy balconies, and large bay windows allow breathtaking views to blend seamlessly with Pico de Loro Cove's infrastructure.

The Pico de Loro Beach & Country Club is the premier amenity of the community, along with a man-made lagoon at the center of the development that extends the waterfront experience. Among the activities to be made available to future residents are trekking, hiking, snorkeling, and diving—all seeking to encourage an active interaction not just among guests but with nature as well.

Beginning this summer of 2009, condo unit owners in the earlier phases of Jacana and Myna will be able to move in and begin to enjoy this multitude of amenities and recreational activities. With Carola and Miranda, the pioneering community of Pico de Loro is sure to grow as the vibrant leisure destination it envisions to be.

A total of 218 units per cluster will be made available to prospective residents at Carola and Miranda. Available unit sizes range from one bedroom, two bedroom, three bedroom, garden lofts, and penthouse units to match varying lifestyle requirements. Convenience is also ensured through units' easy upkeep, giving more time for residents to take pleasure in the cove's natural setting and unwind with their loved ones.

The land development is carefully carried out with utmost sensitivity to Hamilo Coast's natural resources. To ensure sustainable development of Hamilo Coast and preservation of its natural environment, SM Land has partnered up with the World Wide Fund for Nature (WWF-Philippines).

"Pico de Loro Cove is the first of thirteen to be developed in the sprawling Hamilo Coast property. It aims to build a unique leisure community for families and individuals who seek an active nature experience."

PICO DE LORO Beach Club

A Taste of More Exciting Things to Come

Amidst clear waters, powdery sand, and verdant foliage, a charming, contemporary tropical structure has emerged—the beginnings of SM Land's vision for modern lifestyle and leisure. The Beach Club at Pico de Loro Cove is now open, giving its members reason to more frequently enjoy the sun, sea, and sand at the initial phase of Hamilo Coast, SM Land's sprawling leisure residential development in Nasugbu, Batangas.

The beach club is the first of other offerings in Pico de Loro Cove, a mixed-use leisure complex that will have residential condominiums, a Beach and Country Club, a hotel, a man-made lagoon, and townhouse villas. The Beach Club occupies 4,200 square meters of space, highlighting a contemporary tropical design that merges clean, modern lines with colors and materials that blend effortlessly into the natural environment.

Such is the sight as guests alight from their vehicles at the club's main driveway. They are welcomed at the Lobby Lounge, the central seating area fronting the infinity pool and providing a soothing view of the South China Sea. It's a place where one can just sit back and relax on one of the many Filipino designer pieces of furniture.

Immediately to the left of the club's main entrance is the Sun Coral Café, the club's signature dining facility. At the upper level meanwhile are the Brisa Bar, an open-air hangout area, and the Arribada lounge, a multipurpose hall. All of these food and beverage venues will offer superb delights, from Filipino favorites, Asian fusion cuisine, to comfort food appetizers and desserts. The Pico de Loro Beach Club will constantly develop its own signature dishes that will express the distinctive seaside leisure experience it stands for.

Premier facilities and amenities at the club aim to promote wellness and recreation through a healthy interaction with nature. Guests will be able to enjoy exciting outdoor activities such as biking and trekking, swimming at the beach, and other popular water sports such as snorkeling and kayaking. Its swimming pool for adults and children is right next to the sea, refreshing and inviting.

In time, other sports and outdoor activities will be on offer such as volleyball, soccer, and a zip-line down from one of the cliffs by the beach. Air-conditioned locker rooms for both kids and adults are available, along with other facilities such as a first-aid station with a nurse on call. In the pipeline are other amenities like massage huts and a marina.

The Pico de Loro Beach Club and soon, the Country Club, will definitely provide the center of gravity in this pioneering Hamilo Coast community—where the open spaces, landscaping, amenities, and condominium dwellings all bring together family and friends who share the same idea of an exciting and dynamic seaside leisure lifestyle.

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PROJECT UPDATES


Chateau Elysée


Sea Residences


Field Residences


Grass Residences


Lindenwood Residences


Mezza Residences


Berkeley Residences

As of yearend 2008, SM Development Corporation (SMDC) had five on-going residential projects in key Metro Manila locations. In addition, the company unveiled two more projects during the latter part of the year, both of which are also in Metro Manila. SM Residences enjoy brisk sales uptake, with their construction smoothly proceeding as scheduled.

Chateau Elysée, which started in April 2003, is a six-cluster, mid-rise 'condoville' project in Parañaque City, just two kilometers away from SM City Bicutan. As of end-2008, Chateau Elysée is 70% sold, with customers buying 1,486 of its 2,136 units that are available for sale. Four of its six clusters have already been completed, while its fifth cluster is 5% complete. It has a gross floor area (GFA) of approximately 95,000 square meters (sqm), offering wide amenities such as courtyards, promenades, and a clubhouse.

Mezza Residences, which broke ground in February 2006, is a four-tower condominium project right across SM City Sta. Mesa, along Araneta Avenue in Quezon City. It is 95% complete, with two of its four towers scheduled for turnover to homeowners toward the second quarter of 2009. It has 2,330 units for sale, and 90% or 2,133 units have already been sold. Mezza's GFA is 130,779 sqm and boasts of a retail area which includes a SaveMore supermarket branch, among others. The units in Mezza offer a stylish yet comfortable design, with picture windows and high ceilings.

Berkeley Residences was started in January 2008, and sits right in the middle of a university zone in Katipunan Avenue, Quezon City. It is directly in front of Miriam College, and just minutes away from the Ateneo de Manila University and the University of the Philippines. It is 22% complete, with 81% of its 1,207 units already sold. Included in Berkeley's 56,640 sqm GFA are a student lounge, swimming pool, and a gym.

Grass Residences is another SMDC condominium project in Quezon City. Launched in March 2008, its three high-rise towers are conveniently located behind the Philippines' largest shopping mall, SM City North EDSA. As of December 2008, Grass Residences' Tower One was 24% completed and 77% of the tower's 1,870 units are already sold. With all three of its towers combined, Grass Residences will have a GFA of more than 200,000 sqm and will offer 5,390 units for sale, with country club amenities such as a swimming pool; covered children's playground, spa and fitness center; basketball and badminton courts; and a multi-purpose social hall; among others.

Lindenwood Residences is SMDC's only residential subdivision project. Started in September 2006, it is a quaint village located in Muntinlupa City. It is 99% complete and offers house and lot and lots for sale. Its amenities include a clubhouse, swimming pool, and a basketball court. It is only several minutes away from central business districts, schools, and commercial centers. To date, it has sold 79 lots.

Sea Residences and Field Residences are SMDC's two newest projects, both of which were launched in late 2008.

Sea Residences is a residential condominium complex made up of six towers right at the Mall of Asia Complex in Pasay City. It occupies approximately 18,500 sqm of land, with an estimated GFA of 142,000 sqm, and will have over 2,500 units for sale.

Field Residences, on the other hand, is a residential condominium project in the city of Parañaque, adjacent to SM City Sucat. It will occupy approximately 78,000 sqm of land near the corner of Sucat and C5 roads. Ten buildings are envisioned to rise in clusters over the medium term. Each building will have an estimated 300 units.

Trends & Expectations

> "Given the current economic environment, we remain steadfast in our plans and programs. The phased development of every project is still holding on and working perfectly."

ROGELIO R. CABUÑAG
PRESIDENT
SM DEVELOPMENT CORPORATION

Residential

How did SMDC perform in 2008? Were your targets met?

In the area of real estate, our performance has exceeded our expectations. This was however tempered by the marked slowdown in our investment operations due to the global financial crisis.

What are your expectations for 2009? Do you expect a softening of demand for your projects?

We remain cautiously optimistic in our core operations as we continue to push our business thrust. For the industry, however, we expect a softening.

Has the crisis altered your plans and programs?

Given the current economic environment, we remain steadfast in our plans and programs. The phased development of every project is still holding on and working perfectly.

What steps are you taking to address the possible weakness in the property sector?

First, we strengthen our financial standing and organization. Second, we maximize our advantages which are timely and excellent delivery, and affordability.

Do you have new projects that will be launched in 2009?

Yes, certainly. Princeton Residences in Gilmore St., Quezon City and hopefully four more.

How much will these projects cost?

Probably the same magnitude as our previous projects – which is Php1-2 billion/project.

What will be your funding sources for these projects?

Our funding sources will be varied but primarily it will come from internally generated funds and proceeds from our pre-selling activities.

Trends & Expectations

"SM has always believed in the natural tourism wealth of the Philippines and the resilience of its naturally hospitable people."

MERRIL F. YU
EXECUTIVE VICE PRESIDENT
SM HOTELS CORPORATION

Hotel and Entertainment

How did SM's hotel group perform in 2008?

Both Taal Vista Hotel and SMX Convention Center nearly reached Php400 million in gross revenues. Taal Vista Hotel's revenues increased 5.5% to Php200 million while SMX completed its first full year of operation and grossed Php187 million.

Has your business been affected thus far by the global financial crisis?

We continue to see growth from both Taal Vista and SMX over 2008 results. Both are off to positive starts in January 2009. Market response to both products has been driven by the local market. Taal Vista Hotel has established itself as a preference in the leisure and business markets hosting a range of events from weddings to convenient out-of-town retreats. Taal Vista offers the quickest and yet, most dramatic escape from Metro Manila with its spectacular view of the Taal Volcano Lake, dramatic landscape and cool temperatures. In its first full year of operation, SMX has hosted over 750,000 delegates and has become the preferred exhibit and convention facility in the country. SMX's physical product allows itself to be easily adaptable to the widest range of consumer requirements. SMX's being part of the Mall of Asia Complex also adds value unmatched anywhere in providing world-class entertainment and leisure amenities.

How is the SMX Convention Center faring? Is it true that there are plans to further expand it? If so, why?

With over 750,000 delegates having attended events there in 2008 and strong market acceptance for the product, there are plans to expand SMX allowing it to meet projected domestic and international demand in the near horizon.

Have you completed the expansion of Taal Vista Hotel? If so, how is the hotel doing?

Market response to the expansion are overwhelmingly positive. The expansion makes Taal Vista Hotel the premier leisure, social and business destination in Tagaytay boasting the largest number of rooms on the ridge with dramatic views of the volcanic lake and the largest 1,000-seat ballroom in the area. Restaurant renovations that have enlarged the existing cafe also will add a signature restaurant. Both the renovation and the new restaurant addition will be completed in time for Easter 2009.

The Radisson Cebu Hotel will be opened this year. How are you positioning it given that there are other resort hotels in Mactan with which you have to compete?

Our Radisson Cebu Hotel brings to Cebu an international level five star hotel. The hotel offers world-class facilities and amenities ranging from the most dramatic lobby in all of Cebu to its two ballrooms–each accommodating banquets from 650 to 1,000 persons. Radisson Cebu is positioned to address the needs of corporate clients and demand for Food and Beverage (F&B) facilities for social gatherings and meetings. Its proximity to SM City Cebu offers many other conveniences.

What are your expectations for 2009? Do you expect a softening of demand for your projects?

SM has always believed in the natural tourism wealth of the Philippines and the resilience of its naturally hospitable people. Our projects are site tailored with each designed to maximize potential. Each development is planned to match present and future demand. There is a range of vertical product offering ranging from a 50-room business hotel to the luxury Regent brand.

Has the crisis altered your plans and programs?

Our developments give credence to our belief in Philippine tourism and business demand horizons.

Do you have new projects that will be launched in 2009?

We will be ground breaking the Radisson Hotel at the Mall of Asia Complex. The Radisson will have dramatic views of Manila Bay and will have direct access to SMX and Mall of Asia. Other hotel developments will also be breaking ground for hotels in our Pico de Loro and Bacolod sites.

How much will these projects cost?

Our capex for these is approximately Php5.1 billion.

What will be your funding sources for these projects?

These projects will be funded by a combination of equity and debt.

What are your plans for the gaming license granted by PAGCOR?

The addition of an international, high-end gaming operator to the Mall of Asia Complex adds yet another value to it being the country's premier leisure and tourist hub. Our plans are to erect a world class facility that will be leased and operated by a foreign operator.

TAAL VISTA HOTEL

A Timeless Jewel

2008 saw the completion of the expansion of Tagaytay's landmark Taal Vista Hotel, which more than doubled its number of rooms from 128 rooms to 261, and its function rooms from seven to 14. Its gross floor area expanded 16,308 square meters (sqm) to 37,265 sqm. as it now features a grand ballroom that can seat up to 1,000 guests.

Taal Vista is a property of SM Investments subsidiary SM Hotels Corporation, and is managed by Fuego Hotels and Properties Management Corporation.

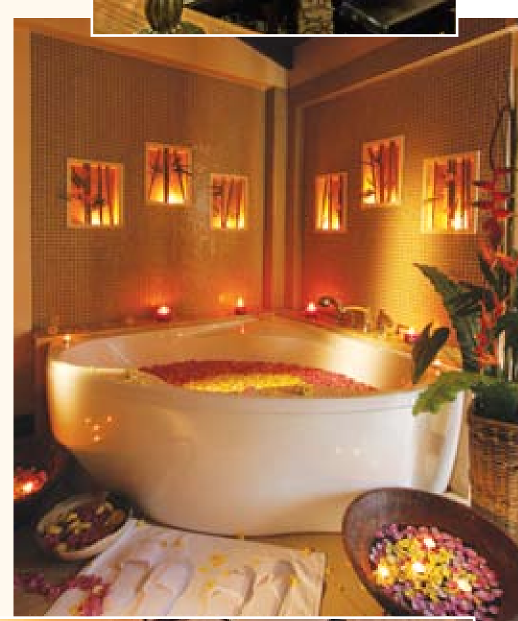
Taal Vista Hotel (TVH), was built in 1937 as Taal Vista Lodge during the "peacetime" or pre-World War II era, in Tagaytay City, Cavite. Tagaytay's cool climate and refreshing breeze made the Philippine Commonwealth government decide to build the structure to promote the place as an alternative retreat to the country's summer capital, Baguio City. With only twelve simple cabanas, it was at that time managed by the Manila Hotel. Eventually, it welcomed and accommodated important guests, such as heads of state, government officials, and famous show business personalities.

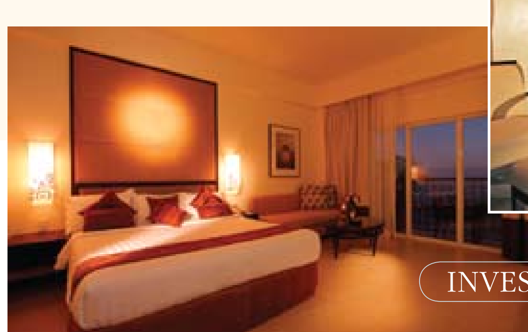
The lodge, built on a ridge enjoys a breathtaking view of Taal Lake and the world's smallest volcano. It was once called "Ilong Kastilla," because the structure was in the shape of a prominent, aquiline nose. It was in Taal Vista Lodge where President Manuel L. Quezon held cabinet meetings, and several administrations later, where then California Governor Ronald Reagan waltzed with the Philippines' former First Lady Imelda Marcos.

Through the decades, this remarkable establishment became a landmark in Tagaytay City. Hundreds of thousands of people have stepped into its halls to find comfort, leisure and relaxation, especially on its famous view deck.

Taal Vista Lodge closed its doors to the public in 1999, and eventually sold to SM. In the middle of 2002, the hotel was given a much needed refurbishment while new rooms were added. Its new name came in 2003 when the hotel already had eighty rooms, a restaurant, and a function room. Over time, close to fifty more rooms were added together with a new swimming pool to serve the changing demands of an ever-growing market. To preserve its heritage, SM ensured that the traditional look of Taal Vista is maintained even as new but complementary styles and are infused into the new structures.

With the recent expansion of Taal Vista, Tagaytay is assured of greater prominence as the hotel's new facilities are drawing in more institutional conventions, conferences and business events—all that in addition to being a favored venue for weddings and other milestone events.





CORPORATE GOVERNANCE

SM Investments Corporation took major steps to enhance its corporate governance practices in the year 2008. While the company's platform of governance remains anchored on its Manual on Corporate Governance and its Code of Ethics, the company undertook several initiatives to further strengthen its corporate governance.

ELECTION OF INDEPENDENT DIRECTOR

SMIC's second independent director, Mr. Ah Doo Lim, was elected at the annual stockholders' meeting in April 2008. Mr. Lim is a Singaporean who obtained a degree in Engineering and a Masters in Business Administration in England. He is currently Vice Chairman of RGM International, a major resource-based conglomerate, director of EDB Investment Pte Ltd, investment arm of the Singapore Economic Development Board, and director of Bio One Capital Pte Ltd, a fund management company of EDB Investment. In addition, he is Independent Commissioner and Chairman of the Audit Committee of PT Indostat, the second largest telecommunications operator in Indonesia, and director and chairman of the Audit Committee of GP Industries Limited, Singapore.

Mr. Ah Doo Lim joins Mr. Vicente S. Perez as independent director in SMIC. Mr. Perez has been an independent director in the company since 2005. Mr. Perez was the youngest and one of the longest-serving secretaries of the Department of Energy. He also served as Undersecretary for Industry and Investments at the Department of Trade and Industry. He is one of the founding principals of Next Century Partners, a private equity firm.

The company adopts the definition of independence in the Securities Regulation Code. The company considers as an independent director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the company.

APPOINTMENT OF CORPORATE GOVERNANCE OFFICERS

SMIC appointed two senior officers to work on corporate governance for the organization. On November 2007, SMIC formally appointed Mr. Roberto G. Manabat as Corporate Governance Adviser to the company's Board of Directors. Mr. Manabat is currently the Chairman and Chief Executive Officer of Manabat Sanagustin & Co., a member firm of KPMG International. He is also a member of the Board of Trustees and Fellow of the Institute of Corporate Directors, an organization advocating stronger corporate governance practices in the Philippines. He is likewise a member of the Auditing and Assurance Standards Council, the standard-setting body for the audit profession.

In November 2008, Atty. Jewel C. Fernandez-Austria joined SMIC as its Vice President for Corporate Governance. As such, she is tasked to work with Mr. Manabat and the company's Senior Vice President for Corporate and Legal Affairs and Compliance Officer, Atty. Corazon I. Morando, in overseeing the company's compliance with all regulatory requirements as well as best practices on corporate governance, and in leading the company's corporate governance strategy, policies and programs.

POLICIES

SMIC adopted policies on acceptance of gifts, insider trading and placement of advertisements. To ensure integrity in procurement practices and the selection of the most appropriate business partner in each instance, SMIC adopted guidelines on the acceptance of gifts by all directors, officers and employees from the company's business partners. Under this policy, all directors, officers and employees are prohibited from soliciting gifts in any form from any business partner. They are further prohibited from accepting gifts in any form, except for corporate give-aways, tokens or promotional items of nominal value. The term "business partner" covers contractors, suppliers, banks and other entities engaged in business with SM, while the the term "gift" covers any thing of value, such as but not limited to cash, loan, employment, travel, entertainment, sponsorship of personal events, the use of property owned by business partners, and the like.

SMIC also adopted a policy on insider trading, which prohibits directors, officers and employees of SM who know material and confidential information (i.e., facts in the business operations that have not been disclosed to the public) from buying or selling shares of stock of the listed SM companies (i.e., shares of SM Investments Corporation, SM Prime Holdings, Inc., SM Development Corporation, Highlands Prime, Inc., Banco de Oro, China Banking Corporation and other SM subsidiaries that may be listed in the future). All information that is likely to affect the market price of SM's shares is deemed to be material. The policy is intended to implement the prohibitions on insider trading in the Securities Regulation Code and to comply with best practices on corporate governance.

SMIC further issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or executive is one of the nominees vying for the award/s. SM may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or executive.

TRAININGS

In November 2008, SM executives, led by SMIC President Harley T. Sy and SMIC Executive Vice President and Chief Financial Officer Jose T. Sio, attended a seminar/workshop on Enterprise Risk Management (ERM). The seminar was conducted by KPMG Manabat Sanagustin & Co. It included a presentation on ERM concepts, methods and tools to provide the group with the knowledge and skills necessary to undertake risk assessment. The group also underwent a workshop to identify, analyze and prioritize the company's strategic risks vis-a-vis its business objectives.

In December 2008, SMIC participated in a Corporate Governance and Anti-Money Laundering Seminar. Experts from the Securities and Exchange Commission, Bangko Sentral ng Pilipinas, Ateneo de Manila College of Law and KPMG presented on the principles, standards, assessment and legal aspects of corporate governance; the features and enforcement of the Anti-Money Laundering Act; corporate risk management, and financial reporting and auditing aspects of corporate governance and the Anti-Money Laundering Act. The seminar was organized by the Philippine Securities Consultancy Corporation and participated in by officers from various businesses. SMIC was represented in the seminar by its Vice President for Corporate Governance, Atty. Jewel C. Fernandez-Austria.

All of SMIC's directors have also attended a seminar on corporate governance as required by the company's Manual on Corporate Governance.

PLATFORM OF GOVERNANCE

SMIC's platform of governance remains rooted in its Manual on Corporate Governance and Code of Ethics. The Manual on Corporate Governance institutionalizes the principles of good corporate governance in the entire organization. The Manual:

- lays down the company's compliance system;
- identifies the responsibilities of the Board of Directors and management in relation to good corporate governance;
- states the company's policies on disclosure and transparency;
- mandates the conduct of communication and training programs on corporate governance;
- provides for the rights of all shareholders and the protection of the interests of minority stockholders; and
- sets the penalties for non-compliance with the Manual.

SMIC adopted a Code of Ethics to lay down its policies in relation to its customers, Board of Directors, management, employees, shareholders and investors, business partners, and the community. The Code provides that the company:

- strives to render adequate, reliable and efficient customer service at reasonable cost;
- protects shareholders' and investors' interests, including their rights to a fair return of investment and accurate and timely information;
- mandates a fair and transparent process for the evaluation and selection of suppliers of goods and services;
- prohibits the solicitation or acceptance of gifts by any director, officer or employee of the company from any business partner, except only for gifts of nominal value or those given for the company's charitable projects;
- requires an effective monitoring and control system to prevent fraud and other malpractices;
- prohibits conflict of interest, insider trading, corruption and other illegal acts;
- selects, develops and compensates the best people to manage the company;
- aims to provide its employees with adequate benefits as well as a safe workplace and environment; and
- supports health, educational, social, livelihood and other charitable projects nationwide.

BOARD OF DIRECTORS

The Board of Directors oversees the management of SMIC and guides the company in formulating a sound corporate strategy. All of SMIC's directors have attended a seminar on corporate governance as required under the Company's Manual on Corporate Governance.

The Board has constituted three committees to support its corporate governance functions: the Nomination Committee, the Compensation Committee, and the Audit and Corporate Governance Committee. The Nominations Committee evaluates all candidates nominated to the Board in accordance with the provisions of SMIC's Manual on Corporate Governance on the qualifications and disqualifications of directors. The Nominations Committee is composed of three members of the Board, one of whom is an independent director. The Compensation and Remuneration Committee is tasked to establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. The Compensation and Remuneration Committee is composed of three members of the Board, one of whom is an independent director. The Audit and Corporate Governance Committee reviews and approves the company's financial reports for compliance with applicable financial reporting standards and regulatory requirements. It also performs oversight financial management functions, specifically on risk management and internal control functions. It further evaluates and approves the plans of the internal and external auditors. The Audit and Corporate Governance Committee Charter requires that the Committee should have at least three and no more than six members of the Board, three of whom shall have a good understanding of finance and financial competency in such area, and one of whom shall be an independent director.

The Board of Directors holds its organizational meeting after the annual election of directors. Regular meetings of the Board are held quarterly. Special meetings may be called by the Chairman, President or Corporate Secretary at the request of any two directors. Under SMIC's Manual on Corporate Governance, 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.

(Please visit SMIC's website at www.sminvestments.com to access the records of attendance in the Board and Audit and Corporate Governance Committee meetings for 2008.)

CITATIONS

The year 2008 gave SM a number of corporate governance awards from prestigious regional publications. In June 2008, Corporate Governance Asia chose SMIC as one of the recipients of its Annual Recognition Awards for its continuing commitment to the development of corporate governance in the region. Corporate Governance Asia is the only journal currently specializing in corporate governance in the region. The annual recognition awards recognize Asian companies that demonstrate excellence in corporate governance with Asian values and spirit.

Also in June 2008, Finance Asia gave a citation to SMIC for being one of the Most Committed to Corporate Governance in the Philippines. Finance Asia is one of the region's leading financial publishing companies based in Hongkong and covering Asia's financial and capital markets. Finance Asia used as criteria for the award over-all management, corporate governance, investor relations and commitment to strong dividend payments.

In November 2008, The Asset awarded SMIC 2nd Best in Corporate Governance in the Philippines. The Asset is one of Asia's leading finance monthly publications circulated worldwide. The Best in Corporate Governance Award is given to the companies that have gone beyond regulatory compliance to promote a corporate culture that is transparent, investor-friendly and takes cognizance of the rights of minority shareholders. The award is also given to companies who have taken the lead in engaging with the community they operate within in a socially responsible way.

PLANS FOR 2009

SMIC plans to keep pace with best practices and developments in corporate governance, taking into consideration the requirements of the business. To this end, SMIC will continue reviewing its existing corporate governance policies and practices to determine areas for improvement and adopt new standards as may be necessary. SMIC will also strive to increase the awareness of the entire organization on corporate governance through information dissemination campaigns as well as orientation and training programs. SMIC further intends to actively engage in corporate governance initiatives of the Securities and Exchange Commission, the Philippine Stock Exchange and other organizations that seek to improve corporate governance standards.

SPOTLIGHT

AH DOO LIM

SM Independent Director

What are your specific roles and responsibilities as independent director of SM Investments?

As an independent director, one of my roles is to express my views on corporate affairs for the best interest of the company, its shareholders, and in particular, its minority shareholders. I ask questions such as whether or not a transaction is in the interest of the company, and whether or not such transaction is fair to all the shareholders.

What do you think are the main reasons why you were selected to be an independent director of SM Investments?

This should best be answered by the Board. I guess, I was appointed because I could add value and bring to the Board a different perspective on a number of issues. I feel privileged to be appointed to the Board, and hope to be able to contribute to the success of SM.

Which among your past work experiences help you become an effective independent director?

I believe that my knowledge of and experience in management, corporate governance, financial markets and the business world are relevant.

I have served as an independent director of several companies in the region, including some that are listed in the New York Stock Exchange and Singapore Stock Exchange. My days as President of RGM, a major international resource-based group, with total assets of about USD10 billion, gave me further insights into management, corporate governance and business in general. In my former position as Chairman of investment bank Deutsche Morgan Grenfell (Asia) Limited, I dealt with major companies on matters relating to their corporate affairs and transactions. These experiences have enabled me to understand issues from a wider perspective which are helpful in making decisions.

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

An independent director could only contribute if the Board is receptive to his or her opinions. The members of the Sy family and the rest of the board are open to new ideas; they want to strengthen corporate governance further and set the tone for it. I have been able to take part meaningfully in board discussions and in making decisions. I am impressed by the foresight of the Sy family and their commitment to the long-term growth of the business. They have a proven record in growing the business. Having worked with the Sy family and management for a year as a board member, I feel confident of the future of SM. It has been a rewarding experience for me.

Do you hold directorships in other Philippine companies? What major differences do you notice in the Philippine corporate governance setting from where you sit in Singapore?

My only directorship in the Philippines is in SM. However, I have sat on the Board of other companies in the region.

The Philippine setting has a lighter touch compared with those in other countries like Singapore, in areas such as disclosure. Such differences are natural because the setting in a country, as stipulated in its laws and

regulations, is very much shaped by its social, economic and political environment.

It is worth noting that laws and regulations in a country only set a certain corporate governance standard for a company to comply with. International stakeholders, including shareholders, lenders and bondholders, may well expect a company to have a standard higher than the national setting.

In this regard, the fact that SM has been raising funds successfully from international markets reflects well on its governance.

As an independent director, what are your views on corporate governance?

Corporate governance is about how a company organizes itself to achieve its goals and to meet its obligations to its stakeholders, including majority and minority shareholders and employees. It involves the adoption of a set of policies and processes that determine how a company makes decisions and how it is managed, controlled and directed.

Sound corporate governance enhances efficiency and competitiveness. It promotes trust in the company by minority shareholders and the investment community. It helps to attract and retain talents and promotes prudent risk management. It thus helps a company to perform well, command a higher market rating for its share price, and ensure its long-term viability and growth. The Board of SM recognizes the importance of corporate governance and makes efforts to enhance it.

How big a role does an independent director have in terms of corporate governance?

The Board of Directors is the body that drives corporate governance. How the Board goes about doing this is crucial to the performance and long term viability of a company. An independent director can play an important role in enhancing corporate governance by participating actively in the affairs of the Board, setting the tone and sharing experiences in best practices of corporate governance.

How do you view 2009 and what steps should SM take to cope with the current global situation?

Preservation of capital is crucial to go through the current liquidity crisis and economic downturn. The sound underlying businesses, strong balance sheet and prudent financial management of SM should enable it to see through the challenges in 2009. Notwithstanding this ability, it is important for SM to continue strengthening its liquidity, managing its cash flows prudently, controlling costs and enhancing its efficiency.

CORPORATE SOCIAL RESPONSIBILITY

A MESSAGE FROM SM FOUNDATION'S EXECUTIVE DIRECTOR

I have much to report about SM Foundation's activities in 2008. The group accomplished a lot, perhaps the most to date, helped in part by the additional funds worth Php50 million, donated by SM on the occasion of its 50th Anniversary celebration.

Our College Scholarship Program graduated 100 students, with 32 having received Latin honors with their degrees: six magna cum laude, 22 cum laude and four with special honors. We currently support 602 scholars nationwide, all bright youngsters from disadvantaged families and taking up four to five-year college degrees in business, engineering, education, information and technology, among others. We plan to increase this number to one thousand within the next three years.

SM Foundation also built and donated two schoolhouses to select public schools which need assistance in providing more facilities. To date, 18 schoolhouses have been built which SM Foundation also maintains on an annual basis. Allow me to thank SM Prime Holdings, Inc. and Deutsche Bank-AG for partnering with us in putting up the two, two-storey, four-classroom school buildings at the Llano Elementary School in Caloocan and another in Bacoor National High School Annex in Bacoor, Cavite.

For the health and medical advocacy, SM Foundation conducted a total of 81 medical missions in 2008 with the aid of volunteer doctors, dentists, and nurses. Our two SM Foundation Mobile Clinics accompany all the medical missions. These are equipped with diagnostic and laboratory services including X-ray and electrocardiograph machines.

Since its inception in 2002, SM Foundation has conducted 401 medical missions for 281,851 beneficiaries all over the Philippines.

Also under the health advocacy, SM Foundation has, to date, converted 44 public hospital wards, health clinics, and activity centers into Felicidad Sy Wellness Centers and Hospice Care Units for children, the elderly, and the terminally ill. The centers are also kept and maintained annually by SM Foundation. Of the total number of centers, eight were done in 2008.

These renovations or makeovers involve re-designing and retrofitting run-down facilities, converting them into a positive and energetic environment that is highly conducive for healing in hospital wards; for socializing and recreation in centers for the elderly; and for caring and sympathy for the terminally ill.

In addition to above-mentioned projects, our new advocacy in livelihood training for farmers has gained momentum. A program that we pilot tested with our partner Harbest Agribusiness Corporation in 2007, produced a total of 814 graduates of which 623 farmers graduated in 2008. These farmers come from Bacolod, Quezon, Davao, Laguna and Pangasinan. The program, which we call Kabalikat sa Kabuhayan Farmers Training Program, is a three-month certification course that teaches farmers to effectively plant crops and vegetables suitable to their soil type and weather conditions and to produce the highest yields.

Post harvest, which is the end of the three-month course, their crops are sold in Harvest Festivals that are organized by SM Foundation and are held in SM Malls, where some SM suppliers are also among buyers of the farmers' produce.

In addition, SM Foundation also held Trade Fairs which are open to all small-scale entrepreneurs, cooperatives, people's organizations and non-government organizations who have been in business for at least a year and a capitalization of not more than Php3 million.

In 2008, SM Foundation conducted nine trade fairs nationwide showcasing goods produced in various cities and provinces. These were held in SM malls in Clark, Bacoor, Baguio, Iloilo, San Lazaro, Marilao, Cagayan De Oro, Taytay and Batangas. A total of 363 exhibitors participated in the trade fairs.

Put together, SMFI has spent a total of Php85 million for the various advocacies. In addition to this, another Php50 million was added in celebration of SM's 50th Anniversary.

At this point, I would like to reiterate SM Foundation's commitment to be of service to the communities who are in need of our assistance. It is not only our corporate social responsibility, but also our human duty to help others.

My sincerest gratitude goes to the SM Group of Companies and our partner institutions, DOH, DSWD, DepEd, Philippine National Red Cross, NGOs, volunteers and staff for increasing our network of PEOPLE HELPING PEOPLE.

DEBBIE SY
Executive Director

Congratulations! Class 2008 Graduates of the SM Scholarship Program

people helping people
SM Foundation, Inc.

SM Founder and Chairman Henry Sy, Sr. and wife, Felicidad T. Sy led SM Foundation officers and guests in honoring the 12th batch of 100 graduates of the SM College Scholarship Program. They personally gifted each graduate with a wristwatch and a certificate of graduation and rewarded 32 honor graduates with additional special gifts.

SM Foundation which has 600 scholars at any given time, now counts 972 scholar-graduates.

Magna Cum Laude

BESINA, JOHN PETER D.
Asia Pacific College
BSCSIT-SSE

DELA CRUZ, IVY CARISSA B.
FEU East Asia College
BS in Computer Engineering

JAVIER, CARLITA U.
San Sebastian College Recoletos de Cavite
BS in Accountancy

MANALO, JENNIELYN A.
FEU East Asia College
BS in Computer Engineering

MAQUIÑANA, ALBERT J.
FEU East Asia College
BS in Computer Engineering

STA. CRUZ, ALLAN S.
Asia Pacific College
BSCSIT-SSE

Cum Laude

AMBIDA, JULIE ROSE O.
FEU East Asia College
BS in Information Technology

AYSON, IVAN LESTER C.
University of San Carlos
BS in Accountancy

COLITOY, LORELYN JOY DC.
Univ. of the Philippines Diliman
BSE Major in English

CORAN, ROBY ANN R.
St. Louis University Baguio
BS in Accountancy

DELLICA, LEMUEL L.
University of Cebu Main
BS in Accountancy

FORTUNA, MIRASOL D.
Far Eastern University
BS in Accountancy

GALIDO, ANGELINE L.
Univ. of South Eastern Phils. Davao
Bachelor in Elementary Education

GALOPE, ANJOY LANDO S.
FEU East Asia College
BS in Computer Engineering

GAMULO, JAN CALVIN N.
University of Cebu Main
BS in Information Technology

GENILZA, JOSILDA G.
University of San Agustin Iloilo
BS in Accountancy

MACALINTAL, JR., DANILO T.
University of the East - Caloocan
BS in Accountancy

MACATANGAY, SHERYL M.
University of Batangas
BS in Computer Science

MAGALGALIT, DYNNA ROSS D.
Far Eastern University
BS in Accountancy

MALICDEM, JOEYLYN P.
FEU East Asia College
BS in Information Technology

MENDIOLA, NATALIE ROSE A.
Southern Luzon State Univ. Lucena
BS in Accountancy

OCUMEN, MARIA CECILIA G.
FEU East Asia College
BS in Computer Engineering

PANGADER, ABDUL NAJIB P.
Xavier University - Cagayan
BS in Accountancy

PARCO, JESSY JOY D.
Far Eastern University
BSC Financial Accounting

ROSATASE, CANDY O.
Meycauayan College Bulacan
BS in Accountancy

SAPAEN, SHEILA JULE W.
St. Louis University Baguio
BS in Accountancy

SEPE, SHELDON A.
FEU East Asia College
BS in Computer Engineering

VIÑAS, GERALD S.
Philippine Normal University
BSE Major in Biology

Special Awards

LOPEZ, NIÑO ANGELICO I.
Asia Pacific College
BSCSIT SSE

PARAYDAY, MA. CORAZON PAZ S.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

SORIANO, ANA ABIGAIL H.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

NACIONAL, JOAN TERESA O.
San Sebastian College Recoletos de Cavite
BS in Computer Science

ABENIO, ROSELLA B.
Xavier University - Cagayan
BSC Management Accounting

AGUILON, JAYSON C.
Manuel S Enverga Univ. Found. - Lucena
BSE Major in Math

ALONZO, MA. FERLINA H.
University of Cebu Main
BS in Information Technology

ANABARIAS, NOEL A.
Central Philippine Univ. - Iloilo
BSECE

ANTONIO, ROANNE M.
University of Cebu Main
BS in Information Technology

ARPON, ALVIN B.
FEU East Asia College
BSECE

ARQUIZA, RUBY G.
University of Cebu Main
BS in Accountancy

ATONDUCAN, LIZA E.
University of San Agustin Iloilo
BS in Information Technology

BACALAN, ROGEN Y.
University of Cebu Main
BS in Accountancy

BACERO, GILLETTE D.
FEU East Asia College
BS in Information Technology

BAGASON, MA. CRISTINA C.
Asia Pacific College
BSECE

BALDERAS, WENDELL C.
Ateneo de Davao University
BS in Information Technology

BALOLOY, CHRISTINE CAROL R.
Manuel S Enverga Univ. Found. - Lucena
BSE Major in Math

BARING, JOFIL I.
University of Cebu Main
BS in Information Technology

BATOON, ROBIN E.
Adamson University
BS in Accountancy

BELARMINO, LADY-LYN C.
Meycauayan College Bulacan
BS in Accountancy

BERNARDO, AIME RUTH B.
Philippine Normal University
BSE Major in English

BIEN, VERONICA PAULA I.
Pamantasan ng Lungsod ng Maynila
BS in Computer Science

BOFTIADO, LAARNIE S.
University of Mindanao
BS in Accountancy

BONDESTO, CHRISTINE R.
University of Mindanao
BS in Accountancy

DELA CRUZ, VANESSA C.
University of Mindanao
BS in Accountancy

BONGANCISO, CHEKIE B.
Cebu Institute of Technology
BS Chemical Engineering

BUENAVISTA, JOSE REY T.
University of Cebu Main
BS in Accountancy

CABLOSAN, AMY STEPHANIE S.
St. Louis University Baguio
Bachelor in Elementary Education

CALANZA, MADILYN U.
Asia Pacific College
BS in Computer Engineering

CAMARINES, FRANCES MARIE D.
Philippine Normal University
BSE Major in Physics

CARATO, DYESEBEL C.
Univ. of the Philippines Visayas
BS in Accountancy

CRISTOBAL, MARY ANN L.
Philippine Normal University
BSE Major in Biology

DALAZA, EDUARD ARON S.
Ateneo de Davao University
BSC Management Accounting

DE LEON, LORIELYN C.
FEU East Asia College
BS in Computer Engineering

DE VERA, KATHERINE D.
St. Louis University Baguio
BS in Accountancy

DUKHA, MA. TERESA P.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

EDRALIN, HAROLD B.
Xavier University - Cagayan
BS in Accountancy

ESCABUSA, GRETCHEL DIANE P.
Xavier University - Cagayan
BSC Management Accounting

ESCASINAS, CRISTEL T.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

ESCULTURA, JENNILYN L.
Asia Pacific College
BS in Computer Engineering

FORTUNA, EDITHA G.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

GERONIMO, RODARYL G.
FEU East Asia College
BSECE

GOLEZ, JANICE T.
West Visayas State University
BS in Information Management

GUANCO, AILLAH D.
Univ. of the Philippines - Visayas
BS in Accountancy

JIMENEZ, JAYSON M.
FEU East Asia College
BSECE

LANSANGAN, MICHAEL S.
University of the Assumption
BS in Accountancy

LOPEZ, GEMMALYN A.
Far Eastern University
BSC Financial Accounting

MACARAIG, ANGELA KAREN G.
University of the East Manila
BS in Accountancy

MANANSALA, LANNIE M.
University of the Assumption
BS in Accountancy

MANDAL, BRIAN BERT B.
Univ. of San Jose Recoletos Cebu
BS in Information Management

MARCELO, MARC JAY PEE L.
FEU East Asia College
BS in Computer Science

MERCADO, PAMELA JOI C.
Asia Pacific College
BSCSIT SSE

MOISES, BRYAN CARLO S.
FEU East Asia College
BS in Computer Engineering

MORALES, RAY ANNALYN V.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

MORANTE, MA. ROSARIO S.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

NATANAUAN, GRETCHEN P.
Asia Pacific College
BS in Computer Engineering

PEÑAVERDE, ROSANNE P.
Manuel S Enverga Univ. Found. Lucena
BSECE

PURUGGANAN, MARLA C.
Asia Pacific College
BSECE

REAZON, ROSE DIANE M.
FEU East Asia College
BS in Information Technology

RIVERA, DEBBIE ERICA M.
Univ. of the Philippines Baguio
BS in Computer Science

RIVO, PINK PEARL L.
FEU East Asia College
BSECE

ROBEDILLO, JOY RAM KRISNA I.
Manuel S Enverga Univ. Found. Lucena
BS in Accountancy

ROBLES, ROBBIE GRACE G.
Central Philippine University Iloilo
BS in Information Technology

SANTOS, APRIL JOY S.
University of the East Manila
BS in Management Accounting

SINORA, MICHELL AURELI A.
West Visayas State University
BSE Major in Chemistry

SUAREZ, MELANIE A.
University of Batangas
Bachelor in Elementary Education

TALAVERA, AGNESS D.
FEU East Asia College
BS in Computer Engineering

TALENS, ANGELITO N.
Univ. of the Philippines Diliman
BSECE

TUMBAY, ROBERTO M.
Far Eastern University
BS in Accountancy

UY, MILA L.
FEU East Asia College
BSECE

VALDEZ, MONA LIZA T.
Holy Angel University
BS in Computer Science

JUANILLO, ALTHEA JANE P.
Univ. of San Jose Recoletos Cebu
BS in Accountancy

FEATURE STORY

CSR INITIATIVES

Big Malls With a Big Heart: SM Does Care With SM Cares

BIG MALLS

Thirty-three SM Supermalls nationwide, with a footprint of almost 10,000 basketball courts. They are 94% occupied by over 10,000 tenants. They touch the lives of over 2.5 million people who come daily to shop, dine, watch a movie, or simply spend time with friends.

BIG HEART

With such an intense level of activity, SM Supermalls is in the best position to make a difference; to reveal another face; one that cares for all its visitors and cares for Mother Earth. It cares with much grit and passion; that is, through SM CARES (Concerned And Responsible Eco-Shoppers).

BORN OUT OF COMMUNITY SERVICE

"We sincerely want to serve the communities where our malls are. From that sincerity SM CARES was born," Ms. Annie S. Garcia, president of SM subsidiary Shopping Center Management Corporation, enthusiastically explains.

Before SM CARES, SM Prime already implemented various corporate social responsibility (CSR) initiatives on an ad-hoc basis, partnering with SM Foundation for outreach programs held in SM Malls.

Then came the need to bring the service to SM's special customers. In last year's annual report, SM Prime laid out its programs for persons with disabilities (PWDs), following an incident that made management realize that this issue covers a wide range of conditions such as autism, Down Syndrome, and attention deficit hyperactivity disorder (ADHD). They have likewise included providing for the needs of the elderly and nursing mothers. Committees were formed to generate ways to improve the skills of the mall officers and staff, and to retrofit the malls to make them friendly to all customers.

"On one occasion, Mr. Hans T. Sy told us to put all our CSR activities under one program and call it SM CARES, because truly, we do care. This is what will make our business different. It's what will set us apart, when the public sees our sincerity," Ms. Garcia adds.

With SM CARES in place, SM Prime's numerous CSR initiatives became more easily identifiable and appreciated. Under it are two programs that address both social and environmental concerns.

CARING FOR MOTHER EARTH

As a mature business with a large footprint, SM Supermalls knows full well that its operations have a considerable effect on the environment. Under SM CARES, the company has taken an aggressive stance in protecting the environment through four major initiatives: Solid Waste Management, Water Conservation, Energy Efficiency, and Air Quality Efficiency.

In **Solid Waste Management,** SM Supermalls holds Trash to Cash, a recycling market every first Friday and Saturday of the month in all SM Prime malls. The public can convert their recyclable trash into cash. To date, it has generated over Php10 million in recyclable items and is estimated to have saved nearly 11,000 trees.

Mall tenants are also educated on the benefits of waste segregation. As a result, solid waste in the malls' garbage depots has been reduced by as much as 20% a month and two tons of garbage per mall are diverted away from landfills every week.

Likewise, mall visitors are encouraged to contribute to waste management. Convenient and color-coded trash bins are placed all over the malls for garbage segregation. This resulted in a 30% average reduction in waste. There are also the pioneering cell phone and battery collection bins that facilitate the recovery of hazardous waste that may emanate from discarded mobile phones.

SM Cares also launched its Green Bag project. The use of these green bags helps reduce shoppers' plastic waste by 30%. It is also pilot testing the use of biodegradable plastic shopping bags.

Water Conservation ranks high in SM CARES. SM Supermalls now save about 2.4 billion liters of water annually through tertiary treatment plants that recycle water for use in the malls' air-conditioning systems, toilet flushing, and landscaping. Waterless urinals in men's restrooms save another 315 million liters of water annually.

"We implemented CSR initiatives for the environment not just to comply with the law. We went beyond the basic requirements," Ms. Garcia adds.

To achieve **Energy Efficiency,** SM malls control their air-conditioning systems through a computerized process that closely monitors temperature. Mall areas that are full become cooler, while those less congested are warmer. The system saves almost 50 million kilowatt hours of electricity per year. All tertiary water treatment plants utilize a device that saves up to 500,000 kilowatt hours annually.

SM CARES also supports Earth Hour, an annual global movement encouraging households and establishments to shut down all power sources for an hour, heightening energy conservation awareness.

To achieve **Air Quality Efficiency,** SM Prime strictly enforces the no-smoking policy inside malls and requires public utility vehicles entering and parking in its terminals to present certificates of having passed smoke emission testing. They also encourage bicycle use by providing safe parking spaces.

CARING FOR ITS CUSTOMERS

SM CARES ensures that safety, security, and proper service are given to all SM customers. For PWDs, SM CARES provides ramps, lifts, golf carts, wheelchairs, and reserved parking in all malls. These make SM malls highly accessible to PWDs. All mall managers, staff, and employees of mall tenants undergo seminars and lectures on the special needs of PWDs. Furthermore, all SM malls now provide breastfeeding stations so that nursing mothers can attend to their babies with dignity in the privacy of a comfortable and well-designed room.

In 2008, seven SM malls were recognized as handicapped-friendly establishments during ceremonies at Malacañan Palace. In addition, Ms. Garcia has given talks on SM Prime's PWD programs to international agencies.

INTO THE FUTURE AND BEYOND ITS OWN MALLS

SM CARES is expected to continue evolving. Because of its dominant position in the Philippine shopping mall industry, SM Prime has the unique capability of spearheading initiatives similar to that of SM CARES. It also has the opportunity to educate countless Filipinos on the importance of social responsibility, be it for the environment or for the individual.

"We share our SM CARES program by giving out presentations and delivering speeches. We do this because we think it is a good, solid program that should not be limited to SM. We enjoin others, even competitors, to implement similar initiatives. This should be beyond competition," Ms. Annie Garcia concludes.

AWARDS AND CITATIONS

SM INVESTMENTS CORPORATION

Finance Asia
- Best Managed Company (3rd)
- Best Investor Relations (2nd)
- Best Corporate Governance (9th)

The Asset
- Best In Corporate Governance (2nd)

International Finance Review
- Best Philippine Capital Markets Deal Award for its USD350 million bonds

Corporate Governance Asia
- Best In Corporate Governance-Philippines

Management Association of the Philippines
- Best Conglomerate Award for 2007 Annual Reports
- Best Annual Report Award-Finalist

44th Anvil Awards
- 2007 Annual Reports of SMIC and Subsidiaries-Finalist
- "I Dream," a Musicale on the Life of Mr. Henry Sy, Sr.-Finalist
- SM's 50th Anniversary Celebration-Finalist

MAP Conglomerate Award for Annual Reports

SM RETAIL

Retail Asia Magazine
- The Best of the Best Award
- The Philippines' Top Retailer

44th Anvil Awards
- Anvil Award of Excellence for the "SM Generations" Campaign

SM PRIME HOLDINGS, INC.

Philippine Chamber of Commerce and Industry
- Excellence in Ecology and Economy Award

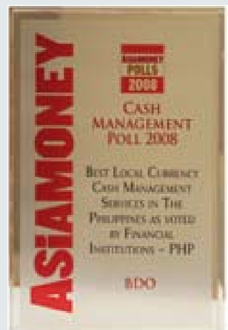
Apolinario Mabini Awards
- Corporate Excellence in Service of Persons with Disabilities (PWDs)
- Most Handicapped Friendly Establishments:
  SM Mall of Asia, SM City Marilao, SM City Clark, SM City Baguio, SM City Taytay, SM City San Lazaro and SM City Lipa

Don Emilio Abello Awards for Energy Efficiency and Conservation Best Practices for Buildings
- Outstanding Achievements in Energy Efficiency and Conservation:
  SM City North Edsa, SM City Sucat, SM City Sta. Mesa, SM City Manila and SM Mall of Asia

Philippine Retailers Association
- SM Mall of Asia, Shopping Center of the Year
- Quezon City Chamber of Commerce and Industry

Awarded as one of the Top Taxpayers in Quezon City

Management Association of the Philippines
- Best Annual Report Award-Finalist



BDO

Euromoney
- Best Bank

Asiamoney
- Best Local Currency Cash Management Services
- Best Equity House and Best Debt House-BDO Capital

Finance Asia
- Best Investment Bank-BDO Capital
- Best Bond House-BDO Capital
- Best Private Bank-BDO Private Bank

The Asset
- Best Domestic Investment Bank-BDO Capital
- Best Equity House-BDO Capital

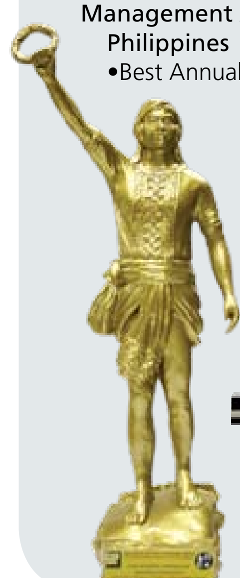
Corporate Governance Asia
- Among those cited for Excellence in Corporate Governance

Alpha Southeast Asia Magazine
- Best Cash Management Bank
- Best Investment Bank and Best Bond House in the Philippines-BDO Capital
- Best Equity House-BDO Capital
- Best Private Wealth Management House-BDO Private Bank

CHINA BANKING CORPORATION

Consumers Union of the Philippines
- Outstanding Commercial Bank

Management Association of the Philippines
- Best Annual Report Award-Finalist



HIGHLANDS PRIME, INC.

Management Association of the Philippines
- Best Annual Report Award-Finalist

HENRY SY, SR.
Chairman

TERESITA SY-COSON
Vice Chairperson

HENRY T. SY, JR.
Vice Chairman

JOSE T. SIO
Director

GREGORY L. DOMINGO
Executive Director

VICENTE S. PEREZ, JR.
Independent Director

HARLEY T. SY
Director

AH DOO LIM
Independent Director

FACES
Board of Directors

HENRY SY, SR., is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman Emeritus of Banco de Oro Unibank, Inc., Honorary Chairman of China Banking Corporation, Chairman of SM Prime, SM Land, Inc. (formerly Shoemart Inc.), SM Development, and Highlands Prime, Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with four lines of businesses - shopping malls, retail merchandising, financial services, and real estate development and tourism.

TERESITA SY-COSON, is the Vice Chairman of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in Shoemart's development. At present, she is the Chairman of the Board of Directors of Banco de Oro Unibank, Inc. She also holds board positions in several companies within the SM Group.

HENRY T. SY, JR., is the Vice Chairman of SMIC. He is also the Vice Chairman of SM Development Corporation, Highlands Prime, Inc., Vice Chairman and President of SM Land, Inc., Chairman of Pico de Loro Beach and Country Club, Inc., and Director of SM Prime, Banco de Oro Unibank, Inc. and Belle Corporation. He is responsible for the real estate aquisitions and development activities of the SM Group. He graduated from De La Salle University. He also holds board positions in several companies within the SM Group.

HARLEY T. SY, is the President of SMIC. He is a Director of China Banking Corporation. He is also a Treasurer of SM Land, Inc. and a director of other companies within the SM Group. He holds a degree in Finance from De La Salle University.

JOSE T. SIO, is the Executive Vice President and Chief Finance Officer of SMIC. He is also a Director of China Banking Corporation, Generali Pilipinas Holding Company, Inc., and SM Keppel Land, Inc. as well as other companies within the SM Group. Mr. Sio is also adviser to the Board of Directors of Banco de Oro Unibank, Inc. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. (a member practice of Ernst & Young).

GREGORY L. DOMINGO, is an Executive Director of SMIC. He holds a master's degree in Operations Research from Wharton School, University of Pennsylvania as well as a master's degree in Business Management from the Asian Institute of Management. He has served as Undersecretary of the Department of Trade and Industry and Vice Chairman of the Board of Investments and as board member of several government-owned and controlled corporations. He was also formerly President of Carmelray-JTCI Corporation and Managing Director of Chemical Bank in New York and Chase Manhattan Bank in Manila.

VICENTE S. PEREZ, JR*, is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is one of the founding principals of Next Century Partners, a private equity firm, Merritt Partners, an energy advisory firm, and Alternergy Partners, a renewable power company. 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. 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.

AH DOO LIM*, Independent Director is a Singaporean and is currently the 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 GP Industries Ltd., Singapore. He is also a Director of EDB Investments Pte Ltd., investment arm of the Singapore Economic Development Board and a Director of Bio One Capital Pte Ltd., a company of EDB Investments dedicated to investing in the global biomedical sciences sector. 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.

Board Committees

Compensation or Remuneration Committee

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

Nomination Committee

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

Audit and Corporate Governance Committee

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

Compliance Officers

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

Corporate Information Officers
Jose T. Sio - Corporate Information Officer
Ruby Ll. Cano - Alternate Information Officer
Atty. Emmanuel C. Paras - Alternate Information Officer

** 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.*

FACES
Executive Officers

SM Investments Corporate Executives

HARLEY T. SY
President

JOSE T. SIO
Executive Vice President/
Chief Finance Officer

CORAZON I. MORANDO
Senior Vice President, Corporate and
Legal Affairs/Assistant
Corporate Secretary

MARIANNE M. GUERRERO
Senior Vice President
Legal Department

EPITACIO B. BORCELIS
Vice President
Legal Department

MA. RUBY LL. CANO
Vice President/
Financial Controller

GRACE F. ROQUE
Vice President
Finance

CORAZON P. GUIDOTE
Vice President
Investor Relations

DOREEN T. ROJO
Vice President
Direct Investments and Planning

MONINA S. LASALA
Vice President
Human Resources

EMMANUEL C. PARAS
Corporate Secretary

Retail Merchandising

HERBERT T. SY
President
SM Supermarkets

CECILIA R. PATRICIO
Vice President
Corporate Tax

JORGE T. MENDIOLA
Senior Vice President, Operations
SM Retail, Inc.

ROBERT KWEE
Executive Vice President
SM Hypermarkets

JEWEL F. AUSTRIA
Vice President
Corporate Governance

RICKY A. LIM
Senior Vice President/
Controllership
SM Retail, Inc.

Mall Operations

HANS T. SY
President
SM Prime Holdings, Inc.

ELIZABETH T. SY
Senior Vice President/
Marketing
SM Prime Holdings, Inc.

JEFFREY C. LIM
Executive Vice President/
Chief Finance Officer
SM Prime Holdings, Inc.

ANNIE S. GARCIA
President
Shopping Center Management
Corporation

Banking

TERESITA SY-COSON
Chairperson
BDO Unibank, Inc.

NESTOR V. TAN
President
BDO Unibank, Inc.

JESUS A. JACINTO
Vice Chairman
BDO Unibank, Inc.

GILBERT U. DEE
Chairman
China Banking Corporation

HENRY T. SY, JR.
Vice Chairman and President
SM Land, Inc.

JOSEFINO C. LUCAS
Executive Vice President
SM Land, Inc.

JOSE B. AMANTOY, JR.
Vice President for Finance
and Controllership
SM Land, Inc.

PETER S. DEE
President and CEO
China Banking Corporation

MERRIL F. YU
Executive Vice President
SM Hotels Corporation

ROGELIO R. CABUÑAG
President
SM Development Corporation

ANTONIO A. HENSON
President
Highlands Prime, Inc.

RICARDO R. CHUA
Executive Vice President and COO
China Banking Corporation

Property

CARLOS V. CHIKIAMCO
Vice President, for Real Property
and Project Director for
Pico de Loro Beach and Country Club
SM Land, Inc.

EFREN L. TAN
Vice President for Sales
SM Land, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Calendar Year Ended December 31, 2008 and 2007

Results of Operation
(amounts in billion pesos)

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

Consolidated revenues grew by 19.1% to ₱147.5 billion, as against last year's ₱123.9 billion. Income from operations stood at ₱21.7 billion, increasing by 0.7% from last year's ₱21.5 billion. Operating income margin and Net profit margin is at 14.7% and 9.5%, respectively. Net income for the year ended December 31, 2008 increased by 15.6% to ₱14.0 billion compared to ₱12.1 billion of the same period last year.

Retail Sales accounts for the largest part of the revenue, comprising 78% of the total revenues for the year. Consolidated Retail sales expanded by 16.9% to ₱114.8 billion for the year ended December 31, 2008 due mainly to the following:

(1) consolidation of Pilipinas Makro, Inc. (Makro) in SMIC starting October 2007 and;

(2) opening of the following new stores in 2008:

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

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

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

Real estate sales for the year ended December 31, 2008, derived mainly from condominium projects of SMDC, surged by 90.8% to ₱3,853.5 million. SMDC currently has five on-going projects. Chateau Elysee is a six-cluster, six-storey French-Mediterranean inspired residential development near SM City Bicutan in Parañaque and is now in its fifth cluster which is 5% complete. Mezza Residences is a 38-storey four-tower high rise condominium across SM City Sta. Mesa, Quezon City which is 95% complete with two of its towers due for turnover to homebuyers this March. Berkeley is a 35-storey condominium building along Katipunan Road across Miriam College which is 22% complete. Grass Residences is a three-tower condominium near SM North EDSA in Quezon City which is 24% complete with its phase one. Lindenwood Residences is a residential subdivision in Muntinlupa City which is 99% complete. In 2008, SMDC broke ground for two more condominium projects, the Sea Residences near the Mall of Asia Complex in Pasay City and Field Residences in Sucat, Parañaque City. Further contributions to the growth in real estate sales were provided by the sale of condominium units of Costa del Hamilo and club shares in Pico de Loro.

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

The three malls in China contributed ₱0.8 billion in 2008 and ₱0.6 billion in 2007, or 6% and 5%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these three malls in China increased by 35% in 2008 compared to the same period in 2007. The average occupancy rate for the three malls is at 88% in 2008 and 81% in 2007.

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

Equity in net earnings of associates decreased by 58% to ₱1.6 billion in 2008 from ₱3.9 billion in 2007, primarily due to the decrease in the net income of Banco de Oro Unibank, Inc. and China Banking Corporation after making provisions for trading and investments in 2008.

Dividend income decreased to ₱0.8 billion for the year 2008 compared to ₱1.0 billion in 2007 mainly due to the early redemption of Ayala preferred shares in the second half of 2007 and the sale of 339.3 million San Miguel shares in October 2008.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives increased significantly to ₱6.6 billion in 2008 from ₱0.5 billion in 2007 primarily due to the ₱7.2 billion gain from the sale of 339.3 million shares of San Miguel Corporation, net of the provision for the decline in mark-to-market valuation of investment securities.

Total cost and expenses rose by 22.9% to ₱125.8 billion for the year ended December 31, 2008 compared to 2007 primarily brought about by the full year effect of Makro operations in 2008 and only three months operations in 2007, increase in costs associated with the new malls, department stores, supermarkets and hypermarkets, and general asset provisions amounting to ₱5.6 billion in 2008. Excluding the impact of Makro and general asset provisions, cost of sales and operating expenses would increase by 10.2% and 16.2%, respectively.

Other income increased to ₱1.4 billion in 2008 from other charges of ₱0.7 billion in 2007 mainly due to the increase in interest income (please refer to Note 12 and 26 of the consolidated financial statements).

Provision for income tax increased by 28.8% to ₱5.7 billion for the year 2008 from ₱4.4 billion in 2007 due to the increase in taxable income.

Minority interest decreased to ₱3.4 billion in 2008 from ₱4.3 billion in 2007 due to the decrease in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2008		12 / 31 / 2007		% Change
Current assets	₱	83.2	₱	71.3	16.7%
Noncurrent assets		209.2		78.4	17.3%
Total assets	**₱**	**292.4**	**₱**	**249.7**	**17.1%**
Current liabilities	₱	58.4	₱	45.4	28.7%
Noncurrent Liabilities		84.2		58.6	43.6%
Total Liabilities	**₱**	**142.6**	**₱**	**104.0**	**37.1%**
Stockholders' Equity	**₱**	**149.8**	**₱**	**145.7**	**2.8%**
Total Liabilities and Stockholders' Equity	**₱**	**292.4**	**₱**	**249.7**	**17.1%**

FINANCIAL STATEMENTS

On the Balance Sheet side, consolidated total assets as of December 31, 2008 amounted to ₱292.4 billion, higher by 17.1% from 249.7 billion in previous year. On the other hand, consolidated total liabilities grew by 37.1% to ₱142.6 billion in 2008 from ₱104.0 billion in previous year.

Total current assets increased by 16.7% to ₱83.2 billion as of December 31, 2008 from ₱71.3 billion as of last year mainly due to the sale of 339.3 million San Miguel shares which increased the cash and cash equivalents and decreased the investments in shares for trading and sale, plus the increase in receivables – trade, banks, credit cards, nontrade and related parties.

Total consolidated noncurrent assets amounted to ₱209.2 billion as of December 31, 2008, a growth of 17.3% from ₱178.4 billion as of December 31, 2007 mainly due to the proceeds from the US$350 million 6.75% Bonds issued in July 2008 which was invested in time deposit and due to the increase in the mall construction and real estate developments, net of the decline in market value of investments in shares of listed companies and of decrease in investment in shares of stocks of associates brought about by the decline in banks' profits in 2008 compared with 2007.

Total consolidated current liabilities increased by 28.7% to ₱58.4 billion as of December 31, 2008 mainly due to the bank loan availments of both the parent company and its subsidiaries, increase in the current portion of long-term debt and accounts payable. The decrease in notes payable is due to the payment of the Group's obligation for the Equitable PCI Bank tender offer.

Total Noncurrent Liabilities increased to ₱84.2 billion, mainly due to the issuance of the US$350 million 6.75% Bonds in July 2008 and other long-term loan availments of both the parent company and SM Prime. The details of these transactions are further discussed in Note 20 to the audited consolidated financial statements.

Total Stockholders' equity amounted to ₱149.8 billion as of December 31, 2008, while total Equity attributable to equity holders of the parent amounted to ₱112.6 billion. See Note 22 to the audited consolidated financial statements for further discussion regarding the stockholders' equity.

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

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

Key Performance Indicators

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

Accounts	12 / 31/ 2008	12 / 31/ 2007
Current Ratio	1.42 : 1.00	1.57 : 1.00
Debt-equity Ratios:		
On Gross Basis	47% : 53%	32% : 68%
On Net Basis	20% : 80%	20% : 80%
Return on Equity (annualized)	12.9%	11.7%
Net Income to Revenue	9.5%	9.8%
Revenue Growth	19.1%	39.1%
Net Income Growth	15.6%	15.1%
EBITDA	₱28.1B	₱25.5B

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

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

In terms of profitability, the return on equity improved to 12.9% in 2008 compared to 11.7% in 2007 due to the 14% increase in net income attributable to equity holders of the parent in 2008 compared to 2007. Net income to Revenue slightly dropped to 9.5% in 2008 compared to 9.8% in 2007 due to the increase in cost and expenses in 2008 over 2007. Revenue growth in 2008 decreased to 19.1% compared to 39.1% in 2008 due to the inclusions of the full-operations of SM Supermarket and SM Hypermarkets in 2007, which were acquired only in June 2006. Net income grew by 15.6% in 2008 due to the growth in merchandise and real estate sales, gain on sale of 339.9 million shares of stock of San Miguel Corporation, increase in other income, net of the increase in cost and expenses, general asset provisions and provision for income tax.

EBITDA improved to ₱28.1 billion in 2008 over ₱25.5 billion in 2007 mainly due to the growth in revenues which includes the gain on sale of 339.3 million shares of stock of San Miguel Corporation.

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

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

SM INVESTMENTS CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Investments Corporation is responsible for all information and representations contained in the consolidated balance sheets as at December 31, 2008 and 2007 and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2008, 2007 and 2006, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

HENRY SY, SR.	HARLEY T. SY	JOSE T. SIO
Chairman of the Board	*Chief Executive Officer*	*Chief Financial Officer*

REPORT OF THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Organization and Role of the Committee

The Audit and Corporate Governance Committee Charter requires that the Committee should have at least three and no more than six members of the Board, three of whom shall have a good understanding of finance and financial competency in such area, and one of whom shall be an independent director. The chairman of the Committee is an independent director, Mr. Vicente S. Perez Jr., in compliance with the requirements of the Manual on Corporate Governance. Mr. Perez meets the criteria for independence under the Securities Regulation Code. The Corporate Secretary, Atty. Emmanuel C. Paras, acts as the Committee secretary.

The Committee directly interfaces with the internal and external auditors to perform its duties and responsibilities under the Manual on Corporate Governance, particularly: (i) review and approval of the company's financial reports for compliance with applicable financial reporting standards and regulatory requirements; (ii) oversight of the financial management functions, specifically on risk management and internal control functions; and (iii) evaluation and approval of the plans of the internal and external auditors.

The Committee meets at least four times a year, and may convene additional meetings as may be necessary.

The Committee Charter

Under its Charter, the purpose of the Audit and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the internal control system, the audit process and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee is also tasked to oversee special investigations as may be necessary, review the Charter annually, and evaluate the Committees' as well as its individual members' performance regularly.

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. In summary, the Charter enumerates six items which fall under the responsibilities of the Committee, namely:

- financial statements;
- internal control;
- internal audit;
- external audit;
- compliance; and
- reporting to the Board of Directors and shareholders.

Principal Activities for 2008

The Committee met four times in 2008 (on March 5, on May 7, on August 14 and on November 5) and discussed the following matters:

- The Committee reviewed and discussed with management and SyCip, Gorres, Velayo and Company (SGV & Co.), the company's external auditor, the parent and consolidated financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2007, 1st quarter ended March 31, 2008, six month period ended June 30, 2008, and 3rd quarter ended September 30, 2008, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations.

- The Committee discussed with SGV & Co. its audit plan including of its scope of work, preliminary audit strategy and audit time table.

- The Committee discussed with SGV & Co. significant accounting and audit issues, changes in accounting policies applicable to the SM group, tax updates, and the required communications from the external auditor to the Committee.

- The Committee discussed with the Internal Audit Group its audit plan (including its organizational structure, audit coverage and the challenges it faces), and results of its internal audit work.

- The Committee monitored and assessed the company's compliance with laws and regulations.

- The Committee reviewed the peformance and independence of the external auditor. Except for the regular audit of financial statements and assistance in the preparation of annual income tax returns, SGV & Co. did not render any other professional services in 2008.

Based on its review and discussions, the Committee hereby recommends the approval of the consolidated financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2008, and the re-appointment of SGV & Co. as external auditors.

3 March 2009

VICENTE S. PEREZ
Chairman

HENRY T. SY, JR.
Member

JOSE T. SIO
Member

GREGORY L. DOMINGO
Member

ATTY. CORAZON I. MORANDO
Member

SERAFIN U. SALVADOR
Member

INDEPENDENT AUDITORS' REPORT

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

SGV & Co
Ernst & Young

We have audited the accompanying financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of 14 consolidated subsidiaries in 2008 and 2007. The accompanying consolidated financial statements include the accounts of such consolidated subsidiaries which reflect total assets amounting to ₱21,071.3 million (7.2% of total assets) and ₱24,858.1 million (10.0% of total assets) as of December 31, 2008 and 2007, respectively, and net loss amounting to ₱735.9 million (- 4.2% of total net income) for the year ended December 31, 2008 and net income amounting to ₱3,475.6 million (21.2% of net income) and ₱6,076.9 million (38.8% of net income) for the years ended December 31, 2007 and 2006, respectively. We also did not audit the financial statements of two associates in 2008 and 2007, the investments in which are reflected in the accompanying financial statements using the equity method of accounting amounting to ₱39,966.4 million and ₱45,471.6 million as of December 31, 2008 and 2007, respectively. The Company's equity in the net earnings of such associates for the years ended December 31, 2008, 2007 and 2006 amounted to ₱974.6 million, ₱3,131.6 million and ₱1,046.3 million, respectively. The financial statements of these subsidiaries and associates were audited by other auditors whose unqualified reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors 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, the consolidated financial statements present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 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-1
Tax Identification No. 102-085-577
PTR No. 1566425, January 5, 2009, Makati City

March 4, 2009

CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007 (As restated - Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 18, 20, 23, 30 and 31)	**₱47,099,259,598**	₱15,770,421,570
Time deposits and short-term investments (Notes 8, 20, 23, 30 and 31)	**11,470,639**	4,130,250,000
Investments held for trading and sale - net (Notes 9, 12, 20, 23, 30 and 31)	**7,989,542,922**	33,125,710,073
Receivables - net (Notes 10, 23, 30 and 31)	**8,282,839,867**	5,204,380,360
Merchandise inventories - at cost (Notes 3 and 24)	**7,211,202,801**	5,958,301,914
Input taxes and other current assets - net (Notes 11, 16, 23, 30 and 31)	**12,610,163,795**	7,085,607,234
Total Current Assets	**83,204,479,622**	71,274,671,151
Noncurrent Assets		
Available-for-sale investments - net (Notes 12, 23, 30 and 31)	**2,721,753,894**	5,766,326,611
Investments in shares of stock of associates - net (Note 13)	**46,994,858,862**	52,537,553,709
Time deposits (Notes 8, 20, 23, 30 and 31)	**23,166,253,300**	4,128,000,000
Property and equipment - net (Notes 14 and 18)	**21,041,612,797**	20,305,941,631
Investment properties - net (Notes 15 and 20)	**83,037,432,003**	71,235,692,852
Land and development (Note 16)	**6,896,187,012**	3,890,953,068
Intangibles (Notes 2, 5 and 17)	**11,979,505,650**	11,599,371,403
Deferred tax assets (Note 28)	**1,546,055,496**	1,542,923,932
Other noncurrent assets (Notes 10, 17, 23, 27, 30 and 31)	**11,799,630,459**	7,379,742,090
Total Noncurrent Assets	**209,183,289,473**	178,386,505,296
	₱292,387,769,095	₱249,661,176,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 18, 23, 30 and 31)	**₱18,412,863,309**	₱3,678,598,058
Accounts payable and other current liabilities (Notes 19, 23, 30 and 31)	**30,141,517,144**	25,385,193,719
Income tax payable	**1,152,260,396**	1,335,809,370
Current portion of long-term debt (Notes 20, 23, 30 and 31)	**7,741,828,604**	1,398,370,952
Derivative liabilities (Notes 30 and 31)	**901,634,262**	236,937,197
Dividends payable (Notes 30 and 31)	**64,518,698**	20,416,956
Notes payable (Notes 21, 30 and 31)	**–**	13,334,438,449
Total Current Liabilities	**58,414,622,413**	45,389,764,701
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 23, 30 and 31)	**69,661,225,800**	45,120,859,656
Derivative liabilities (Notes 30 and 31)	**1,485,668,268**	3,053,977,715
Deferred tax liabilities (Note 28)	**4,693,361,143**	3,589,951,721
Defined benefit liability (Note 27)	**511,845,089**	496,027,094
Tenants' deposits and others (Notes 15, 29, 30 and 31)	**7,857,711,949**	6,362,142,309
Total Noncurrent Liabilities	**84,209,812,249**	58,622,958,495
Equity Attributable to Equity Holders of the Parent (Note 30)		
Capital stock (Note 22)	**6,110,230,380**	6,110,230,380
Additional paid-in capital	**35,030,709,537**	35,030,709,537
Equity adjustment from business combination (Note 5)	**(2,311,079,079)**	(2,314,966,118)
Cost of common shares held by subsidiaries (Note 22)	**(24,077,988)**	(24,077,988)
Cumulative translation adjustment of a subsidiary	**414,825,975**	(24,269,878)
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**849,062,041**	8,027,247,612
Retained earnings (Note 22):		
Appropriated	**5,000,000,000**	5,000,000,000
Unappropriated	**65,029,167,143**	54,630,498,481
Total Equity Attributable to Equity Holders of the Parent	**110,098,838,009**	106,435,372,026
Minority Interests	**39,664,496,424**	39,213,081,225
Total Stockholders' Equity	**149,763,334,433**	145,648,453,251
	₱292,387,769,095	₱249,661,176,447

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
REVENUE			
Sales:			
Merchandise	**₱114,847,284,213**	₱98,223,355,533	₱68,401,569,764
Real estate	**3,853,516,008**	2,019,863,263	479,055,252
Rent (Notes 15, 23 and 29)	**13,468,281,889**	11,684,508,643	10,229,105,526
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 31)	**6,601,396,511**	481,910,369	2,220,001,892
Cinema ticket sales, amusement and others	**2,481,245,652**	2,567,185,536	2,271,141,634
Equity in net earnings of associates (Note 13)	**1,637,175,859**	3,945,488,904	2,758,843,422
Dividend income	**775,103,070**	1,037,628,248	1,034,343,716
Management fees (Note 23)	**346,967,721**	266,004,137	290,855,338
Others	**3,487,581,294**	3,662,687,724	1,372,308,352
	147,498,552,217	123,888,632,357	89,057,224,896
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 24)	**92,656,490,759**	79,070,743,640	54,685,342,080
Real estate	**1,800,421,163**	1,160,640,060	199,427,085
Selling, general and administrative expenses (Note 25)	**31,356,444,667**	22,127,846,582	18,074,618,525
	125,813,356,589	102,359,230,282	72,959,387,690
OTHER INCOME (CHARGES)			
Interest income (Notes 23 and 26)	**5,808,614,894**	2,825,988,381	2,537,812,884
Interest expense (Notes 18, 20, 23, 26 and 30)	**(4,472,771,014)**	(4,212,147,288)	(3,442,071,078)
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 13, 14 and 15)	**48,761,270**	78,885,047	3,776,759,019
Foreign exchange gain - net (Note 30)	**3,017,414**	592,237,619	462,750,431
	1,387,622,564	(715,036,241)	3,335,251,256
INCOME BEFORE INCOME TAX	**23,072,818,192**	20,814,365,834	19,433,088,462
PROVISION FOR INCOME TAX (Note 28)			
Current	**4,727,921,541**	4,168,963,155	3,300,523,777
Deferred	**950,051,637**	240,189,619	485,658,920
	5,677,973,178	4,409,152,774	3,786,182,697
NET INCOME	**₱17,394,845,014**	₱16,405,213,060	₱15,646,905,765
ATTRIBUTABLE TO:			
Equity holders of the Parent (Note 32)	**₱14,003,704,586**	₱12,111,349,599	₱10,525,784,720
Minority interests	**3,391,140,428**	4,293,863,461	5,121,121,045
	₱17,394,845,014	₱16,405,213,060	₱15,646,905,765
Earnings Per Common Share (Note 32)			
Basic	**₱22.92**	₱19.82	₱17.99
Dilutive	**₱22.92**	₱17.46	₱17.99

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

				Equity Attributable to
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Equity Adjustments from Business Combination (Note 5)	Cost of Common Shares Held by Subsidiaries (Note 22)
Balance at December 31, 2007 (As restated - Note 5)	**₱6,110,230,380**	**₱35,030,709,537**	**(₱2,314,966,118)**	**(₱24,077,988)**
Net income for the year	–	–	–	–
Loss due to changes in fair value of available-for-sale investments	–	–	–	–
Transferred to income and expenses	–	–	–	–
Share in net unrealized losses on available-for-sale investments of associates	–	–	–	–
Share in cumulative translation adjustment	–	–	–	–
Total income for the year	–	–	–	–
Share in equity adjustment from business combination	–	–	**3,887,039**	–
Cash dividends - ₱5.90 a share	–	–	–	–
Increase in previous year's minority interests	–	–	–	–
Cash dividends received by minority interest	–	–	–	–
Balance at December 31, 2008	**₱6,110,230,380**	**₱35,030,709,537**	**(₱2,311,079,079)**	**(₱24,077,988)**
Balance at December 31, 2006 (As restated - Note 5)	₱5,860,000,000	₱35,030,709,537	(₱2,314,966,118)	(₱55,213,502)
Net income for the year	–	–	–	–
Loss due to changes in fair value of available-for-sale investments	–	–	–	–
Transferred to income and expenses	–	–	–	–
Share in net unrealized losses on available-for-sale investments of associates	–	–	–	–
Share in cumulative translation adjustment	–	–	–	–
Total income for the year	–	–	–	–
Acquisition of common shares held by subsidiaries	–	–	–	(1,621,786)
Disposal of common shares held by subsidiaries	–	–	–	32,757,300
Cash dividends - ₱5.41 a share	–	–	–	–
Stock dividends - 4.27%	250,230,380	–	–	–
Increase in previous year's minority interest	–	–	–	–
Sale of treasury stock pertaining to minority interests	–	–	–	–
Cash dividends received by minority interests	–	–	–	–
Balance at December 31, 2007 (As restated - Note 5)	₱6,110,230,380	₱35,030,709,537	(₱2,314,966,118)	(₱24,077,988)
Balance at December 31, 2005	₱5,300,000,000	₱23,382,709,537	₱–	(₱500,000,000)
Net income for the year	–	–	–	–
Gain due to changes in fair value of available-for-sale investments	–	–	–	–
Transferred to income and expenses	–	–	–	–
Share in net unrealized gain on available-for-sale investments of associates	–	–	–	–
Share in cumulative translation adjustment	–	–	–	–
Total income for the year	–	–	–	–
Issuance of common shares	560,000,000	11,648,000,000	–	–
Acquisition of common shares held by subsidiaries	–	–	–	(34,518,502)
Disposal of common shares held by subsidiaries	–	–	–	479,305,000
Share in equity adjustment from business combination	–	–	(2,314,966,118)	–
Minority interest arising from acquisition of subsidiaries	–	–	–	–
Cash dividends - ₱4.70 a share	–	–	–	–
Cash dividends received by minority interests	–	–	–	–
Balance at December 31, 2006 (As restated - Note 5)	₱5,860,000,000	₱35,030,709,537	(₱2,314,966,118)	(₱55,213,502)

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent					Minority Interests	Total Stockholders' Equity
Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 12 and 13)	Appropriated Retained Earnings (Note 22)	Unappropriated Retained Earnings (Note 22)	Total		
(₱24,269,878)	**₱8,027,247,612**	**₱5,000,000,000**	**₱54,630,498,481**	**₱106,435,372,026**	**₱39,213,081,225**	**₱145,648,453,251**
–	**–**	**–**	**14,003,704,586**	**14,003,704,586**	**3,391,140,428**	**17,394,845,014**
–	**(4,084,716,328)**	**–**	**–**	**(4,084,716,328)**	**(1,524,835,581)**	**(5,609,551,909)**
–	**(122,419,803)**	**–**	**–**	**(122,419,803)**	**(112,010,750)**	**(234,430,553)**
–	**(2,971,049,440)**	**–**	**–**	**(2,971,049,440)**	**(62,632,355)**	**(3,033,681,795)**
439,095,853	**–**	**–**	**–**	**439,095,853**	**128,556,437**	**567,652,290**
439,095,853	**(7,178,185,571)**	**–**	**14,003,704,586**	**7,264,614,868**	**1,820,218,179**	**9,084,833,047**
–	**–**	**–**	**–**	**3,887,039**	**–**	**3,887,039**
–	**–**	**–**	**(3,605,035,924)**	**(3,605,035,924)**	**–**	**(3,605,035,924)**
–	**–**	**–**	**–**	**–**	**112,673,926**	**112,673,926**
–	**–**	**–**	**–**	**–**	**(1,481,476,906)**	**(1,481,476,906)**
₱414,825,975	**₱849,062,041**	**₱5,000,000,000**	**₱65,029,167,143**	**₱110,098,838,009**	**₱39,664,496,424**	**₱149,763,334,433**
(₱25,990,381)	₱11,258,772,679	₱5,000,000,000	₱45,939,639,262	₱100,692,951,477	₱33,856,821,168	₱134,549,772,645
–	–	–	12,111,349,599	12,111,349,599	4,293,863,461	16,405,213,060
–	(3,103,170,792)	–	–	(3,103,170,792)	(1,231,819,171)	(4,334,989,963)
–	(89,665,776)	–	–	(89,665,776)	(48,320,533)	(137,986,309)
–	(38,688,499)	–	–	(38,688,499)	12,015,362	(26,673,137)
1,720,503	–	–	–	1,720,503	740,510	2,461,013
1,720,503	(3,231,525,067)	–	12,111,349,599	8,881,545,035	3,026,479,629	11,908,024,664
–	–	–	–	(1,621,786)	–	(1,621,786)
–	–	–	–	32,757,300	–	32,757,300
–	–	–	(3,170,260,000)	(3,170,260,000)	–	(3,170,260,000)
–	–	–	(250,230,380)	–	–	–
–	–	–	–	–	3,529,403,972	3,529,403,972
–	–	–	–	–	144,834,145	144,834,145
–	–	–	–	–	(1,344,457,689)	(1,344,457,689)
(₱24,269,878)	₱8,027,247,612	₱5,000,000,000	₱54,630,498,481	₱106,435,372,026	₱39,213,081,225	₱145,648,453,251
₱–	₱7,038,286,318	₱5,000,000,000	₱37,904,854,542	₱78,125,850,397	₱27,143,012,040	₱105,268,862,437
–	–	–	10,525,784,720	10,525,784,720	5,121,121,045	15,646,905,765
–	4,567,422,331	–	–	4,567,422,331	1,136,637,795	5,704,060,126
–	(987,438,547)	–	–	(987,438,547)	(543,564,329)	(1,531,002,876)
–	640,502,577	–	–	640,502,577	39,755,988	680,258,565
(25,990,381)	–	–	–	(25,990,381)	(8,329,249)	(34,319,630)
(25,990,381)	4,220,486,361	–	10,525,784,720	14,720,280,700	5,745,621,250	20,465,901,950
–	–	–	–	12,208,000,000	–	12,208,000,000
–	–	–	–	(34,518,502)	–	(34,518,502)
–	–	–	–	479,305,000	–	479,305,000
–	–	–	–	(2,314,966,118)	(2,503,042,860)	(4,818,008,978)
–	–	–	–	–	5,632,645,741	5,632,645,741
–	–	–	(2,491,000,000)	(2,491,000,000)	–	(2,491,000,000)
–	–	–	–	–	(2,161,415,003)	(2,161,415,003)
(₱25,990,381)	₱11,258,772,679	₱5,000,000,000	₱45,939,639,262	₱100,692,951,477	₱33,856,821,168	₱134,549,772,645

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱23,072,818,192**	₱20,814,365,834	₱19,433,088,462
Adjustments for:			
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 31)	**(6,601,396,511)**	(481,910,369)	(2,220,001,892)
Interest income (Note 26)	**(5,808,614,894)**	(2,825,988,381)	(2,537,812,884)
Provisions for impairment losses and others (Note 25)	**5,602,192,944**	818,255,424	1,596,489,245
Depreciation and amortization (Note 25)	**5,237,660,170**	4,559,790,499	3,540,752,974
Interest expense (Note 26)	**4,472,771,014**	4,212,147,288	3,442,071,078
Equity in net earnings of associates (Note 13)	**(1,637,175,859)**	(3,945,488,904)	(2,758,843,422)
Dividend income	**(775,103,070)**	(1,037,628,248)	(1,034,343,716)
Unrealized foreign exchange loss (gain)	**707,849,208**	(747,957,558)	(1,064,025,038)
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 13, 14 and 15)	**(48,761,270)**	(78,885,047)	(3,776,759,019)
Income before working capital changes	**24,222,239,924**	21,286,700,538	14,620,615,788
Increase in:			
Receivables	**(3,539,318,667)**	(1,415,193,927)	(1,402,064,639)
Merchandise inventories	**(1,252,900,887)**	(685,534,470)	(168,890,284)
Input taxes and other current assets	**(5,069,127,399)**	(310,479,894)	(117,735,495)
Land and development	**(2,916,015,556)**	(2,054,602,260)	(560,059,180)
Increase in:			
Accounts payable and other current liabilities	**4,633,399,879**	3,518,729,426	509,766,469
Defined benefit liability	**15,817,995**	17,449,577	239,866,541
Tenants' deposits and others	**1,170,095,548**	978,773,505	1,140,788,263
Net cash generated from operations	**17,264,190,837**	21,335,842,495	14,262,287,463
Income tax paid	**(4,934,512,715)**	(3,702,731,959)	(3,402,961,107)
Net cash provided by operating activities	**12,329,678,122**	17,633,110,536	10,859,326,356
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	**28,606,521,426**	2,749,207,785	2,174,153,339
Investments held for trading	**6,301,475,294**	15,699,644,734	4,798,336,290
Property and equipment	**468,950,447**	3,844,188	316,155,540
Investment properties	**94,038,420**	63,427,659	59,618,827
Investments in shares of stock	**–**	64,682,477	10,193,165,348
Additions to:			
Investments held for trading	**(5,456,729,800)**	(9,867,103,023)	(4,574,027,022)
Property and equipment (Note 14)	**(10,594,170,334)**	(9,316,639,212)	(9,769,042,515)
Investment properties (Note 15)	**(4,584,951,059)**	(5,175,510,758)	(2,363,892,693)
Available-for-sale investments	**(610,930,042)**	(729,440,950)	(1,111,797,033)
Interest received	**5,179,810,901**	2,401,752,441	2,555,652,189
Dividends received	**3,002,052,209**	1,533,900,385	1,153,377,663
Net cash received from (used in) acquisition of subsidiaries (Note 5)	**–**	(926,021,051)	1,708,004,626
Decrease (increase) in:			
Time deposits and short-term investments	**(12,885,878,247)**	(961,062,000)	4,322,913,206
Investments in shares of stock of associates	**(2,322,913,953)**	(2,879,051,231)	(8,457,493,567)
Other noncurrent assets	**(4,554,627,089)**	(2,392,101,207)	(1,652,420,005)
Net cash provided by (used in) investing activities	**₱2,642,648,173**	(₱9,730,469,763)	(₱647,295,807)

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱29,938,955,000**	₱33,365,887,716	₱7,781,412,000
Bank loans	**22,273,082,179**	13,884,501,083	19,203,402,675
Payments of:			
Notes payable	**(13,975,224,233)**	(1,746,898,971)	–
Bank loans	**(7,687,407,632)**	(23,521,587,247)	(15,548,257,328)
Dividends	**(5,042,411,088)**	(4,719,512,959)	(3,021,755,684)
Long-term debt	**(4,727,968,511)**	(25,421,103,553)	(3,502,645,274)
Interest	**(3,470,992,510)**	(4,429,335,042)	(4,756,841,880)
Decrease in minority interests	**(1,293,504,042)**	(1,130,202,923)	(697,871,605)
Proceeds from termination of interest rate and structured swaps (Note 31)	**–**	510,351,575	–
Capital contribution	**–**	–	402,007,921
Disposal of common shares held by subsidiaries (Note 22)	**–**	32,757,300	479,305,000
Acquisition of common shares held by subsidiaries (Note 22)	**–**	(1,621,786)	(34,518,502)
Net cash provided by (used in) financing activities	**16,014,529,163**	(13,176,764,807)	304,237,323
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**341,982,570**	(272,151,249)	(374,506,695)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**31,328,838,028**	(5,546,275,283)	10,141,761,177
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**15,770,421,570**	21,316,696,853	11,174,935,676
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱47,099,259,598**	₱15,770,421,570	₱21,316,696,853

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 4, 2009.

2. Basis of Preparation

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial periods, except for the following new and revised PFRS and Philippine Interpretations which the Group has adopted starting January 1, 2008:

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets,* provides guidance on reclassification from held for trading investments to either loans and receivables, AFS investments and held-to-maturity (HTM) investments. The amendments had no significant impact on the financial position and performance of the Group.

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions,* requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. As the Group did not have any stock option plan, the interpretation had no impact on its financial position and performance.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements,* covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. The interpretation had no impact on the financial position and performance of the Group as this is not relevant to its current operations.

- Philippine Interpretation IFRIC 14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The interpretation had no significant impact on the financial position and performance of the Group.

Future Changes in Accounting Policies
The Group did not early adopt the following standards, interpretations and amendments that have been approved but are not yet effective:

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards,* and PAS 27, *Consolidated* and *Separate Financial Statements,* become effective for financial years beginning on or after January 1, 2009. The amendment to PFRS 1 allows an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27 or using a deemed cost. The amendment to PAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statements of income in the separate financial statements. The adoption of this standard will have no impact on the consolidated financial statements.

- PFRS 3R, *Business Combination,* and PAS 27R, *Consolidated and Separate Financial Statements,* become effective for financial years beginning on or after July 1, 2009. PFRS 3R introduces a number of changes in accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. PAS 27R requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by PFRS 3R must be applied prospectively and will affect future acquisition and transactions with minority interests while PAS 27R must be applied retrospectively subject to certain exceptions. The Group is currently assessing the impact of the revised standards on its consolidated financial statements when it adopts the standard on January 1, 2010.

- PFRS 8, *Operating Segments,* replaces PAS 14, *Segment Reporting*, and becomes effective for annual periods beginning on or after January 1, 2009. This standards adopts a full management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Group does not expect significant impact arising from the adoption of PFRS 8 in 2009 as the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.

- Revised PAS 1, *Presentation of Financial Statements,* becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The revision also includes changes in titles of some of the financial statements to reflect their function more clearly, although not mandatory for use in the financial statements. The Group is currently assessing the impact of the revised standard on its consolidated financial statements when it adopts the standard on January 1, 2009.

- Revised PAS 23, *Borrowing Costs,* becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of this amendment will have no impact on the consolidated financial statements since it is the Group's current policy to capitalize borrowing costs related to a qualifying asset.

- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements,* become effective for financial years beginning on or after January 1, 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group as the Group has not issued such instruments.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* becomes effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes,* becomes effective for financial years beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. As such schemes currently exist in the Group's retail merchandising segment, the Group will assess the impact of this interpretation on its financial position or performance when it adopts the interpretation on January 1, 2009.

- Philippine Interpretation IFRIC 15, *Agreement for the Construction of Real Estate,* becomes effective for annual periods beginning on or after January 1, 2012. This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that when an agreement for the construction of real estate gives buyers only limited ability to influence the design of the real estate and when the entity retains control and the significant risks and rewards of ownership of the work in progress in its current state until the completed real estate is transferred, such agreement is for the sale of goods and revenue should be recognized only when the criteria under

PAS 18, *Revenue*, are met (i.e., at completion). As the Group's real estate development and tourism segment is engaged in this type of activity, the adoption of this interpretation will result in the change in the segment's revenue and cost recognition from percentage of completion method to completed contract method.

- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation,* becomes effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. It provides guidance on the accounting for a hedge of a net investment. In identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The interpretation will have no significant impact on the financial position or performance of the Group.

Improvements to Existing Accounting Standards
The following are the minor improvements on the PFRS which will become effective for the financial years beginning on or after January 1, 2009. The Group has not yet adopted these improvements and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*, removes the reference to "total interest income" as a component of finance costs.

- PAS 1, *Presentation of Financial Statements,* provides that assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* are not automatically classified as current in the consolidated balance sheets.

- PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors,* clarifies that only implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.

- PAS 10, *Events after the Reporting Period,* clarifies that dividends declared after the end of the reporting period are not obligations.

- PAS 16, *Property, Plant and Equipment,* replaces the term "net selling price" with "fair value less costs to sell". It further clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

- PAS 18, *Revenue*, replaces the term "direct costs" with "transaction costs" as defined in PAS 39, *Financial Instruments: Recognition and Measurement.*

- PAS 19, *Employee Benefits,* revises the definition of "past service costs", "return on plan assets" and "short term" and "other long-term" employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. It also deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance,* provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. It also revises various terms used to be consistent with other PFRS.

- PAS 23, *Borrowing Costs,* revises the definition of borrowing costs to consolidate the two types of items that are considered components of borrowing costs into one – the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39, *Financial Instruments: Recognition and Measurement.*

- PAS 27, *Consolidated and Separate Financial Statements,* when a parent entity accounts for a subsidiary at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- PAS 28, *Investments in Associates,* establishes that if an associate is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

- PAS 29, *Financial Reporting in Hyperinflationary Economies,* revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. It also revises various terms used to be consistent with other PFRS.

- PAS 31, *Interests in Joint Ventures,* provides that if a joint venture is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* only the requirement of PAS 31 to disclose the commitments of the venturer and the joint venture as well as summary of financial information about the assets, liabilities, income and expense will apply.

- PAS 34, *Interim Financial Reporting,* requires that earnings per share is disclosed in interim financial reports if an entity is within the scope of PAS 33, *Earnings per Share.*

- PAS 36, *Impairment of Assets,* provides that if discounted cash flows are used to estimate "fair value less costs to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use."

- PAS 38, *Intangible Assets,* requires that expenditure on advertising and promotional activities be recognized as an expense when the Group has either the right to access the goods or has received the services.

- PAS 39, *Financial Instruments: Recognition and Measurement*, changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss"(FVPL) classification after initial recognition. It removes the reference to a segment when determining whether an instrument qualifies as a hedge. It further requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Property,* revises the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. It also revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Error,* and clarifies that the carrying amount of investment property held under lease is the valuation obtained, increased by any recognized liability.

- PAS 41, *Agriculture*, removes the reference to the use of a pre-tax discount rate to determine fair value. It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Furthermore, it replaces the term "point-of-sale costs" with "costs to sell."

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

Company	Effective Percentage of Ownership 2008	2007
Shopping Mall Development		
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries (see Note 5)	**51**	49
Retail Merchandising		
SM Retail Inc. (SM Retail) [a] and Subsidiaries:	**100**	99
Supervalue, Inc. (SVI)	**100**	100
Super Shopping Market, Inc. (SSMI)	**100**	100
Marketwatch Investments Co., Inc. and Subsidiaries*	**100**	100
MH Holdings, Inc. and Subsidiaries*	**100**	100
Sanford Investments Corporation and Subsidiary*	**100**	100
Henfels Investments Corporation and Subsidiaries*	**99**	99
HMS Development Corporation and Subsidiaries*	**99**	99
Romer Mercantile, Inc. and Subsidiaries*	**99**	99
SM Mart, Inc. (SM Mart)	**65**	65
Rappel Holdings, Inc. (Rappel) and Subsidiary (see Note 5)	**80**	80
Real Estate Development and Tourism		
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries*	**100**	100
SM Commercial Properties, Inc. (SMCPI) and Subsidiary (formerly SM Land, Inc. and Subsidiary)*	**99**	99
Intercontinental Development Corporation*	**97**	97

(Forward)

Company	Effective Percentage of Ownership 2008	2007
SM Land, Inc. (formerly Shoe Mart, Incorporated) and Subsidiaries (see Note 5):	**67**	65
SM Development Corporation (SMDC) and Subsidiary	**44**	59
SM Hotels Corporation (SM Hotels) and Subsidiary*	**67**	–
Bellevue Properties, Inc.*	**62**	62
Multi-Realty Development Corporation (MRDC)*	**91**	91
Financial Services		
Primebridge Holdings, Inc.*	**98**	98
Others		
Asia-Pacific Computer Technology Center, Inc. (APCTC)* (see Note 5)	**52**	52

** The financial statements of these subsidiaries were audited by other independent auditors.*
[a] Audited by other independent auditors in 2006.

SMCPI
On September 30, 2008, the Philippine Securities and Exchange Commission (SEC) approved the change in name of SM Land, Inc. to SM Commercial Properties, Inc.

SM Land
On October 3, 2008, the Philippine SEC approved the change in name of Shoe Mart, Incorporated to SM Land, Inc. (SM Land).

On October 5, 2007, the Philippine SEC also approved the increase in the authorized capital stock of SM Land from ₱500.0 million to ₱1,000.0 million. This increase is necessary to provide adequate capital to absorb the transfer of the real estate development and tourism operations.

On October 8, 2007, the respective BOD of SMIC and SM Land entered into an agreement whereby SMIC agreed to swap its 1,823,841,965 SMDC common shares in exchange for 372,212 SM Land common shares based on an independent valuation of the respective shares. On January 24, 2008, the Philippine SEC approved the valuation of the shares of stock of SMDC as consideration for the additional issuance of 372,212 SM Land common shares. The share swap resulted to an increase of SMIC's ownership in SM Land from 65% to 67% while the effective ownership in SMDC was reduced to 44% from 59%. The shares swap also resulted in SMDC becoming a 65%-owned subsidiary of SM Land.

On April 2, 2008, SM Land subscribed to 2,495 common shares of SM Hotels, making it a wholly-owned subsidiary.

SM Retail
On July 31, 2008, Philippine SEC approved the increase in authorized capital stock of SM Retail from ₱0.1 million to ₱1,500.0 million. The increase is necessary to provide adequate capital to absorb the transfer of the retail merchandising operations.

On September 30, 2008, the respective BOD of SM Retail and SMIC entered into agreement wherein SM Retail will issue 12,836,170 shares with par value of ₱100 per share, in exchange for the ownership interest of SMIC over SVI, SSMI, Marketwatch, MH Holdings, Sanford, Henfels, HMS, Romer and SM Mart. The exchange resulted to the increase in ownership interest of SMIC over SM Retail from 99% to 100%.

MRDC
On December 28, 2007, SMIC sold its 12.5 million equity shares in MRDC. The sale decreased SMIC's ownership in MRDC from 91% to 45%, thus, MRDC was accounted for as an associate instead of a subsidiary in the previous year's consolidated financial statements. In 2008, SMIC bought back 12.5 million shares in MRDC which resulted to an increase in SMIC's ownership in MRDC from 45% to 91% (see Note 5).

SM Prime
In December 2007, SMIC acquired a total of 42.7 million additional SM Prime shares, which is equivalent to 0.34% of the total outstanding common stock of SM Prime, at an average price of ₱10.40 a share or for a total cost of ₱444.3 million. The acquisition of such minority interest resulted in goodwill amounting to ₱307.4 million (see Note 17).

At various dates in 2008, SMIC acquired a total of 63.5 million additional SM Prime shares, which is equivalent to 0.47% of the total outstanding common stock of SM Prime, at an average price of ₱9.23 a share or for a total cost of ₱586.4 million. The acquisition of such minority interest resulted in goodwill amounting to ₱380.1 million (see Note 17).

On November 13, 2007, the BOD of SM Prime approved the acquisition of 100% of the outstanding common shares of Affluent Capital Enterprises (Affluent) and Mega Make Enterprise Limited (Mega Make). On November 30, 2008, SM Prime likewise completed the acquisition of 100% ownership of SM Land (China) Limited (SM Land China) (see Note 5).

In 2007, SM Land sold 4.80 million shares of SM Prime. The gain from the sale amounted to ₱37.4 million, included under "Gain on sale of investments in shares of stocks, investment properties and property and equipment" account in the consolidated statements of income.

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

All intragroup balances, income and expenses resulting from intragroup transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date when the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statements of income and within stockholders' equity in the consolidated balance sheets, separately from equity attributable to equity holders of the Parent. Acquisitions of minority interest are accounted for using parent-entity extension model, whereby the difference is recognized as goodwill.

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 Group has determined that its functional currency is the Philippine peso. It is the currency of primary economic environment in which the Group 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 judgment and estimates on the physical portion of contract work done if the development is beyond the preliminary stage.

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 ₱13,468.3 million, ₱11,684.5 million and ₱10,229.1 million for the years ended December 31, 2008, 2007 and 2006, 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 ₱2,007.7 million, ₱1,793.6 million and ₱1,493.7 million for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 25).

Classifying 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 financial assets. The investments would therefore be measured at fair value and not at amortized cost.

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.

Provision for impairment losses amounted to ₱1,018.2 million for the year ended December 31, 2008 and none for years ended December 31, 2007 and 2006. The carrying value of AFS investments amounted to ₱9,439.1 million and ₱35,943.0 million as of December 31, 2008 and 2007, respectively (see Note 12).

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

Allowance for impairment losses amounted to ₱14.6 million and ₱11.8 million as of December 31, 2008 and 2007, respectively. Receivables, including noncurrent portion of receivables from real estate buyers, advances and other receivables included under "Input taxes and other current assets" account and advances from a related party and long-term notes included under "Other noncurrent assets" account, amounted to ₱25,914.7 million and ₱10,636.8 million as of December 31, 2008 and 2007, 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 losses amounted to ₱1,063.3 million and ₱45.1 million as of December 31, 2008 and 2007, respectively. The carrying values of AFS investments amounted to ₱9,439.1 million and ₱35,943.0 million as of December 31, 2008 and 2007, respectively (see Note 12).

Net Realizable Value of Merchandise Inventories. The Group writes down merchandise inventories to net realizable value, through the use of an allowance account, whenever the net realizable value of merchandise inventories becomes 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 merchandise inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after balance sheet date to the extent that such events confirm conditions existing at balance sheet date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

In 2008 and 2007, the Group assessed that the net realizable value of merchandise inventories is higher than cost, hence, the Group did not recognize any losses on write down of merchandise inventories. The carrying value of merchandise inventories amounted to ₱7,211.2 million and ₱5,958.3 million as of December 31, 2008 and 2007, respectively.

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 value of property and equipment and investment properties amounted to ₱104,079.0 million and ₱91,541.6 million as of December 31, 2008 and 2007, 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 losses amounted to ₱4,361.0 million as of December 31, 2008 and none as of December 31, 2007. The carrying values of investments in shares of stock of associates amounted to ₱46,994.9 million and ₱52,537.6 million as of December 31, 2008 and 2007, respectively (see Note 13).

Impairment of Goodwill, Trademarks and Brand Names with Indefinite Useful Lives. The Group's impairment test for goodwill, trademarks and brand names is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets, base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate 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 value of goodwill, trademarks and brand names as of December 31, 2008 and 2007 amounted to ₱11,979.5 million and ₱11,599.4 million, respectively (see Note 17).

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment, investment properties and land and development 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 losses amounted to ₱1,151.7 million and ₱952.0 million as of December 31, 2008 and 2007, respectively. The total carrying values of property and equipment, investment properties and land and development amounted to ₱110,975.2 million and ₱95,432.6 million as of December 31, 2008 and 2007, respectively (see Notes 14, 15 and 16).

Purchase Price Allocation in Business Combinations. The purchase 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 as of December 31, 2008 and 2007 amounted to ₱11,979.5 million and ₱11,599.4 million, respectively (see Note 17).

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

Deferred tax assets recognized in the consolidated balance sheets as of December 31, 2008 and 2007 amounted to ₱1,546.1 million and ₱1,542.9 million, respectively, while the unrecognized deferred tax assets as of December 31, 2008 and 2007 amounted to ₱1,769.6 million and ₱2,458.2 million, respectively (see Note 28).

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. These assumptions include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to ₱570.1 million as of December 31, 2008 and net cumulative unrecognized actuarial loss amounting to ₱323.1 million and ₱226.2 million as of December 31, 2007 and 2006, respectively (see Note 27).

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

The fair value of financial assets and liabilities are discussed in Note 31.

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 and are subject to an insignificant risk of change in value.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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

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

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

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

Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Assets under this category are classified as current assets if expected to be realized within 12 months from balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account.

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

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

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

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

The Group's investments held for trading and derivative assets are classified under this category (see Note 31).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Loans and receivable are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if collectibility is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents, time deposits and short-term investments and receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Input taxes and other current assets" account), receivable from a related party and long-term notes (included under "Other noncurrrent assets" account) are classified under this category (see Note 31).

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

The Group's investment in quoted Philippine government treasury bonds are classified under this category (see Note 31).

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

The Group's investments in shares of stock, redeemable preferred shares, bonds and corporate notes, and club shares are classified under this category. The current portion is included under "Investments held for trading and sale" account in the consolidated balance sheets (see Note 31).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category. Liabilities under this category are classified as current liabilities if expected to be settled within 12 months from balance sheet date and as noncurrent liabilities if maturity date is more than a year from balance sheet date.

The Group's derivative liabilities arising from issuance of convertible bonds and future sale of AFS investments in San Miguel Corporation (SMC) common shares in 2007 and derivative financial instruments with negative fair values are included under this category (see Note 31).

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

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, notes payable, long-term debt and tenants' deposits are classified under this category (see Note 31).

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

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

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

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

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

Debt Issue Costs
Debt issue costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest rate method.

Derivative Financial Instruments and Hedging

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

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

Embedded Derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Options arising from convertible bonds and call options arising from future sale of SMC common shares are the Group's bifurcated embedded derivatives (see Notes 12 and 20).

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

Derecognition of Financial Assets and Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

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

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is 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 year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Other revenue" account. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

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

AFS Financial Assets. The Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS financial assets, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from equity 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 equity.

In the case of debt instruments classified as AFS financial assets, 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 gross in the consolidated balance sheets.

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

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

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

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

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

a. goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profits or losses.

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

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Combinations

Business combinations are accounted for using the purchase method of accounting except for commonly controlled transactions, of which, pooling of interest method is used. 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, plus any directly attributable costs. The identifiable assets, liabilities and contingent liabilities that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest. For 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 adjustment from business combination" account in the stockholders' equity section of the consolidated balance sheets.

The acquisition of SM China Companies, SM Hotels and MRDC were considered as business combination of companies under common control. Thus, the acquisitions were accounted for using pooling of interests method.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment in value.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, Segment Reporting.

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

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

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

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus 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 with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Impairment of Non-financial Assets

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

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

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of merchandise inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery.

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

Real estate costs that relate to the acquisition, development, improvement and construction of the condominium units are capitalized. The capitalized costs of condominium units are charged to operations when the related revenue is recognized.

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

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

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

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

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

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

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

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

Management Fees
Management fees are recognized as expense in accordance with the terms of the agreements.

Pension Benefits
The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

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

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

Foreign Currency Translation
The functional currency of the Group's foreign operation is China yuan renminbi. As of the reporting date, the assets and liabilities of foreign operations of a subsidiary are translated into Philippine peso at the rate of exchange ruling at balance sheet date and its income and expenses are translated at the weighted average rate for the year. The resulting translation differences are included in the consolidated statements of changes in stockholders' equity under "Cumulative translation adjustments of a subsidiary". On disposal of a foreign entity, the accumulated exchange differences are recognized in the consolidated statements of income as a component of the gain or loss on disposal.

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

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

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

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

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

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

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest expense calculated using the effective interest rate method and other costs incurred in connection with the borrowing of funds used to finance the construction in progress.

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events
Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Business Combinations

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

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

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

On November 30, 2008, SM Prime likewise completed the acquisition of 100% ownership of SM Land China from Grand China for ₱11,360.0 (HK$2,000). As a result of the acquisition, SM Land China became a wholly-owned subsidiary of SM Prime.

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

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

Acquisition of Affluent and Mega Make

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

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

Cost:	
Fair value of shares issued	₱4,809,598,537
Costs associated with the acquisition	24,918,802
	₱4,834,517,339
Cash outflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	₱558,441
Cash paid	(24,918,802)
Net cash outflow	(₱24,360,361)

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

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

Cost:	
Fair value of shares issued	₱3,315,186,650
Costs associated with the acquisition	17,316,456
	₱3,332,503,106
Cash outflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	₱17,890
Cash paid	(17,316,456)
Net cash outflow	(₱17,298,566)

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

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

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

Cash inflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	₱7,511,421
Cash paid	(11,360)
Net cash inflow	₱7,500,061

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

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

Acquisition of MRDC
As stated in Note 2, SMIC reacquired the 12.5 million shares in 2008. The reacquisition is considered as business combination of companies under common control. Thus, it was accounted using the pooling of interest method. MRDC is an unlisted company engaged in acquiring and holding, by purchase or lease, land and buildings or interests on land and buildings and managing, improving, developing and constructing land acquired or owned.

The acquisition cost of MRDC shares amounted to ₱26.8 million and the details of the net cash inflow on the acquisition are as follows:

Cash inflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	₱35,702,668
Cash paid	(26,750,000)
Net cash inflow	₱8,952,668

The excess of the cost of business combination over the net carrying amounts of the assets and liabilities at the beginning of the earliest period presented of the acquired company amounting to (₱3.9 million) included under the "Equity adjustment from business combination" account in the stockholders' equity section of the consolidated balance sheets.

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

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

The transaction was accounted for under purchase method. The fair values of the identifiable assets and liabilities of Rappel, as at the date of acquisition, and the corresponding carrying amounts immediately before the acquisition are as follows:

	Fair Value (Recognized on Acquisition Date - restated)	Previous Carrying Value
Cash and cash equivalents	₱221,670	₱221,670
Investment in Makro	2,201,379,065	1,713,181,750
	2,201,600,735	1,713,403,420
Trade and other payables	(245,411)	(245,411)
Net assets	2,201,355,324	1,713,158,009
% of ownership acquired	40%	40%
Net assets acquired	880,542,130	₱685,263,204
Goodwill arising from acquisition (see Note 17)	47,892,148	
Total consideration	₱928,434,278	

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

Acquisition Cost:	
Cash paid	₱928,166,527
Costs associated with the acquisition	267,751
	₱928,434,278
Cash outflow on acquisition:	
Net cash acquired with the subsidiary	₱221,670
Cash paid	(928,434,278)
Net cash outflow	(₱928,212,608)

The accounting recognized in the December 31, 2007 consolidated financial statements was based on a provisional assessment of fair values. The valuation of investment in Makro was completed in May 2008 and showed the fair value at the date of acquisition was ₱2,201.4 million, an increase of ₱488.2 million and goodwill of ₱47.9 million, a reduction of ₱195.3 million compared with the provisional value.

The acquisition cost of the initial 40% previously held interest in Rappel approximates the fair value of the net assets acquired, hence, no goodwill was recognized therefrom.

From the date of acquisition, Rappel has contributed ₱22.3 million loss to the net income of the Group. If the combination had taken place at the beginning of 2007, the consolidated net income for the year ended December 31, 2007 would have been ₱16,301.1 million and the consolidated revenue would have been ₱133,923.3 million.

The consolidated assets and liabilities after effecting the acquisition of SM China Companies, MRDC and finalization of fair values of Rappel as of December 31, 2007 are presented below:

	December 31, 2007 (As previously reported)	Adjustments: SM China Companies	Adjustments: Rappel
			(In Thousands)
Assets			
Cash and cash equivalents	₱15,574,971	₱189,240	₱–
Time deposits and short-term investments	4,130,250	–	–
Investments held for trading and sale	33,125,710	–	–
Receivables	14,158,843	22,512	–
Merchandise inventories - at cost	5,958,302	–	–
Input taxes and other current assets	2,748,665	129,782	–
Available-for-sale investments - net	5,765,389	–	–
Investments in shares of stock of associates	42,478,949	–	–
Time deposits - noncurrent	4,128,000	–	–
Property and equipment - net	18,397,832	923,438	984,493
Investment properties - net	63,767,978	7,441,619	–
Land and development	3,890,953	–	–
Intangibles	11,794,650	–	(195,279)
Deferred tax assets	1,439,338	103,586	–
Other noncurrent assets	7,124,608	204,315	–
Total assets	₱234,484,438	₱9,014,492	₱789,214
Liabilities and Stockholders' Equity			
Bank loans	₱3,037,560	₱641,038	₱–
Accounts payable and other current liabilities	25,003,786	366,170	–
Income tax payable	1,236,403	99,406	–
Current portion of long-term debt	833,351	565,020	–
Derivative liabilities	236,937	–	–
Dividends payable	20,417	–	–
Notes payable	8,118,761	–	–
Long-term debt - net of current portion	42,832,529	2,288,331	–
Derivative liabilities - noncurrent	3,053,978	–	–
Deferred tax liabilities	3,474,208	43,478	72,266
Defined benefit liability	495,514	–	–
Tenants' deposits and others	5,008,344	1,350,482	–
Total liabilities	93,351,788	5,353,925	72,266
Equity Attributable to Equity Holders of the Parent			
Capital stock	6,110,230	–	–
Additional paid-in capital	35,030,710	–	–
Equity adjustment from business combination	–	(2,314,966)	–
Cost of common shares held by subsidiaries	(10,695)	–	–
Cumulative translation adjustment of a subsidiary	–	(24,270)	–
Net unrealized gain on available-for-sale investments	7,952,664	(554)	–
Retained earnings:			
Appropriated	5,000,000	–	–
Unappropriated	54,804,637	(438,292)	(8,401)
Total equity attributable to equity holders of the parent	108,887,546	(2,778,082)	(8,401)
Minority Interests	32,245,104	6,438,649	725,349
Total stockholders' equity	141,132,650	3,660,567	716,948
Total liabilities and stockholders' equity	₱234,484,438	₱9,014,492	₱789,214

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Adjustments		
MRDC	Reclassification	December 31, 2007 (As restated)
₱6,211	₱–	₱15,770,422
–	–	4,130,250
–	–	33,125,710
(4,778,115)	(4,198,860)	5,204,380
–	–	5,958,302
8,300	4,198,860	7,085,607
938	–	5,766,327
10,058,605	–	52,537,554
–	–	4,128,000
178	–	20,305,941
26,096	–	71,235,693
–	–	3,890,953
–	–	11,599,371
–	–	1,542,924
50,819	–	7,379,742
₱5,373,032	₱–	₱249,661,176
₱–	₱–	₱3,678,598
15,237	–	25,385,193
–	–	1,335,809
–	–	1,398,371
–	–	236,937
–	–	20,417
5,215,677	–	13,334,438
–	–	45,120,860
–	–	3,053,978
–	–	3,589,952
513	–	496,027
3,316	–	6,362,142
5,234,743	–	104,012,722
–	–	6,110,230
–	–	35,030,710
–	–	(2,314,966)
(13,383)	–	(24,078)
–	–	(24,270)
75,138	–	8,027,248
–	–	5,000,000
272,554	–	54,630,498
334,309	–	106,435,372
(196,020)	–	39,213,082
138,289	–	145,648,454
₱5,373,032	₱–	₱249,661,176

The consolidated revenue and net income after effecting the acquisition of SM China Companies, MRDC and finalization of fair values of Rappel for the years ended December 31, 2007 and 2006 are presented below:

	2007				
	As previously reported	Adjustments SM Prime	Rappel	MRDC	As restated
			(In Thousands)		
Revenue	₱122,536,619	₱615,331	₱–	₱736,682	₱123,888,632
Net income	16,117,244	(2,385)	(39,536)	329,890	16,405,213

	2006		
	As previously reported	Adjustments - SM Prime	As restated
		(In Thousands)	
Revenue	₱88,739,395	₱317,830	₱89,057,225
Net income	15,241,164	405,742	15,646,906

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

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

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

6. Segment Information

Business Segments
The business segment is determined as the primary segment reporting format as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group conducts its business principally in the following segments: shopping mall development, retail merchandising, and real estate development and tourism.

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 merchandising 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.

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

Inter-segment Transactions
Transfer prices between business segments are set on an arm's length basis similar to transactions with related parties. Segment revenue, segment expenses and segment results include transfers between business segments. Such transfers are eliminated in consolidation.

Business Segment Data

	2008					
	Shopping Mall Development	**Retail Merchandising**	**Real Estate Development and Tourism**	**Others**	**Eliminations**	**Consolidated**
			(In Thousands)			
Revenue	**₱18,751,431**	**₱120,739,776**	**₱5,690,004**	**₱16,746,268**	**(₱14,428,927)**	**₱147,498,552**
Segment results:						
Income before income tax	**₱9,480,426**	**₱6,851,090**	**₱2,134,967**	**₱11,607,501**	**(₱7,001,166)**	**₱23,072,818**
Provision for income tax	**(2,747,139)**	**(2,041,678)**	**(343,302)**	**(550,708)**	**4,854**	**(5,677,973)**
Net income	**₱6,733,287**	**₱4,809,412**	**₱1,791,665**	**₱11,056,793**	**(₱6,996,312)**	**₱17,394,845**
Net income attributable to:						
Equity holders of the Parent	**₱6,412,215**	**₱4,699,498**	**₱1,790,699**	**₱11,056,752**	**(₱9,955,459)**	**₱14,003,705**
Minority interests	**321,072**	**109,914**	**966**	**41**	**2,959,147**	**3,391,140**
Segment assets (excluding deferred tax)	**₱95,296,018**	**₱51,798,476**	**₱44,462,358**	**₱143,774,696**	**(₱44,489,834)**	**₱290,841,714**
Segment liabilities (excluding deferred tax)	**₱46,558,404**	**₱23,964,566**	**₱11,527,846**	**₱78,051,954**	**(₱22,171,696)**	**₱137,931,074**
Net cash flows provided by (used in):						
Operating activities	**₱10,806,595**	**₱6,054,989**	**(₱851,409)**	**(₱9,877,966)**	**₱6,197,469**	**₱12,329,678**
Investing activities	**(5,751,300)**	**(1,407,435)**	**630,587**	**15,066,495**	**(5,895,699)**	**2,642,648**
Financing activities	**3,023,035**	**(3,923,577)**	**(47,749)**	**17,777,772**	**(814,952)**	**16,014,529**
Other information:						
Investments in shares of stock of associates	**₱–**	**₱–**	**₱1,800,559**	**₱45,194,300**	**₱–**	**₱46,994,859**
Equity in net earnings of associates	**–**	**–**	**193,952**	**1,443,224**	**–**	**1,637,176**
Capital expenditures	**9,016,568**	**1,464,531**	**5,608,827**	**2,005,211**	**–**	**18,095,137**
Depreciation and amortization	**2,754,612**	**1,845,800**	**256,098**	**381,150**	**–**	**5,237,660**

	2007 (As restated - see Note 5)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Revenue	₱15,948,530	₱105,306,419	₱3,200,850	₱7,995,861	(₱8,563,028)	₱123,888,632
Segment results:						
Income before income tax	₱8,870,053	₱7,139,210	₱1,317,740	₱5,589,098	(₱2,101,735)	₱20,814,366
Provision for income tax	(2,586,837)	(1,539,502)	(195,212)	(118,082)	30,480	(4,409,153)
Net income	₱6,283,216	₱5,599,708	₱1,122,528	₱5,471,016	(₱2,071,255)	₱16,405,213
Net income attributable to:						
Equity holders of the Parent	₱5,972,394	₱5,592,210	₱1,122,528	₱5,471,016	(₱6,046,798)	₱12,111,350
Minority interests	310,822	7,498	–	–	3,975,543	4,293,863
Segment assets (excluding deferred tax)	₱76,305,334	₱55,137,914	₱16,606,760	₱110,409,676	(₱10,341,431)	₱248,118,253
Segment liabilities (excluding deferred tax)	₱32,116,135	₱22,375,997	₱6,679,489	₱51,906,470	(₱12,655,320)	₱100,422,771

(Forward)

	2007 (As restated - see Note 5)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Net cash flows provided by (used in):						
Operating activities	₱9,852,496	₱4,901,246	(₱3,979,319)	₱4,583,460	₱2,275,228	₱17,633,111
Investing activities	(4,135,352)	(338,385)	1,808,823	(1,240,979)	(5,824,577)	(9,730,470)
Financing activities	(10,840,975)	(2,506,098)	1,124,630	(4,398,044)	3,443,722	(13,176,765)
Other information:						
Investments in shares of stock of associates	₱–	₱2,001,173	₱–	₱50,536,381	₱–	₱52,537,554
Equity in net earnings of associates	–	369,976	–	3,575,513	–	3,945,489
Capital expenditures	8,375,761	2,959,143	2,626,842	2,585,006	–	16,546,752
Depreciation and amortization	2,623,978	1,676,253	9,999	249,560	–	4,559,790

	2006 (As restated - see Note 5)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Revenue	₱13,797,044	₱74,822,246	₱1,322,188	₱5,532,603	(₱6,416,856)	₱89,057,225
Segment results:						
Income before income tax	₱8,609,339	₱8,412,352	₱563,210	₱3,189,829	(₱1,341,641)	₱19,433,089
Provision for income tax	(2,453,692)	(1,313,674)	(45,744)	(61,144)	88,071	(3,786,183)
Net income	₱6,155,647	₱7,098,678	₱517,466	₱3,128,685	(₱1,253,570)	₱15,646,906
Net income attributable to:						
Equity holders of the Parent	₱5,854,665	₱7,098,678	₱517,466	₱3,128,685	(₱6,073,709)	₱10,525,785
Minority interests	300,982	–	–	–	4,820,139	5,121,121
Segment assets (excluding deferred tax)	₱79,244,686	₱44,758,440	₱18,863,522	₱100,501,424	(₱8,163,886)	₱235,204,186
Segment liabilities (excluding deferred tax)	₱38,099,825	₱19,037,892	₱10,362,657	₱41,353,668	(₱10,642,694)	₱98,211,348
Net cash flows provided by (used in):						
Operating activities	₱7,520,716	₱5,916,739	₱1,059,328	₱13,600,926	(₱17,238,383)	₱10,859,326
Investing activities	(7,113,020)	2,151,252	(4,807,977)	(14,695,470)	23,817,919	(647,296)
Financing activities	4,200,116	(5,726,207)	4,698,190	1,815,383	(4,683,245)	304,237
Other information:						
Investments in shares of stock of associates	₱–	₱1,170,082	₱6,989,685	₱38,387,010	₱–	₱46,546,777
Equity in net earnings of associates	–	242,854	112,403	2,403,586	–	2,758,843
Capital expenditures	9,139,262	2,017,460	697,354	838,918	–	12,692,994
Depreciation and amortization	2,041,047	1,222,943	8,550	268,213	–	3,540,753

7. Cash and Cash Equivalents

This account consists of:

	2008	2007 (As restated - see Note 5)
Cash on hand and in banks (see Note 23)	**₱6,569,806,822**	₱4,612,631,744
Temporary investments (see Notes 18, 20 and 23)	**40,529,452,776**	11,157,789,826
	₱47,099,259,598	₱15,770,421,570

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.

8. Time Deposits and Short-term Investments

This account consists of:

	2008	2007 (As restated - see Note 5)
Time deposits:		
Pledged (see Notes 20 and 23)	**₱6,606,483,700**	₱7,804,208,398
Not pledged (see Note 23)	**16,559,769,600**	451,791,602
	23,166,253,300	8,256,000,000
Short-term investments	**11,470,639**	2,250,000
	23,177,723,939	8,258,250,000
Less current portion	**11,470,639**	4,130,250,000
Noncurrent portion	**₱23,166,253,300**	₱4,128,000,000

The time deposits as of December 31, 2008 amounting to US$487.5 million (₱23,166.3 million) bear annual interest ranging from 5.25% to 6.50%, US$139.0 million (₱6,606.5 million) of which is due in March and October 2010, while US$348.5 million (₱16,559.8 million) is due in July 2013.

The time deposits as of December 31, 2007 amounting to US$100.0 million (₱4,128.0 million), which bear annual interest of 5.0%, matured in October 2008.

A portion of the time deposits amounting to US$139.0 million (₱6,606.5 million) and US$189.1 million (₱7,804.2 million) as of December 31, 2008 and 2007, respectively, was used as collateral for a loan obtained by SMIC (see Note 20).

9. Investments Held for Trading and Sale

This account consists of:

	2008	2007 (As restated - see Note 5)
Investments held for trading:		
Shares of stock (see Note 23)	**₱1,128,299,212**	₱2,506,275,272
Bonds	**143,857,296**	442,776,480
	1,272,156,508	2,949,051,752
Available-for-sale investments (see Note 12):		
Shares of stock	**3,660,861,669**	28,445,565,103
Redeemable preferred shares	**2,452,705,199**	–
Bonds and corporate notes	**1,621,985,479**	1,731,093,218
	7,735,552,347	30,176,658,321
Less allowance for impairment losses	**1,018,165,933**	–
	6,717,386,414	30,176,658,321
	₱7,989,542,922	₱33,125,710,073

The Group recognized unrealized loss of ₱1,375.3 million and unrealized gain of ₱566.7 million and ₱529.0 million from fair value adjustments of investments held for trading for the years ended December 31, 2008, 2007 and 2006, respectively. Gain on sale of investments held for trading amounted to ₱21.3 million, ₱35.8 million and ₱283.6 million for the years ended December 31, 2008, 2007 and 2006, respectively. The amounts are included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

10. Receivables

This account consists of:

	2008	2007 (As restated - see Note 5)
Trade:		
Tenants (see Note 23)	**₱2,547,097,921**	₱2,090,394,024
Real estate buyers	**2,604,859,958**	1,690,620,374
Due from related parties (see Note 23)	**3,831,013,640**	1,740,452,366
Management fees (see Note 23)	**386,364,238**	450,505,721
Dividends	**51,249**	118,924,269
Total	**9,369,387,006**	6,090,896,754
Less allowance for impairment losses	**8,926,235**	8,926,235
	9,360,460,771	6,081,970,519
Less noncurrent portion of receivables from real estate buyers (see Note 17)	**1,077,620,904**	877,590,159
Current portion	**₱8,282,839,867**	₱5,204,380,360

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 23.
- Dividends receivable are noninterest-bearing and are normally collectible within the next financial year.
- Allowance for impairment losses amounting to ₱8.9 million as of December 31, 2008 and 2007 pertains to receivables from tenants.

The aging analysis of receivables as of December 31, 2008 and 2007 are as follows:

	2008					
	Neither Past Due nor Impaired	**Past Due but not Impaired**				
		31-90 Days	**91-120 Days**	**Over 120 Days**	**Impaired**	**Total**
Trade:						
Tenants	**₱2,112,657,264**	**₱425,514,422**	**₱–**	**₱–**	**₱8,926,235**	**₱2,547,097,921**
Real estate buyers:						
Current	**2,385,888,122**	**230,997,616**	**10,253,624**	**190,413,228**	**–**	**2,817,552,590**
Noncurrent	**2,032,334,310**	**–**	**–**	**–**	**–**	**2,032,334,310**
Due from related parties	**3,831,013,640**	**–**	**–**	**–**	**–**	**3,831,013,640**
Management fees	**386,364,238**	**–**	**–**	**–**	**–**	**386,364,238**
Dividends	**51,249**	**–**	**–**	**–**	**–**	**51,249**
	₱10,748,308,823	**₱656,512,038**	**₱10,253,624**	**₱190,413,228**	**P8,926,235**	**₱11,614,413,948**
Less unrecognized portion of trade receivable from real estate buyers due to percentage of completion method						**2,245,026,942**
Net receivables before allowance for doubtful accounts						**₱9,369,387,006**

	2007 (As restated - Note 5)					
	Neither Past Due nor Impaired	Past Due but not Impaired 31-90 Days	91-120 Days	Over 120 Days	Impaired	Total
Trade:						
Tenants	₱2,011,599,000	₱65,150,200	₱4,718,589	₱–	₱8,926,235	₱2,090,394,024
Real estate buyers:						
Current	1,352,570,561	42,785,868	15,877,347	94,071,236	–	1,505,305,012
Noncurrent	1,900,140,225	–	–	–	–	1,900,140,225
Due from related parties	1,740,452,366	–	–	–	–	1,740,452,366
Management fees	450,505,721	–	–	–	–	450,505,721
Dividends	118,924,269	–	–	–	–	118,924,269
	₱7,574,192,142	₱107,936,068	₱20,595,936	₱94,071,236	₱8,926,235	7,805,721,617
Less unrecognized portion of trade receivable from real estate buyers due to percentage of completion method						1,714,824,863
Net receivables before allowance for doubtful accounts						₱6,090,896,754

These was no movement in allowance for doubtful accounts in 2008 and 2007.

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

11. Input Taxes and Other Current Assets

This account consists of investments in:

	2008	2007 (As restated - see Note 5)
Advances and other receivables (see Note 23)	**₱8,967,610,096**	₱4,357,715,002
Prepaid taxes and other prepayments	**2,064,607,518**	1,852,884,123
Advances for project development (see Note 17)	**880,425,671**	7,500,000
Input tax	**639,804,424**	1,015,475,389
Supplies and uniform inventory	**400,449,758**	249,565,482
Condominium units for sale (see Note 16)	**147,253,556**	89,619,146
	13,100,151,023	7,572,759,142
Less allowance for impairment losses	**489,987,228**	487,151,908
	₱12,610,163,795	₱7,085,607,234

- Advances and other receivables include receivables from banks, credit cards and others which are noninterest-bearing and are normally collectible on a 30 to 90 days' term. This also includes interest bearing advances to third parties, which are normally collectible within the next financial year, and accrued interest which relates mostly to short-term time deposits that will mature within the next financial year. Interest on time deposits are collected at respective maturity dates.

- Advances for project development mostly pertains to advances made to related parties for the acquisition of land for future development. In 2008, the BOD ratified the plan to transfer the ownership of the acquired land to SMDC. As of December 31, 2007, advances for project development amounting to ₱615.0 million is shown under "Other noncurrent assets" account in the consolidated balance sheet (see Note 17).

  The movements in allowance for impairment losses per classification follow:

	Prepaid Taxes and Other Payments	Advances and Other Receivables	Total
As of January 1, 2008	₱484,281,958	₱2,869,950	₱487,151,908
Provision for the year	–	2,835,320	2,835,320
As of December 31, 2008	₱484,281,958	₱5,705,270	₱489,987,228

There was no movement in allowance for impairment losses in 2007.

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

This account consists of investments in:

	2008	2007 (As restated - see Note 5)
Shares of stock:		
Listed	**₱5,730,617,710**	₱31,432,800,983
Unlisted	**340,592,366**	349,660,450
Redeemable preferred shares (see Note 23)	**2,552,699,740**	2,218,254,419
Bonds and corporate notes	**1,872,703,063**	1,982,210,718
Club shares	**5,825,000**	5,190,000
	10,502,437,879	35,988,116,570
Less allowance for impairment losses	**1,063,297,571**	45,131,638
	9,439,140,308	35,942,984,932
Less current portion (see Note 9)	**6,717,386,414**	30,176,658,321
Long-term portion	**₱2,721,753,894**	₱5,766,326,611

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

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

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

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

The agreement contains an embedded derivative which is further discussed in Note 31.

On October 31, 2008, the sale of SMC shares was consummated through the PSE, for which SMIC recorded a gain on disposal amounting to ₱7,145.7 million 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 account also includes investments of SM Prime in redeemable preferred shares issued by local entities with annual dividend rates of 6.5% to 8.25% (see Note 23). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The shares are mandatorily redeemable in 2009 up to 2011 at par. Preferred shares amounting to ₱1,500.0 million and ₱1,000.0 million, with an annual dividend rate of 10.46%, were early redeemed in July 2007 and August 2007, respectively.

Investments in bonds and corporate notes include government bonds which were purchased with fixed interest rates ranging from 10.63% to 15.63% and trust fund with interest rate of 5.30%. These investments are peso-denominated and will mature on various dates starting April 1, 2008 until September 8, 2010. These likewise include corporate notes issued by a local entity with interest rate based on Philippine Dealing System Treasury-Fixing (PDST-F) plus an agreed margin.

The movements in net unrealized gain on AFS investments for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007 (As restated - see Note 5)
Balance at beginning of year	**₱8,027,247,612**	₱11,258,772,679
Loss due to changes in fair value of AFS investments	**(4,084,716,328)**	(3,103,170,792)
Transferred to income and expenses	**(122,419,803)**	(89,665,776)
Share in net unrealized losses of associates (see Note 13)	**(2,971,049,440)**	(38,688,499)
Balance at end of year	**₱849,062,041**	₱8,027,247,612

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 ₱122.4 million, ₱89.7 million and ₱987.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. The amounts are exclusive of the share of the minority interests.

13. Investments in Shares of Stock of Associates

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

	2008	2007 (As restated - see Note 5)
Acquisition cost:		
Balance at beginning of year	**₱38,902,392,294**	₱37,175,626,751
Additions	**2,322,913,953**	2,879,051,231
Disposals/reclassifications	**–**	(1,152,285,688)
Balance at end of year	**41,225,306,247**	38,902,392,294
Accumulated equity in net earnings:		
Balance at beginning of year	**13,635,161,415**	9,801,150,448
Equity in net earnings	**1,637,175,859**	3,945,488,904
Dividends received	**(2,108,076,119)**	(615,196,406)
Accumulated equity in net earnings of investments sold/reclassified	**–**	530,391,606
Share in net unrealized losses on AFS investments of associates	**(3,033,681,795)**	(26,673,137)
Balance at end of year	**10,130,579,360**	13,635,161,415
	51,355,885,607	52,537,553,709
Allowance for probable losses/decline in market value:		
Balance at beginning of year	**–**	430,000,000
Additions	**4,361,026,745**	–
Reclassification	**–**	(430,000,000)
Balance at end of year	**4,361,026,745**	–
	₱46,994,858,862	₱52,537,553,709

The Group recognized its share in the net loss on AFS investments of the associates amounting to ₱3,033.7 million and ₱26.7 million and net gain of ₱680.3 million, inclusive of the share of the minority interests amounting to ₱62.6 million, (₱12.0 million) and ₱39.8 million, respectively, for the years ended December 31, 2008, 2007 and 2006, respectively. The net unrealized gain or loss was recognized directly as a separate component of the stockholders' equity. The Group also recognized a provision for decline in market value amounting to ₱4,361.0 million in 2008 on its investment in BDO. The reclassification of ₱430.0 million provision for probable losses in 2007 relates to the acquisition of Makro through Rappel (see Note 5).

The major associates of the Group are as follows:

Company	Effective Percentage of Ownership 2008	2007	Principal Activities
Banco de Oro Unibank, Inc. (BDO)*	**43**	46	Financial services
Sodexho Pass, Inc.*	**40**	40	Retail merchandising
Highlands Prime, Inc. (Highlands Prime)	**24**	24	Real estate and tourism
China Banking Corporation (China Bank)	**20**	20	Financial services

** The financial statements of these associates were audited by other independent auditors.*

On September 30, 2008, SMIC acquired 120 million Series A preferred shares of BDO at a par value of P10 per share. The preferred shares are perpetual, voting, non-cumulative, non-participating and are convertible into common shares of BDO on any trading day after three years from issue date based on a specified formula. The preferred shares carry a fixed dividend rate of 6.5% per annum. The shares acquired represent a portion of the total preferred shares issued by BDO, hence, the transaction resulted to a dilution in the Group's ownership interest in BDO.

At various dates in 2008, SMIC acquired a total of 26.4 million additional BDO common shares, which is equivalent to 1% of the total outstanding common stock of BDO, at an average price of ₱24.2 a share or for a total cost of ₱639.5 million.

At various dates in 2008, SMIC acquired a total of 0.2 million additional China Bank shares, which is equivalent to 0.2% of the total outstanding common stock of China Bank, at average price of ₱43 a share or for a total cost of ₱91.4 million.

The detailed carrying values of the Group's investments in associates as of December 31 are as follows:

	2008	2007 (As restated - see Note 5)
BDO	**₱39,966,391,438**	₱45,471,595,192
China Bank	**5,448,306,751**	5,518,966,680
Highlands Prime	**1,580,160,673**	1,546,991,837
	₱46,994,858,862	₱52,537,553,709

The condensed financial information of significant associates are shown below:

	2008	2007
	(In Thousands)	
BDO:		
Total resources	**₱802,032,074**	₱617,421,476
Total liabilities	**744,257,854**	556,880,848
Interest income	**42,359,477**	37,603,306
Interest expense	**19,323,080**	16,166,574
Net income	**2,237,969**	6,570,330
China Bank:		
Total resources	**208,547,054**	175,687,170
Total liabilities	**182,670,366**	148,952,129
Interest income	**12,405,004**	11,437,320
Interest expense	**5,881,789**	4,940,899
Net income	**2,917,188**	3,681,435
Highlands Prime:		
Total current assets	**1,500,157**	1,601,703
Total noncurrent assets	**2,531,180**	1,984,072
Total current liabilities	**660,026**	408,524
Revenue from real estate sales	**833,730**	715,117
Cost of real estate sold	**503,351**	427,248
Net income	**183,678**	124,881

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

	2008	2007 (As restated - see Note 5)
BDO	**₱28,376,464,632**	₱66,906,943,648
China Bank	**7,541,946,621**	10,819,560,840
Highlands Prime	**1,615,351,629**	1,507,661,520

14. Property and Equipment

The movements in this account follow:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment
Cost					
Balance as of December 31, 2006 (as restated - see Note 5)	₱4,542,341	₱1,261,260,781	₱2,982,568,492	₱2,504,724,686	₱1,173,664,512
Additions	–	30,973,014	278,902,436	486,830,103	160,989,473
Acquired business - Rappel/APCTC/MRDC	2,942,582,000	2,937,882,752	1,401,155,314	–	105,242,312
Reclassifications	–	(20,226,539)	(74,142,027)	13,296,657	–
Disposals/retirements	–	–	(789,765)	(59,179,790)	(1,212,087)
Balance as of December 31, 2007 (as restated - see Note 5)	2,947,124,341	4,209,890,008	4,587,694,450	2,945,671,656	1,438,684,210
Additions	–	499,783,726	392,693,753	242,031,757	292,289,510
Acquired business - SM Hotels	–	–	–	–	8,295,856
Reclassifications	–	505,724,678	107,826,487	(254,930,810)	(2,084,568)
Disposals/retirements	–	(12,295,335)	79,110,952	(120,922,924)	37,591,248
Balance as of December 31, 2008	₱2,947,124,341	₱5,203,103,077	₱5,167,325,642	₱2,811,849,679	₱1,774,776,256
Accumulated Depreciation, Amortization and Impairment Losses					
Balance as of December 31, 2006 (as restated - see Note 5)	₱50	₱390,292,874	₱1,421,536,241	₱1,758,184,397	₱531,535,006
Additions	–	137,998,806	528,782,021	290,624,280	176,259,003
Acquired businesses - Rappel/APCTC/MRDC	–	968,649,556	1,023,700,573	–	79,732,118
Reclassifications	–	–	(71,546,075)	(5,863,973)	718,460
Disposals/retirements	–	(8,641)	(545,905)	(59,778,716)	(365,323)
Balance as of December 31, 2007 (as restated - see Note 5)	50	1,496,932,595	2,901,926,855	1,983,165,988	787,879,264
Additions	–	281,776,163	712,151,985	356,800,791	241,363,995
Acquired business - SM Hotels	–	–	–	–	3,908,347
Reclassifications	–	360,734,014	94,535,248	(264,832,498)	(29,531,788)
Disposals/retirements	–	(595,231)	(110,053,285)	(115,059,028)	(36,047,703)
Balance as of December 31, 2008	₱50	₱2,138,847,541	₱3,598,560,803	₱1,960,075,253	₱967,572,115
Net book value					
As of December 31, 2008	**₱2,947,124,291**	**₱3,064,255,536**	**₱1,568,764,839**	**₱851,774,426**	**₱807,204,141**
As of December 31, 2007 (as restated - see Note 5)	₱2,947,124,291	₱2,712,957,413	₱1,685,767,595	₱962,505,668	₱650,804,946

The construction in progress account includes shopping mall complex under construction of SM Prime. In 2008, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Naga, SM North Edsa Expansion and SM Xiamen Expansion. In 2007, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Marikina and SM North Edsa Expansion.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱8,902 million and ₱3,048 million as of December 31, 2008 and 2007, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2008 and 2007 are valued at ₱1,361 million and ₱1,303 million, respectively.

Interest capitalized to shopping mall under construction amounted to ₱1,064 million and ₱1,207 million in 2008 and 2007, respectively. Capitalization rates used were 8.67% in 2008 and 9.01% in 2007.

Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
₱1,523,909,891	₱1,534,121,477	₱528,455,607	₱7,300,913,459	₱18,814,161,246
69,651,090	351,859,995	10,914,084	7,926,519,017	9,316,639,212
219,795,810	–	12,005,994	–	7,618,664,182
–	110,168,515	–	(5,516,895,268)	(5,487,798,662)
(1,968,242)	(430,808)	(4,881,818)	–	(68,462,510)
1,811,388,549	1,995,719,179	546,493,867	9,710,537,208	30,193,203,468
141,100,816	224,367,603	18,497,795	8,783,405,374	10,594,170,334
–	–	2,048,506	–	10,344,362
(35,671,423)	21,133,275	15,454,343	(7,547,651,623)	(7,190,199,641)
(113,940,363)	(542,835,818)	(17,910,318)	(581,314,287)	(1,272,516,845)
₱1,802,877,579	₱1,698,384,239	₱564,584,193	₱10,364,976,672	₱32,335,001,678
₱1,116,780,801	₱714,542,957	₱169,533,989	₱–	₱6,102,406,315
65,305,255	381,892,528	74,513,787	–	1,655,375,680
196,057,975	–	5,606,995	–	2,273,747,217
(19,118)	(258,027)	128,831	–	(76,839,902)
(1,432,236)	(414,834)	(4,881,818)	–	(67,427,473)
1,376,692,677	1,095,762,624	244,901,784	–	9,887,261,837
133,238,323	255,731,275	34,147,718	–	2,015,210,250
–	–	1,385,735	–	5,294,082
9,147,423	15,081,444	10,926,309	–	196,060,152
(90,663,461)	(443,747,817)	(14,270,915)	–	(810,437,440)
₱1,428,414,962	₱922,827,526	₱277,090,631	₱–	₱11,293,388,881
₱374,462,617	**₱775,556,713**	**₱287,493,562**	**₱10,364,976,672**	**₱21,041,612,797**
₱434,695,872	₱899,956,555	₱301,592,083	₱9,710,537,208	₱20,305,941,631

15. **Investment Properties**

The movements in this account follow:

	Land and Improvements and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance as of December 31, 2006				
(as restated - see Note 5)	₱16,018,492,362	₱50,541,794,356	₱9,822,881,767	₱76,383,168,485
Additions	1,184,980,223	2,984,338,705	1,006,191,830	5,175,510,758
Reclassifications	1,091,128,405	3,815,033,255	773,631,491	5,679,793,151
Disposals	(37,564,024)	–	–	(37,564,024)
Balance as of December 31, 2007				
(as restated - see Note 5)	18,257,036,966	57,341,166,316	11,602,705,088	87,200,908,370
Additions	2,353,016,472	1,590,990,027	640,944,560	4,584,951,059
Reclassifications	1,662,599,217	8,282,594,417	540,738,952	10,485,932,586
Disposals	(51,625,680)	–	(1,523,199)	(53,148,879)
Balance as of December 31, 2008	₱22,221,026,975	₱67,214,750,760	₱12,782,865,401	₱102,218,643,136
Accumulated Depreciation, Amortization and Impairment Losses				
Balance as of December 31, 2006				
(as restated - see Note 5)	₱403,303,161	₱8,736,087,200	₱4,169,731,480	₱13,309,121,841
Additions	29,895,635	1,868,237,682	786,088,834	2,684,222,151
Reclassifications	20,901	(5,910,911)	(22,238,464)	(28,128,474)
Balance as of December 31, 2007				
(as restated - see Note 5)	433,219,697	10,598,413,971	4,933,581,850	15,965,215,518
Impairment loss	199,707,981	–	–	199,707,981
Additions	144,410,042	2,040,774,454	896,375,118	3,081,559,614
Reclassifications	44,162,306	(140,321,671)	30,887,385	(65,271,980)
Balance as of December 31, 2008	₱821,500,026	₱12,498,866,754	₱5,860,844,353	₱19,181,211,133
Net book value				
As of December 31, 2008	**₱21,399,526,949**	**₱54,715,884,006**	**₱6,922,021,048**	**₱83,037,432,003**
As of December 31, 2007				
(as restated - see Note 5)	₱17,823,817,269	₱46,742,752,345	₱6,669,123,238	₱71,235,692,852

The fair values were determined by independent appraisers based on appraisal reports made on various dates. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation in accordance with International Valuation Standards.

While fair value of the investment properties was not determined as of December 31, 2008, the Group's management believes that there were no conditions present in 2008 that would significantly reduce the fair value of the investment properties from that determined in 2007.

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱505 million and ₱413 million as of December 31, 2008 and 2007, respectively, and a fair value of ₱13,531 million as of August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration paid by SM Prime of ₱10,827 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties - net" 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 ₱678 million and ₱561 million as of December 31, 2008 and 2007, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱13,468.3 million, ₱11,684.5 million and ₱10,229.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

16. **Land and Development and Condominium Units for Sale**

SMDC

Land and development, which amounted to ₱6,896.2 million and ₱3,891.0 million as of December 31, 2008 and 2007, respectively, include land and cost of the condominium projects.

In March 2008, SMDC started the construction of the "Berkeley Residences" (Berkeley Project), a residential/commercial condominium project. As of December 31, 2008, it has a market take up of 75% and valued at ₱1,654.0 million. Total estimated cost to complete the Berkeley Project amounted to ₱1,241.1 million as of December 31, 2008.

Also, in March 2008, SMDC started the construction of the "Grass Residences," another residential/commercial condominium project composed of three towers. Tower one started construction in March 2008. Tower one has a market take up of 63% and valued at ₱2,018.9 million. Total estimated cost to complete Tower one amounted to ₱1,833.9 million as of December 31, 2008. Construction of Tower two and three has not yet started as of December 31, 2008.

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

In October 2006, SMDC started the construction of the Mezza Project. As of December 31, 2008 and 2007, it has a market take up of 89%, valued at ₱3,662.8 million, and 75%, valued at ₱3,073.2 million, respectively. Total estimated cost to complete the Mezza Project amounted to ₱144.0 million as of December 31, 2008.

On August 2, 2007, the BOD of SMDC authorized the negotiation with BDO for the purchase of BDO's rights and interests in the JVA. On August 28, 2007, SMDC confirmed its interest in purchasing BDO's rights and interests and BDO has agreed to the terms and agreements on which the sale shall commence. As of December 31, 2007, SMDC has made 4 monthly non-withdrawable deposits in an escrow account totalling ₱369.7 million. The sale of BDO's right and interests was finalized on February 15, 2008.

In 2003, SMDC commenced the construction of its condominium project - the "Chateau Elysee". The "Chateau Elysee" is a French Mediterranean-inspired condoville in Parañaque City composed of six clusters. Cluster one of the project broke ground on September 29, 2003, with market take-up of 99% for both years, valued at ₱414.8 million and ₱379.9 million as of December 31, 2008 and 2007, respectively. Construction of Cluster two started in 2005, with market take-up of 97% and 91%, valued at ₱516.2 million and ₱468.2 million as of December 31, 2008 and 2007, respectively. Construction of Cluster three started in 2006, with market take-up of 96% and 90%, valued at ₱610.9 million and ₱556.3 million as of December 31, 2008 and 2007, respectively. Construction of Cluster six started in 2007, with market take up of 65% and 20% valued at ₱496.2 million and ₱156.8 million as of December 31, 2008 and 2007, respectively. Construction of Cluster one, two, three and six were already completed as of December 31, 2008. Construction of Cluster five started in 2008. Estimated cost to complete Cluster five amounted to ₱456.8 million as of December 31, 2008. Construction of Cluster four has not started as of December 31, 2008.

Condominium units for sale amounted to ₱142.9 million and ₱86.4 million as of December 31, 2008 and 2007, respectively, pertains to completed Clusters of the Chateau Elysee. The amounts were included under "Input taxes and other current assets" account in the consolidated balance sheets (see Note 11).

SMDC has also acquired several parcels of land for future development with aggregate carrying value of ₱1,483.1 million and ₱1,917.1 million as of December 31, 2008 and 2007, respectively.

SMDC capitalized borrowing costs amounting to ₱159.0 million in 2008.

The condominium units for sale and land and development are stated at cost as of December 31, 2008 and 2007.

On June 30, 2004, SMDC entered into a JVA with Government Service Insurance System (GSIS) for the development of a residential condominium project (the Project) on a parcel of land (the Property) owned by GSIS. Under the JVA, GSIS shall contribute all its rights, title and interest in and to the Property in consideration of its receipt of allocated units, which is 15% of the value of the total saleable units in the Project, in return for its contribution. In turn, SMDC shall provide financing for the implementation of the Project in consideration of its receipt of 85% of the value of the total saleable units in the Project, in return for its contribution.

On July 14, 2005, SMDC submitted to GSIS a Letter of Intent to change the Property subject for development. On September 7, 2005, the GSIS Board of Trustees approved the proposal of SMDC to change the Property subject for development. Under the amended JVA agreement, the Property will now be 14,430 square meters, more or less, a portion of the Tree Park Area of the GSIS-Baguio Convention Center.

Under the amended JVA, in the event of a decrease in the investment commitment not below the amount of ₱1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties as agreed upon based on the original JVA. In case the reduction goes lower than ₱1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties.

As of December 31, 2008, the development of the Project has not yet started.

Costa del Hamilo Inc. (Costa), a subsidiary of Mt. Bliss
In November 2008, Costa launched for pre-selling the Miranda and Carola Condominium Projects. As of December 31, 2008, combined gross sales amounted to ₱232.5 million. Both projects are still under the design stage.

In May 2008, Costa commenced the construction of the Myna Condominium Project (the Myna Project), a residential condominium located at the Hamilo Coast, Nasugbu, Batangas. As of December 31, 2008 and 2007, the Myna Project has a market take up of 87% valued at ₱890.5 million and 39% valued at ₱335.0 million, respectively. Total estimated cost to complete the Myna Project amounted to ₱649.2 million and ₱738.2 million as of December 31, 2008 and 2007, respectively.

In August 2007, Costa started the construction of the Jacana Condominium Project (the Jacana Project), a residential condominium adjacent to the Myna Project. As of December 31, 2008 and 2007, the Jacana Project has a market take up of 89% valued at ₱884.6 million and 72% valued at ₱635.4 million, respectively. Total estimated cost to complete the Jacana Project amounted to ₱375.3 million and ₱614.8 million as of December 31, 2008 and 2007, respectively.

In March 2007, Costa entered into a development agreement with its subsidiary, Pico de Loro Beach and Country Club, Inc. (Pico de Loro), to provide for the development of the area located in Barangay Papaya, Nasugbu, Batangas into an integrated leisure facility and resort communities and the construction of the beach and country club facilities to be owned by Pico de Loro. The consideration of the development agreement is ₱1,062.3 million in which Costa will receive a total of 4,000 common shares of the subsidiary. Ownership of the beach and country club will transfer to Pico de Loro upon full completion of the project. In January 2008, Costa began the construction of Pico de Loro beach and country club. As of December 31, 2008 and 2007, 375 shares valued at ₱152.5 million and 129 shares valued at ₱47.5 million, respectively, were sold. Total estimated cost to complete the beach and country club amounted to ₱953.5 million and ₱1,232.5 million as of December 31, 2008 and 2007, respectively.

17. Intangibles and Other Noncurrent Assets

Intangibles
This account consists of:

	2008	2007 (As restated - see Note 5)
Trademarks and brand names	**₱6,124,762,000**	₱6,124,762,000
Goodwill	**5,854,743,650**	5,474,609,403
	₱11,979,505,650	₱11,599,371,403

Other Noncurrent Assets
This account consists of:

	2008	2007 (As restated - see Note 5)
Receivable from a related party and escrow fund (see Note 23)	**₱7,405,101,193**	₱3,575,073,223
Deposits and advance rentals	**2,121,433,991**	1,403,009,177
Receivables from real estate buyers (see Note 10)	**1,077,620,904**	877,590,159
Treasury bonds (see Notes 30 and 31)	**500,000,000**	–
Long-term notes (see Notes 23, 30 and 31)	**288,600,000**	200,000,000
Defined benefit asset (see Note 27)	**114,642,194**	45,829,870
Derivative assets (see Notes 30 and 31)	**34,130,728**	347,248,200
Advances for project development (see Notes 11 and 23)	**–**	615,024,547
Others	**258,101,449**	315,966,914
	₱11,799,630,459	₱7,379,742,090

The movements in goodwill are as follows:

	2008	2007 (As restated - see Note 5)
Cost		
Balance at beginning of year	**₱5,566,229,005**	₱5,207,037,613
Additions (see Notes 2 and 5)	**380,134,247**	359,191,392
Balance at end of year	**5,946,363,252**	5,566,229,005
Less accumulated impairment losses	**91,619,602**	91,619,602
Net book value	**₱5,854,743,650**	₱5,474,609,403

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 5-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 16.56% to 19.57% and 13.34% to 14.84% as of December 31, 2008 and 2007, respectively. The discount rates were determined based on the yield of a 10 year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and was estimated based on the average percentage of a 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 would cause the carrying value of goodwill, trademarks and brand names in 2008 and 2007 to materially exceed its recoverable amount.

The receivable from a related party and escrow fund pertains to the Tender offer of Equitable PCI Bank (EPCIB) shares in 2006, of which the participation of the shares owned by Social Security System (SSS) was conditional on the favorable outcome of its pending case in the Supreme Court. In accordance with the agreement on such conditional sale, the payments corresponding to the shares owned by SSS are placed in escrow account. In November 2007, the Supreme Court dismissed with finality the legal proceedings because it found the case moot and academic. An entry of judgment of this dismissal order was issued on January 10, 2008. SSS sold its EPCIB shares to a related party of the Group on January 18, 2008, in accordance with the regulations set by Bangko Sentral ng Pilipinas (BSP). On October 2, 2008, SMIC advanced ₱7,303.8 million to a related party, which bears a fixed interest of 7.0%, payable semi-annually.

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.

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

Long-term notes pertain to unquoted and unsecured subordinated debt instrument which carries a fixed interest rates ranging from 7.0% to 8.50%, payable semi-annually in arrears. The ₱200.0 million will mature on November 21, 2017 while the remaining ₱88.6 million will mature on May 29, 2018.

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

18. Bank Loans

This account consists of:

	2008	2007 (As restated - see Note 5)
Parent Company:		
Peso-denominated loans	**₱11,900,000,000**	₱–
Subsidiaries:		
Peso-denominated loans	**6,512,863,309**	3,487,678,058
U.S. dollar-denominated loans	**–**	190,920,000
	₱18,412,863,309	₱3,678,598,058

The peso-denominated loans bear annual interest rates ranging from 6.00% to 9.00% and 5.00% to 6.50% in 2008 and 2007, respectively. The U.S. dollar-denominated loans amounting to US$4.6 million (₱190.9 million) as of December 31, 2007 bear annual interest rates ranging from 4.90% to 5.45%. These loans payable have maturities of less than one year.

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

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007 (As restated - see Note 5)
Trade	**₱20,485,547,758**	₱15,564,912,185
Accrued expenses and others (see Note 23)	**4,767,982,455**	5,512,727,052
Due to related parties (see Note 23)	**2,499,621,864**	1,952,503,570
Accrued interest (see Note 23)	**1,242,152,322**	610,559,276
Nontrade	**1,070,999,956**	1,519,515,807
Gift checks redeemable	**75,212,789**	224,975,829
	₱30,141,517,144	₱25,385,193,719

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

- 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.
- Accrued expenses pertain to accrued and unpaid selling, general and administrative expenses which are normally settled within the next financial year.
- Accrued interest pertains to unpaid interest on bank loans and long-term debt which are normally settled quarterly or semi-annually.
- Nontrade payables are expected to be settled within the next financial year.
- Gift checks are redeemable at face value.
- The terms and conditions relating to related party payables are further discussed in Note 23.

20. Long-term Debt

This account consists of:

	2008			2007 (As restated – see Note 5)		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
Parent Company:						
U.S. dollar-denominated:						
Fixed Rate Bonds	**₱16,632,000,000**	**(₱144,695,426)**	**₱16,487,304,574**	₱–	₱–	₱–
Convertible Bonds	**13,817,370,048**	**(97,172,141)**	**13,720,197,907**	11,260,034,544	(123,414,962)	11,136,619,582
Peso-denominated:						
Bank loans collateralized with time deposits	**6,000,000,000**	**(23,635,874)**	**5,976,364,126**	6,000,000,000	(28,934,582)	5,971,065,418
Preferred shares	**3,500,000,000**	**(15,858,049)**	**3,484,141,951**	3,500,000,000	(19,550,618)	3,480,449,382
Other bank loans	**10,050,000,000**	**(39,934,785)**	**10,010,065,215**	6,500,000,000	(27,425,829)	6,472,574,171
Subsidiaries:						
U.S. dollar-denominated:						
Five-year syndicated loan	**7,128,000,000**	**(38,995,845)**	**7,089,004,155**	6,192,000,000	(88,026,478)	6,103,973,522
Five-year, three-year and two-year bilateral loan	**3,564,000,000**	**(50,104,610)**	**3,513,895,390**	–	–	–

(Forward)

	2008			2007 (As restated – see Note 5)		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
China yuan renminbi-denominated:						
Ten-year bilateral loan	**₱3,445,150,500**	**₱–**	**₱3,445,150,500**	₱–	₱–	₱–
Eight-year loan	**1,009,185,500**	**–**	**1,009,185,500**	875,781,000	–	875,781,000
Five-year syndicated loan	**–**	**–**	**–**	1,977,570,000	–	1,977,570,000
Peso-denominated:						
Five-year, seven-year and ten-year fixed rate notes	**3,000,000,000**	**(23,982,616)**	**2,976,017,384**	–	–	–
Five-year floating rate notes	**3,998,000,000**	**(22,905,556)**	**3,975,094,444**	4,000,000,000	(29,494,201)	3,970,505,799
Five-year bilateral loans	**3,250,000,000**	**(14,986,517)**	**3,235,013,483**	3,250,000,000	(20,982,666)	3,229,017,334
Five-year syndicated loans	**300,000,000**	**(3,227,802)**	**296,772,198**	1,125,000,000	(10,233,100)	1,114,766,900
Other bank loans	**2,200,000,000**	**(15,152,423)**	**2,184,847,577**	2,200,000,000	(13,092,500)	2,186,907,500
	77,893,706,048	**(490,651,644)**	**77,403,054,404**	46,880,385,544	(361,154,936)	46,519,230,608
Less current portion	**7,784,521,000**	**(42,692,396)**	**7,741,828,604**	1,405,645,000	(7,274,048)	1,398,370,952
Noncurrent portion	**₱70,109,185,048**	**(₱447,959,248)**	**₱69,661,225,800**	₱45,474,740,544	(₱353,880,888)	₱45,120,859,656

Parent Company

Fixed Rate Bonds
On July 17, 2008, SMIC issued US$350 million (₱16,632.0 million) bonds which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed at the option of the relevant holder beginning July 18, 2011 at the principal amount.

Convertible Bonds
The US$300.0 million (financial liability component amounted to ₱13,817.4 million) Convertible Bonds (the Bonds) were issued on March 19, 2007 and will mature on March 20, 2012. The Bonds carry a zero coupon with a yield to maturity of 3.5%.

The Bonds are convertible, at the option of the holders, into SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted, or purchased and cancelled. Conversion price is the equivalent of ₱453.39 a share, after giving effect to the 4.27% stock dividend declared on April 25, 2007 (see Note 22). On March 19, 2010, the bondholders may avail of the early redemption option at the fixed price of 110.97%. Anytime after March 19, 2010 up to March 13, 2012, SMIC may redeem the Bonds in whole or in part at their early redemption amount, provided, however, that no such redemption may be made unless the closing price of the shares of SMIC (translated to US dollars at the prevailing rate) for each of the 30 consecutive trading days, the last of which occurs no more than five days prior to redemption notice, was at least 130% of the applicable early redemption amount divided by the conversion ratio. The Bonds will be redeemed upon maturity at 118.96% of the principal amount.

The bonds contain embedded derivatives which are further discussed in Note 31.

Bank Loans Collateralized with Time Deposits
On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest at the three-month PDST-F rate plus a margin of 0.375% per annum, payable quarterly in arrears. The loan is collateralized by SMIC's time deposits amounting to US$139.0 million (₱6,606.5 million) and US$189.1 million (₱7,804.2 million) as of December 31, 2008 and 2007, respectively, (see Note 8) and several parcels of land included under "Investment properties" account.

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

The Series 1 preferred shares carry a fixed dividend rate of 7.5% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus a margin of 75 basis points. 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.

Other Peso Bank Loans
This account includes the following:

	2008	2007
Ten-year term loans	**₱2,050,000,000**	₱–
Seven-year term loans	**6,500,000,000**	5,000,000,000
Five-year term loan	**1,000,000,000**	1,000,000,000
Series "A" floating rate notes	**500,000,000**	500,000,000
	₱10,050,000,000	₱6,500,000,000

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

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

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

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

Subsidiaries

US dollar-denominated Five-Year Syndicated Loan
The US$150.0 million (₱7,128.0 million) unsecured loan was obtained by SM Prime on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on London Inter-Bank Offered Rate (LIBOR) plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1% (see Note 31).

US dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75.0 million (₱3,564.0 million) unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread with bullet maturities ranging from two to five years.

China yuan renminbi-denominated Ten-Year Bilateral Loan
This represents a ten-year loan obtained on June 11, 2008 amounting to ¥500.0 million (₱3,445.2 million) to finance the construction of shopping malls. The loan is payable in annual installments until 2017. The interest rates range from 7.13% to 9.40% in 2008.

China yuan renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155.0 million (₱1,009.2 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 by Central Bank of China less 10%. The loan bears interest rates ranging from 6.16% to 7.05% in 2008 and 5.51% to 6.16% in 2007.

China yuan renminbi-denominated Five-Year Syndicated Loan
This represents a five-year syndicated loan obtained on June 9, 2006 amounting to ¥350.0 million (₱1,977.6 million) to finance the construction of shopping malls. The loan is payable in equal quarterly installments until June 9, 2011. The interest rate is based on the applicable basic rate at drawdown dates and is fixed for one year. The loan bears interest rates ranging from 6.75% to 6.93%. The loan was prepaid in June 2008.

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

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000.0 million, ₱1,200.0 million and ₱800.0 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, and will mature on June 17, 2013, 2015 and 2018, respectively (see Note 31).

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

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

Philippine Peso-denominated Five-Year Syndicated Loans
This includes a five-year syndicated term loan obtained by SM Prime on November 21, 2003 originally amounting to ₱1,700.0 million, payable in equal quarterly installments of ₱106.0 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly. Starting April 2007, the fixed interest rate of 8% was reduced to 7.0625%.

In 2004, Consolidated Prime Dev. Corp. and Premier Southern Corp., both wholly-owned subsidiaries of SM Prime, obtained a five-year term loan originally amounting to ₱1,600.0 million to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100.0 million starting October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. Starting April 2007, the fixed interest rate of 9.66% was reduced to 6.75%. The outstanding balance of the loan as of December 31, 2008 and 2007 amounted to ₱300.0 million and ₱700.0 million, respectively.

Other Bank Loans
This account consists of the following:

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200.0 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016.

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000.0 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%.

- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000.0 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on March 3, 2008. The related unamortized balance of debt issuance costs charged to profit and loss amounted to ₱4.0 million.

As of December 31, 2007, investments held for trading and temporary investments totaling ₱1,388.0 million were pledged to secure the loans in compliance with the requirements of the BSP. In accordance with the loan agreement, SM Prime has the option to substitute the pledged investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 23).

Debt Issue Cost

The movements in unamortized debt issue cost in 2008 and 2007 are as follows:

	2008	2007
Balance at beginning of year	**₱361,154,936**	₱293,985,047
Additions	**270,387,014**	255,427,871
Amortization	**(140,890,306)**	(188,257,982)
Balance at end of year	**₱490,651,644**	₱361,154,936

Repayment Schedule

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

	Gross Loan	Debt Issue Cost	Net
2009	₱7,784,521,000	(₱42,692,396)	₱7,741,828,604
2010	1,826,095,500	(7,215,643)	1,818,879,857
2011	5,975,293,000	(31,116,259)	5,944,176,741
2012	27,919,037,048	(159,852,870)	27,759,184,178
2013	20,237,594,000	(187,546,743)	20,050,047,257
2014	5,452,393,500	(21,640,270)	5,430,753,230
2015	3,361,190,500	(16,438,100)	3,344,752,400
2016	1,373,997,500	(8,257,500)	1,365,740,000
2018	3,963,584,000	(15,891,863)	3,947,692,137
Total	₱77,893,706,048	(₱490,651,644)	₱77,403,054,404

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2008 and 2007, the Group is in compliance with the terms of its loan covenants.

Time deposits amounting to ₱23,166.3 million as of December 31, 2008 are intended to be used for payment of the long-term debt maturing in 2012 and 2013. Time deposits amounting to ₱7,804.2 million were used to pay long-term debt which matured in 2008 (see Note 8).

21. Notes Payable

This account pertains to notes payable issued by SMIC and MRDC on October 2, 2006 to purchase 189.9 million EPCIB shares for a total consideration of ₱17,469.0 million, which shall be paid as follows: 10% on October 2, 2006, 10% on June 2, 2007, 10% on February 2, 2008, and the remaining portion on October 2, 2008.

The balance as of December 31, 2007 amounting to ₱13,334.4 million, which is recorded at present value, was paid in February and October 2008.

22. Stockholders' Equity

Capital Stock

The details of and movements in SMIC's common stock, with a par value of P10 a share, are as follows:

	Number of Shares			
	Authorized		Issued and Subscribed	
	2008	2007	**2008**	2007
Balance at beginning of year	**690,000,000**	600,000,000	**611,023,038**	586,000,000
Additions	**–**	100,000,000	**–**	–
Reclassification to preferred stock (see Note 20)	**–**	(10,000,000)	**–**	–
Stock dividends	**–**	–	**–**	25,023,038
Balance at end of year	**690,000,000**	690,000,000	**611,023,038**	611,023,038

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

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

Cost of Common Shares Held by Subsidiaries

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

The movements are as follows:

	No. of Shares	Cost a Share	Total Cost
Balance as of December 31, 2006	196,600	₱281	₱55,213,502
Acquisitions	5,000	324	1,621,786
Disposal	(114,800)	285	(32,757,300)
Stock dividends	3,706	–	–
Balance as of December 31, 2007 (As restated - see Note 5)	90,506	₱266	₱24,077,988

There was no movement in cost of common shares held by subsidiaries as of December 31, 2008.

Retained Earnings

On April 25, 2008, the BOD approved the declaration of cash dividends of 59.0% of the par value or ₱5.90 per share for a total amount of ₱3,605.0 million in favor of stockholders on record as of May 25, 2008. This was paid on June 19, 2008.

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

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

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

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱42,730.6 million and ₱43,995.2 million as of December 31, 2008 and 2007, respectively. The amount is not available for dividends distribution until such time that the Parent Company receives the dividends from the respective subsidiaries and associates.

23. Related Party Transactions

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at normal market prices. For the years ended December 31, 2008, 2007 and 2006, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

Rent

The Parent Company and a subsidiary have existing lease agreements for office and commercial spaces with related companies. Total rent income amounted to ₱2,444.4 million, ₱1,734.9 million and ₱1,929.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Management Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for the management of the office and mall premises. Total management fees amounted to ₱518.9 million, ₱481.1 million and ₱409.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Parent Company and a subsidiary also receive management fees from related companies for management and consultancy services. The annual management fees are based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱346.4 million, ₱266.0 million and ₱290.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Cash Placements and Loans
The Group has certain bank accounts and cash placements that are maintained with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates.

SM Prime has investments in preferred shares of BDO (see Note 12).

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

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

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

	2008	2007 (As restated - see Note 5)
	(In Thousands)	
Cash and cash equivalents (see Note 7)	**₱43,384,026**	₱12,737,986
Time deposits and short-term investments (see Note 8)	**23,177,724**	8,256,000
Investments held for trading (see Note 9)	**1,128,299**	2,506,275
Available-for-sale investments (see Note 12)	**4,366,989**	5,737,104
Receivables:		
Due from related parties (see Note 10)	**3,831,014**	1,740,452
Tenants (see Note 10)	**898,379**	773,220
Management fees (see Note 10)	**386,364**	450,506
Advances and other receivables (see Note 11)	**660,529**	165,432
Receivable from a related party and escrow fund (see Note 17)	**7,303,765**	–
Advances for project development (see Notes 11 and 17)	**880,426**	622,525
Long-term notes (see Note 17)	**288,600**	200,000
Bank loans (see Note 18)	**11,032,863**	1,353,720
Accounts payable and other current liabilities:		
Due to related parties (see Note 19)	**2,499,622**	1,952,504
Management fees (see Note 19)	**25,542**	61,547
Accrued interest (see Note 19)	**125,872**	67,198
Long-term debt:		
Current portion of long-term debt (see Note 20)	**–**	300,000
Long-term debt - net of current portion (see Note 20)	**6,500,000**	6,500,000

Compensation of Key Management Personnel of the Group
The aggregate compensation and benefits to key management personnel of the Group for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Short-term employee benefits	**₱417,460,149**	₱337,380,548	₱188,237,550
Pension benefits	**33,938,760**	13,291,615	7,555,624
	₱451,398,909	₱350,672,163	₱195,793,174

24. Cost of Sales - Merchandise

This account consists of:

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Merchandise inventories at beginning of year	**₱5,958,301,914**	₱4,488,187,321	₱1,357,734,162
Add purchases	**93,909,391,646**	80,540,858,233	57,815,795,239
Total goods available for sale	**99,867,693,560**	85,029,045,554	59,173,529,401
Less merchandise inventories at end of year	**7,211,202,801**	5,958,301,914	4,488,187,321
	₱92,656,490,759	₱79,070,743,640	₱54,685,342,080

25. Selling, General and Administrative Expenses

This account consists of:

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Personnel cost	**₱6,413,565,319**	₱5,203,178,051	₱4,072,144,967
Provision for impairment losses and others (see Notes 11, 12, 13 and 15)	**5,602,192,944**	818,255,424	1,596,489,245
Depreciation and amortization (see Notes 14, 15 and 20)	**5,237,660,170**	4,559,790,499	3,540,752,974
Light and water	**3,405,762,902**	2,707,813,746	2,252,495,533
Taxes and licenses	**2,371,514,716**	1,950,524,264	1,568,680,566
Rent	**2,007,651,242**	1,793,638,601	1,493,726,132
Outside services	**1,343,916,971**	1,042,442,833	758,173,122
Professional fees (see Note 23)	**1,169,664,718**	819,470,320	765,514,890
Advertising and promotions	**675,494,797**	424,492,964	386,367,628
Supplies	**528,087,467**	452,891,272	317,393,238
Repairs and maintenance	**493,675,562**	625,883,990	468,263,366
Pension expense (see Note 27)	**208,464,305**	225,255,233	145,132,125
Insurance	**206,677,136**	121,660,600	126,214,054
Transportation and travel	**161,499,725**	154,586,150	73,624,210
Entertainment, representation and amusement	**117,847,152**	143,653,103	64,311,587
Miscellaneous	**1,412,769,541**	1,084,309,532	445,334,888
	₱31,356,444,667	₱22,127,846,582	₱18,074,618,525

26. Interest Income and Interest Expense

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

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Interest income on:			
Temporary investments	**₱771,811,302**	₱824,501,467	₱932,273,308
Investments held for trading	**114,933,465**	576,474,156	872,368,911
Time deposits	**972,597,932**	498,033,393	733,170,665
AFS investments and others (see Note 12)	**3,949,272,195**	926,979,365	–
	₱5,808,614,894	₱2,825,988,381	₱2,537,812,884

Forward

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Interest expense on:			
Long-term debt	**₱3,317,600,306**	₱2,086,240,109	₱2,619,249,409
Bank loans	**475,751,048**	1,117,012,606	553,170,052
Accretion on notes payable	**640,785,784**	1,002,053,416	264,127,324
Others	**38,633,876**	6,841,157	5,524,293
	₱4,472,771,014	₱4,212,147,288	₱3,442,071,078

27. Pension Benefits

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

The following tables summarize the components of net benefit expense recognized by the Parent Company; SM Land; SMDC (subsidiary of SM Land); MRDC; SM Mart, Inc., SVI, Mainstream Business, Inc., Market Strategic Firm, Inc., Metro Main Star Asia Corp., Meridien Business Leader, Inc., Madison Shopping Plaza, Inc., Metro Manila Shopping Mecca Corp., Mandurriao Star, Inc., Mercantile Stores Group, Inc., Mindanao Shopping Destination Corp., Manila Southern Associates, Inc. (subsidiaries of SM Retail); and Makro (subsidiary of Rappel) 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")

	2008	2007	2006
Current service cost	**₱124,710,336**	₱169,128,674	₱52,677,485
Interest cost on benefit obligation	**106,534,110**	104,096,644	84,008,875
Expected return on plan assets	**(31,821,480)**	(69,011,176)	(25,526,079)
Recognized actuarial loss (gain)	**5,825,975**	5,109,830	(54,953)
Amortization of transition obligation	**214,854**	–	–
Net benefit expense	**₱205,463,795**	₱209,323,972	₱111,105,328

Defined Benefit Liability

	2008	2007
Present value of obligation	**₱643,306,739**	₱1,417,341,236
Fair value of plan assets	**571,629,159**	487,469,245
Unfunded status	**71,677,580**	929,871,991
Unrecognized actuarial gain (loss)	**440,597,220**	(433,844,897)
Unrecognized net transition obligation	**(429,711)**	–
Defined benefit liability	**₱511,845,089**	₱496,027,094

Changes in the Present Value of the Defined Benefit Obligation

	2008	2007	2006
Defined benefit obligation at beginning of period	**₱1,417,341,236**	₱927,399,534	₱544,375,691
Current service cost	**124,710,336**	169,128,674	52,677,485
Interest cost	**106,534,110**	104,096,644	84,008,875
Reclassifications from (to) defined benefit assets	**(149,628,968)**	307,023,428	(88,095,530)
Transfer to related parties	**(68,401,068)**	(306,419,304)	(2,503,645)
Defined benefit obligation acquired in business combinations	**5,110,726**	26,258,700	243,793,790
Benefits paid	**(26,959,578)**	(36,929,094)	(18,641,047)
Actuarial (gain) loss on obligations	**(765,950,728)**	225,157,363	111,783,915
Other adjustments	**550,673**	1,625,291	–
Defined benefit obligation at end of year	**₱643,306,739**	₱1,417,341,236	₱927,399,534

Changes in the Fair Value of Plan Assets

	2008	2007	2006
Fair value of plan assets at beginning of period	**₱487,469,245**	₱398,380,497	₱257,867,951
Actual contributions	**316,491,248**	174,192,179	127,991,041
Expected return on plan assets	**31,821,480**	69,011,176	25,526,079
Reclassifications from (to) defined benefit assets	**(78,921,982)**	158,817,283	(87,807,051)
Transfer to related parties	**(68,401,068)**	(306,419,304)	(2,503,645)
Plan assets acquired in business combinations	**–**	26,445,000	46,524,171
Benefits paid	**(26,959,578)**	(36,929,094)	(18,641,047)
Actuarial gain (loss) on plan assets	**(89,870,776)**	3,706,163	49,422,998
Other adjustments	**590**	265,345	–
Fair value of plan assets at end of year	**₱571,629,159**	₱487,469,245	₱398,380,497

Unrecognized Actuarial Gain (Loss)

	2008	2007	2006
Net cumulative unrecognized actuarial gain (loss) at beginning of period	**(₱433,844,897)**	(₱50,441,520)	₱25,310,745
Actuarial gain (loss) on obligations	**765,950,728**	(225,157,363)	(111,783,915)
Actuarial gain (loss) on plan assets	**(89,870,776)**	3,706,163	49,422,998
Reclassifications from (to) defined benefit assets	**66,910,854**	(161,267,802)	(13,336,395)
Actuarial loss arising from business combinations	**(1,700,422)**	(4,266,300)	–
Recognized actuarial loss (gain)	**5,825,975**	5,109,830	(54,953)
Other adjustments	**127,325,758**	(1,527,905)	–
Net cumulative unrecognized actuarial gain (loss) at end of year	**₱440,597,220**	(₱433,844,897)	(₱50,441,520)

Certain subsidiaries have defined benefit assets as of December 31, 2008 and 2007. The following tables summarize the components of net benefit expense recognized by SM Prime; SM Retail; SSMI, Major Shopping Management Corp. and Multi-Stores Corp. (subsidiaries of SM Retail), as included in the consolidated statements of income, and the funded status and amounts as included in the consolidated balance sheets:

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

	2008	2007	2006
Current service cost	**₱47,612,490**	₱16,284,843	₱17,645,046
Interest cost on benefit obligation	**53,086,536**	3,751,339	17,805,332
Expected return on plan assets	**(45,156,808)**	(7,026,145)	(16,848,984)
Effect of asset limit	**7,204,851**	–	10,565,295
Recognized actuarial loss (gain)	**(59,746,559)**	2,921,224	4,860,108
Net benefit expense	**₱3,000,510**	₱15,931,261	₱34,026,797

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

	2008	2007
Present value of obligation	**₱492,166,202**	₱486,055,471
Fair value of plan assets	**743,476,778**	642,661,528
Overfunded status	**(251,310,576)**	(156,606,057)
Amount not recognized due to asset limit	**7,204,851**	–
Unrecognized actuarial gain	**129,463,531**	110,776,187
Defined benefit asset	**(₱114,642,194)**	(₱45,829,870)

Changes in the Present Value of the Defined Benefit Obligation

	2008	2007	2006
Defined benefit obligation at beginning of period	**₱486,055,471**	₱270,382,911	₱53,785,187
Current service cost	**47,612,490**	16,284,843	17,645,046
Interest cost	**53,086,536**	3,751,339	17,805,332
Reclassifications from (to) defined benefit obligation	**149,628,968**	(237,168,850)	88,095,530
Transfer from (to) related parties	**(3,464,756)**	608,258,888	(400,435)
Defined benefit obligation acquired in business combinations	**–**	–	2,398,064
Benefits paid	**(13,190,276)**	(641,833)	(12,634,671)
Actuarial loss (gain) on obligations	**(227,644,688)**	(174,811,827)	103,688,858
Other adjustments	**82,457**	–	–
Defined benefit obligation at end of year	**₱492,166,202**	₱486,055,471	₱270,382,911

Changes in the Fair Value of Plan Assets

	2008	2007	2006
Fair value of plan assets at beginning of period	**₱642,661,528**	₱216,263,138	₱39,845,811
Reclassifications from (to) defined benefit obligation	**78,921,982**	(196,258,972)	87,807,051
Fair value of plan assets of SSMI	**–**	–	12,755,325
Expected return on plan assets	**45,156,808**	7,026,145	16,848,984
Actual contributions	**75,608,967**	8,412,552	56,107,496
Transfer to related parties	**(3,464,756)**	608,258,888	(400,435)
Benefits paid	**(13,190,276)**	(641,833)	(12,634,671)
Actuarial gain (loss) on plan assets	**(82,299,931)**	(398,390)	15,933,577
Other adjustments	**82,456**	–	–
Fair value of plan assets at end of year	**₱743,476,778**	₱642,661,528	₱216,263,138

Unrecognized Actuarial Loss (Gain)

	2008	2007	2006
Net cumulative unrecognized actuarial loss (gain) at beginning of period	**(₱110,776,187)**	₱175,808,156	₱107,876,935
Actuarial loss (gain) on:			
Obligations	**(227,644,688)**	(174,811,827)	103,688,858
Plan assets	**82,299,931**	398,390	(15,933,577)
Reclassifications from (to) defined benefit obligation	**66,910,854**	(163,263,708)	(13,336,395)
Actuarial gain arising from business combinations	**–**	–	(1,627,557)
Adjustment on asset limit	**–**	54,014,026	–
Recognized actuarial gain (loss)	**59,746,559**	(2,921,224)	(4,860,108)
Net cumulative unrecognized actuarial loss (gain) at end of year	**(₱129,463,531)**	(₱110,776,187)	₱175,808,156

The principal assumptions used in determining pension benefit obligations for the Group's plan are shown below:

	2008	2007
Discount rate	**9%–14%**	7%–8%
Expected rate of return on assets	**6%**	6%
Future salary increases	**10%**	10%

The Group expects to contribute about ₱545.8 million to its defined benefit pension plan in 2009.

The plan assets are composed mainly of cash and cash equivalents, loans, common trust funds, investments in government securities and other similar debt instruments.

28. Income Tax

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

	2008	2007 (As restated - see Note 5)
Deferred tax assets:		
Unrealized foreign exchange loss	**₱671,439,639**	₱594,886,232
Defined benefit liability	**245,826,218**	274,246,270
NOLCO	**186,163,200**	431,993,716
Input tax on capital goods	**98,985,838**	71,628,174
MCIT	**60,188,502**	90,708,816
Accrued leases	**34,492,258**	25,961,657
Marked-to-market loss on investments	**28,100,074**	28,763,130
Deferred income on sale of real estate	**12,160,796**	14,354,388
Others	**208,698,971**	10,381,549
	₱1,546,055,496	₱1,542,923,932
Deferred tax liabilities:		
Trademarks and brand names	**₱1,837,428,600**	₱1,837,428,600
Unrealized foreign exchange gain	**1,177,004,393**	578,255,872
Capitalized interest	**817,239,087**	707,197,402
Unrealized gross profit on sale of real estate	**395,173,331**	215,636,080
Unamortized past service cost and defined benefit asset	**30,472,464**	3,830,668
Unrealized marked-to-market gain on investments	**29,433,295**	25,830,949
Others	**406,609,973**	221,772,150
	₱4,693,361,143	₱3,589,951,721

The Group's consolidated deferred tax assets as of December 31, 2008 and 2007 have been reduced to the extent that part or all of the deferred tax assets may no longer be utilized in the future.

The Parent Company assessed that it will have sufficient taxable profit in future periods. Accordingly, the Parent Company recognized deferred tax asset amounting to ₱688.5 million and ₱551.8 million as of December 31, 2008 and 2007, respectively.

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

	2008	2007 (As restated - see Note 5)
Allowance for impairment losses	**₱3,811,455,188**	₱3,082,519,408
Accretion on notes payable and convertible bonds	**1,407,475,203**	874,234,208
Net unrealized foreign exchange loss	**542,503,425**	143,321,365
Nonrefundable advance rentals	**131,341,212**	–
Defined benefit liability	**5,851,692**	121,892,194
NOLCO	**–**	2,249,016,420
MCIT	**–**	200,537,765
	₱5,898,626,720	₱6,671,521,360

As of December 31, 2008, the Group's MCIT and NOLCO are as follows:

Date Incurred	Carryforward Benefit Up To	MCIT	NOLCO
December 31, 2006	December 31, 2009	₱21,481,000	₱447,504,000
December 31, 2007	December 31, 2010	27,838,000	173,040,000
December 31, 2008	December 31, 2011	10,869,502	–
		₱60,188,502	₱620,544,000

MCIT amounting to ₱20,469,309 expired in 2007.

NOLCO applied as deduction from taxable income in 2008 and 2007 amounted to ₱2,207.3 million and ₱2,776.5 million, respectively. NOLCO amounting to ₱14.7 million expired on December 31, 2007.

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

	2008	2007	2006
Statutory income tax rates	**35%**	35%	35%
Add (deduct) income tax effects of reconciling items:			
Gain on sale of shares of stock	**(11)**	–	(5)
Effect of change in tax rate	**4**	–	–
Interest income subjected to final tax	**(3)**	(2)	(4)
Equity in net earnings of associates	**(2)**	(7)	(5)
Dividend income exempt from tax	**(1)**	(2)	(2)
Others	**–**	(2)	–
Change in unrecognized deferred tax assets	**3**	(1)	–
Effective income tax rates	**25%**	21%	19%

The deferred income taxes and the provision for current income tax include the effect of the change in tax rates. Under Republic Act No. 9337, regular corporate income tax rate for domestic corporations and resident and nonresident foreign corporations is increased to 35% (from 32%) beginning November 1, 2005. The rate will be reduced to 30% beginning January 1, 2009. The regular corporate income tax rate shall be applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the year, divided by 12.

29. Lease Agreements

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

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

30. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk in 2008 and 2007:

				2008
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-5 Years**
Fixed Rate				
Foreign Currency Loans:				
US$350 million fixed rate note	**$–**	**$–**	**$–**	**$350,000,000**
Interest rate	**–**	**–**	**–**	**6.750%**
US$300 million convertible bonds	**–**	**–**	**–**	**290,769,572**
Interest rate	**–**	**–**	**–**	**3.50%**
Peso Loans:				
Redeemable preferred shares - Series 1	**₱–**	**₱–**	**₱–**	**₱3,300,000,000**
Interest rate	**–**	**–**	**–**	**7.510%**
Five-year syndicated loans	**300,000,000**	**–**	**–**	**–**
Interest rate	**6.75%**	**–**	**–**	**–**
Other bank loans	**–**	**–**	**1,000,000,000**	**–**
Interest rate	**–**	**–**	**6.65% to 7.58%**	**–**
Variable Rate				
Foreign Currency Loans:				
US$150 million five-year syndicated loan	**$150,000,000**	**$–**	**$–**	**$–**
Interest rate	**LIBOR+margin%**	**–**	**–**	**–**
US$ bilateral loans	**–**	**20,000,000**	**30,000,000**	**25,000,000**
Interest rate	**–**	**LIBOR+spread**	**LIBOR+spread**	**LIBOR+spread**
China Yuan renminbi eight-year bilateral loans	**¥30,000,000**	**¥35,000,000**	**¥40,000,000**	**¥40,000,000**
Interest rate	**6.16% to 7.05%**	**6.16% to 7.05%**	**6.16% to 7.05%**	**6.16% to 7.05%**
China Yuan renminbi ten-year bilateral loans	**10,000,000**	**10,000,000**	**30,000,000**	**100,000,000**
Interest rate	**7.13% - 9.40%**	**7.13% - 9.40%**	**7.13% - 9.40%**	**7.13% - 9.40%**
Peso Loans:				
Series "A" floating rate note	**₱–**	**₱500,000 000**	**₱–**	**₱–**
Interest rate	**–**	**T-bill rate+margin%**	**–**	**–**
Redeemable preferred shares - Series 2	**–**	**–**	**–**	**200,000,000**
Interest rate	**–**	**–**	**–**	**PDST-F+margin%**
Five-year floating rate loan	**–**	**–**	**–**	**3,998,000,000**
Interest rate	**–**	**–**	**–**	**PDST-F+margin%**
Five-year bilateral loans	**78,125,000**	**62,500,000**	**3,062,500,000**	**46,875,000**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**
Peso loans collateralized with time deposits	**–**	**–**	**–**	**6,000,000,000**
Interest rate	**–**	**–**	**–**	**PDST-F+margin%**
Other loans	**–**	**–**	**–**	**2,000,000,000**
Interest rate	**–**	**–**	**–**	**PDST-F+margin%**

Over 5 Years	Total	Debt Issue Cost	Carrying Amount
$–	₱16,632,000,000	(₱144,695,426)	₱16,487,304,574
–			
–	13,817,370,048	(97,172,141)	13,720,197,907
–			
₱–	3,300,000,000	(15,153,802)	3,284,846,198
–			
–	300,000,000	(3,227,802)	296,772,198
–			
11,750,000,000	12,750,000,000	(68,490,949)	12,681,509,051
6.71% to 9.85%			
$–	7,128,000,000	(38,995,845)	7,089,004,155
–			
–	3,564,000,000	(50,104,610)	3,513,895,390
–			
¥–	1,009,185,500	–	1,009,185,500
–			
345,000,000	3,445,150,500	–	3,445,150,500
7.13% - 9.40%			
₱–	500,000,000	(1,952,965)	498,047,035
–			
–	200,000,000	(704,247)	199,295,753
–			
–	3,998,000,000	(22,905,556)	3,975,094,444
–	3,250,000,000	(14,986,517)	3,235,013,483
–			
–	6,000,000,000	(23,635,874)	5,976,364,126
–			
–	2,000,000,000	(8,625,910)	1,991,374,090
–			
	₱77,893,706,048	(₱490,651,644)	₱77,403,054,404

	2007 (As restated - see Note 5)			
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years
Fixed Rate				
Foreign Currency Loans:				
US$300 million convertible bonds	$–	$–	$–	$272,772,154
Interest rate	–	–	–	3.50%
Peso Loans:				
Redeemable preferred shares - Series 1	₱–	₱–	₱–	₱3,300,000,000
Interest rate	–	–	–	7.51%
Five-year syndicated loans	825,000,000	300,000,000	–	–
Interest rate	6.75% to 7.06%	6.75% to 7.06%	–	–
Other bank loans	–	–	–	1,000,000,000
Interest rate	–	–	–	6.65% to 7.58%
Variable Rate				
Foreign Currency Loans:				
US$ five-year syndicated loan	$–	$150,000 000	$–	$–
Interest rate	–	LIBOR + margin %	–	–
China yuan renminbi five-year sydincated loan	¥90,000,000	¥110,000,000	¥100,000 000	¥50,000,000
Interest rate	6.75%-6.93%	6.75%-6.93%	6.75%-6.93%	6.75%-6.93%
China yuan renminbi eight-year bilateral loan	10,000,000	30,000,000	35,000,000	40,000,000
Interest rate	5.51% to 6.16 %	5.51% to 6.16 %	5.51% to 6.16 %	5.51% to 6.16 %
Peso Loans:				
Series "A" floating rate note	₱–	₱–	₱500,000,000	₱–
Interest rate	–	–	T-bill rate + margin %	–
Bank loans collateralized with time deposits	–	–	–	6,000,000,000
Interest rate	–	–	–	PDST-F+margin %
Five-year bilateral loans	15,625,000	62,500,000	62,500,000	3,109,375,000
Interest rate	PDST-F+margin %	PDST-F+margin %	PDST-F+margin %	PDST-F+margin %
Five-year floating rate notes	–	–	–	4,000,000,000
Interest rate	–	–	–	PDST-F+margin %
Redeemable preferred shares - Series 2	–	–	–	200,000,000
Interest rate	–	–	–	PDST-F+margin %
Other loans	–	–	–	1,000,000,000
Interest rate	–	–	–	PDST-F+margin %

Over 5 Years	Total	Debt Issue Cost	Carrying Value
$–	₱11,260,034,544	(₱123,414,962)	₱11,136,619,582
–			
₱–	3,300,000,000	(18,685,020)	3,281,314,980
–			
–	1,125,000,000	(10,233,100)	1,114,766,900
–			
4,200,000,000	5,200,000,000	(24,101,470)	5,175,898,530
6.90% to 9.75%			
$–	6,192,000,000	(88,026,478)	6,103,973,522
–			
¥–	1,977,570,000	–	1,977,570,000
–			
40,000,000	875,781,000	–	875,781,000
5.51% to 6.16 %			
₱–	₱500,000,000	(2,857,404)	497,142,596
–			
–	6,000,000,000	(28,934,582)	5,971,065,418
–			
–	3,250,000,000	(20,982,666)	3,229,017,334
–			
–	4,000,000,000	(29,494,201)	3,970,505,799
–			
–	200,000,000	(865,598)	199,134,402
–			
2,000,000,000	3,000,000,000	(13,559,455)	2,986,440,545
PDST-F+margin %			
	₱46,880,385,544	(₱361,154,936)	₱46,519,230,608

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done in intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 50% and 60% of its borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge the underlying debt obligations. As of December 31, 2008 and 2007, after taking into account the effect of interest rate swaps, approximately 60% and 45%, respectively, of the Group's borrowings are kept at a fixed rate of interest.

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 (through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments). The impact on the Group's equity, due to changes in fair value of its AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax *(In Millions)*
2008	**100**	**(₱310.9)**
	50	**(155.5)**
	(100)	**310.9**
	(50)	**155.5**
2007	100	(253.2)
	50	(124.9)
	(100)	253.2
	(50)	124.9

Foreign Currency Risk

The Group's exposure to foreign currency risk arises as the Parent Company has significant investments and debt issuance which are denominated in US dollars. To manage its foreign exchange risk, stabilize cash flows, and improve investment and cash flow planning, the Group enters into foreign currency swaps contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows.

The following table shows the Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2008 and 2007:

	2008	
	US$	**Ph₱**
Current assets:		
Cash and cash equivalents	**$109,240,125**	**₱5,191,090,740**
Investments held for trading	**3,078,015**	**146,267,273**
AFS investments	**50,000,000**	**2,376,000,000**
Receivables	**12,674,042**	**602,270,476**
Noncurrent assets:		
Time deposits	**487,505,330**	**23,166,253,282**
Derivative asset	**718,239**	**34,130,717**
Total foreign currency-denominated monetary assets	**663,215,751**	**31,516,012,488**
Current liabilities:		
Accounts payable and other current liabilities	**10,696,875**	**508,315,500**
Current portion of long-term debt	**110,000,000**	**5,227,200,000**
Derivative liabilities	**18,973,785**	**901,634,263**
Noncurrent liabilities:		
Long-term debt - net of current portion	**688,597,969**	**32,722,175,487**
Derivative liabilities	**31,264,063**	**1,485,668,274**
Total foreign currency-denominated monetary liabilities	**859,532,692**	**40,844,993,524**
Net foreign currency-denominated monetary liabilities	**$196,316,941**	**₱9,328,981,036**

	2007	
	US$	PhP₱
Current assets:		
Cash and cash equivalents	$30,237,762	₱1,248,214,815
Time deposits	100,000,000	4,128,000,000
Investments held for trading	10,726,175	442,776,504
AFS investments	30,930,507	1,276,811,329
Receivables	2,704,513	111,642,297
Noncurrent assets:		
Time deposits	100,000,000	4,128,000,000
AFS investments	50,000,000	2,064,000,000
Total foreign currency-denominated monetary assets	324,598,957	13,399,444,945
Current liabilities -		
Current portion of long-term debt	4,639,208	191,506,506
Noncurrent liabilities -		
Long-term debt - net of current portion	353,940,682	14,610,671,353
Total foreign currency-denominated monetary liabilities	358,579,890	14,802,177,859
Net foreign currency-denominated monetary liabilities	$33,980,933	₱1,402,732,914

As of December 31, 2008 and 2007, approximately 42.6% and 34.7%, respectively (50.7% on December 31, 2006) of the Group's total consolidated bank loans and debt were denominated in US dollars. Thus, a strengthening of the Philippine peso against the US dollar will decrease both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

The Group has recognized in its consolidated statements of income foreign exchange gain of ₱3.0 million, ₱592.2 million and ₱462.8 million on its net foreign-currency denominated assets and liabilities for the years ended December 31, 2008, 2007 and 2006, respectively. This resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2005	53.09
December 31, 2006	49.03
December 31, 2007	41.28
December 31, 2008	47.52

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in US 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). There is no impact on the Group's equity.

	Increase (Decrease) in ₱ to US$ Rate	Effect on Income Before Income Tax *(In Millions)*
2008	**₱1.50**	**₱294.5**
	1.00	**196.3**
	(1.50)	**(294.5)**
	(1.00)	**(196.3)**
2007	1.50	149.3
	1.00	99.6
	(1.50)	(149.3)
	(1.00)	(99.6)

The increase in ₱ to US$ rate means stronger peso against the U.S. dollar while a decrease in ₱ to US$ rate means stronger U.S. dollar against the peso.

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2008 and 2007 based on the contractual undiscounted payments:

	2008				
	On Demand	**Less than 1 Year**	**2 to 5 Years**	**More than 5 Years**	**Total**
Bank loans	**₱–**	**₱18,741,129,989**	**₱–**	**₱–**	**₱18,741,129,989**
Accounts payable and other current liabilities	**1,847,663,264**	**28,293,853,880**	**–**	**–**	**30,141,517,144**
Long-term debt (including current portion)	**–**	**7,784,521,000**	**65,801,921,481**	**17,874,123,114**	**91,460,565,595**
Derivative liabilities (including current portion)	**–**	**901,634,262**	**1,485,668,268**	**–**	**2,387,302,530**
Dividends payable	**–**	**64,518,698**	**–**	**–**	**64,518,698**
Tenants' deposits and others	**–**	**11,585,975**	**7,880,916,325**	**–**	**7,892,502,300**
	₱1,847,663,264	**₱55,797,243,804**	**₱75,168,506,074**	**₱17,874,123,114**	**₱150,687,536,256**

	2007 (As restated - see Note 5)				
	On Demand	Less than 1 Year	2 to 5 Years	More than 5 Years	Total
Bank loans	₱–	₱3,793,475,409	₱–	₱–	₱3,793,475,409
Accounts payable and other current liabilities	616,924,047	24,768,269,672	–	–	25,385,193,719
Notes payable	–	13,975,191,773	–	–	13,975,191,773
Long-term debt (including current portion)	–	2,586,284,315	47,368,124,346	8,651,748,136	58,606,156,797
Derivative liabilities (including current portion)	–	236,937,197	3,053,977,715	–	3,290,914,912
Dividends payable	–	20,416,956	–	–	20,416,956
Tenants' deposits and others	–	–	6,437,023,799	47,699,700	6,484,723,499
	₱616,924,047	₱45,380,575,322	₱56,859,125,860	₱8,699,447,836	₱111,556,073,065

Credit Risk

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

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

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

Credit Risk Exposure and Concentration. The table below shows the maximum exposure to credit risk of the Group per business segment as of December 31, 2008 and 2007, without considering the effects of collaterals and other credit risk mitigation techniques.

	2008				
	Shopping Mall Development	**Retail Merchandising**	**Real Estate Development and Tourism**	**Others**	**Total**
Cash and cash equivalents	**₱10,737,196,834**	**₱11,134,155,196**	**₱1,120,734,277**	**₱24,107,173,291**	**₱47,099,259,598**
Time deposits and short-term investments (including noncurrent portion)	**–**	**–**	**–**	**23,177,723,939**	**23,177,723,939**
Investments held for trading	**143,857,296**	**–**	**1,128,299,212**	**–**	**1,272,156,508**
AFS investments	**2,552,699,740**	**637,786,559**	**5,666,215,250**	**582,438,759**	**9,439,140,308**
Receivables (including noncurrent portion of receivables from real estate buyers)	**2,293,342,504**	**1,982,250,482**	**3,153,078,987**	**1,931,788,798**	**9,360,460,771**
Advances and other receivables (included under "Input taxes and other current assets" account in the consolidated balance sheet)	**3,941,912,374**	**1,031,195,288**	**681,853,436**	**3,306,943,728**	**8,961,904,826**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**–**	**–**	**–**	**7,303,764,728**	**7,303,764,728**
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheet)	**–**	**500,000,000**	**–**	**–**	**500,000,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**–**	**288,600,000**	**–**	**–**	**288,600,000**
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	**34,130,728**	**–**	**–**	**–**	**34,130,728**
	₱19,703,139,476	**₱15,573,987,525**	**₱11,750,181,162**	**₱60,409,833,243**	**₱107,437,141,406**

	2007				
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Total
Cash and cash equivalents	₱2,504,180,945	₱11,977,018,907	₱430,753,127	₱858,468,591	₱15,770,421,570
Time deposits and short-term investments (including noncurrent portion)	–	–	–	8,258,250,000	8,258,250,000
Investments held for trading	149,688,504	–	2,506,275,272	293,087,976	2,949,051,752
AFS investments	2,218,254,419	7,687,792,366	3,368,802,018	22,668,136,129	35,942,984,932
Receivables (including noncurrent portion of receivables from real estate buyers)	1,849,595,826	756,046,546	2,208,813,360	1,267,514,787	6,081,970,519
Advances and other receivables (included under "Input taxes and other current assets" account in the consolidated balance sheet)	3,165,919,532	860,761,015	139,897,396	188,267,109	4,354,845,052
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	–	200,000,000	–	–	200,000,000
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheet)	347,248,200	–	–	–	347,248,200
	₱10,234,887,426	₱21,481,618,834	₱8,654,541,173	₱33,533,724,592	₱73,904,772,025

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

As of December 31, 2008 and 2007, these financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As of December 31, 2008 and 2007, the credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

		2008	
	High Quality	**Standard Quality**	**Total**
Cash and cash equivalents	**₱47,099,259,598**	**₱–**	**₱47,099,259,598**
Time deposits and short-term investments (including noncurrent portion)	**23,177,723,939**	**–**	**23,177,723,939**
Investments held for trading	**1,272,156,508**	**–**	**1,272,156,508**
AFS investments	**9,227,453,809**	**211,686,499**	**9,439,140,308**
Receivables (including noncurrent portion of receivables from real estate buyers)	**6,390,573,369**	**2,112,708,512**	**8,503,281,881**
Advances and other receivables (included under "Input taxes and other current assets" account in the consolidated balance sheet)	**4,154,138,463**	**4,807,766,363**	**8,961,904,826**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**7,303,764,728**	**–**	**7,303,764,728**
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheet)	**500,000,000**	**–**	**₱500,000,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**288,600,000**	**–**	**288,600,000**
Derivative assets	**34,130,728**	**–**	**34,130,728**
	₱99,447,801,142	**₱7,132,161,374**	**₱106,579,962,516**

		2007	
	High Quality	Standard Quality	Total
Cash and cash equivalents	₱15,770,421,570	₱–	₱15,770,421,570
Time deposits and short-term investments (including noncurrent portion)	8,258,250,000	–	8,258,250,000
Investments held for trading	2,949,051,752	–	2,949,051,752
AFS investments	35,731,298,433	211,686,499	35,942,984,932
Receivables (including noncurrent portion of receivables from real estate buyers)	3,728,844,010	2,130,523,269	5,859,367,279
Advances and other receivables (included under "Input taxes and other current assets" account in the consolidated balance sheet)	2,250,300,886	2,104,544,166	4,354,845,052
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	200,000,000	–	200,000,000
Derivative assets	347,248,200	–	347,248,200
	₱69,235,414,851	₱4,446,753,934	₱73,682,168,785

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

The effect on income before tax and equity (as a result of change in fair value of investments held for trading and AFS investments as of December 31, 2008 and 2007) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

December 31, 2008	**Change in Equity Price**	**Effect on Income Before Income Tax**	**Effect on Equity After Income Tax**
		(In Millions)	
Investments held for trading	**+0.09%**	**₱0.8**	**₱–**
	-0.09%	**(0.8)**	**–**
AFS investments	**+0.09%**	**–**	**1.4**
	-0.09%	**–**	**(1.4)**

December 31, 2007	Change in Equity Price	Effect on Income Before Income Tax	Effect on Equity After Income Tax
		(In Millions)	
Investments held for trading	+0.09%	₱2.0	₱–
	-0.09%	(2.0)	–
AFS investments	+0.09%	–	12.1
	-0.09%	–	(12.1)

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of interest-bearing debt to total capital and net interest-bearing debt to total capital. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents, time deposits and short-term investments and investments in bonds held for trading and sale. The Group's policy is to keep the gearing ratio at 50:50. The Group's ratio of interest-bearing debt to total capital were 47:53 and 32:68 as of December 31, 2008 and 2007, respectively, while the ratio of net interest-bearing debt to total capital was 20:80 as of December 31, 2008 and 2007.

As of December 31, 2008 and 2007, the Group's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital were as follows:

Interest-bearing debt to total capital

	2008	2007 (As restated - see Note 5)
Bank loans	**₱18,412,863,309**	₱3,678,598,058
Current portion of long-term debt	**7,741,828,604**	1,398,370,952
Long-term debt - net of current portion	**69,661,225,800**	45,120,859,656
Total interest-bearing debt (a)	**95,815,917,713**	50,197,828,666
Total equity attributable to parent equity holders	**110,098,838,009**	106,435,372,026
Total interest-bearing debt and equity attributable to parent equity holders (b)	**₱205,914,755,722**	₱156,633,200,692
Gearing ratio (a/b)	**47%**	32%

Net interest-bearing debt to total capital

	2008	2007
Bank loans	**₱18,412,863,309**	₱3,678,598,058
Current portion of long-term debt	**7,741,828,604**	1,398,370,952
Long-term debt - net of current portion	**69,661,225,800**	45,120,859,656
Less cash and cash equivalents, time deposits and short-term investments and investments in bonds held for trading	**(68,958,920,478)**	(24,087,795,675)
Total net interest-bearing debt (a)	**26,856,997,235**	26,110,032,991
Total equity attributable to parent equity holders	**110,098,838,009**	106,435,372,026
Total net interest-bearing debt and equity attributable to parent equity holders (b)	**₱136,955,835,244**	₱132,545,405,017
Gearing ratio (a/b)	**20%**	20%

31. Financial Assets and Liabilities

Fair Value of Financial Instruments

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities by category and by class recognized as of December 31, 2008 and 2007:

	2008		2007 (As restated - see Note 5)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial Assets at FVPL:				
Investments held for trading:				
Shares of stock	**₱1,128,299,212**	**₱1,128,299,212**	₱2,506,275,272	₱2,506,275,272
Bonds	**143,857,296**	**143,857,296**	442,776,480	442,776,480
Derivative assets (included under "Other noncurrent assets" account in the consolidated balance sheets)	**34,130,728**	**34,130,728**	347,248,200	347,248,200
	1,306,287,236	**1,306,287,236**	3,296,299,952	3,296,299,952
Loans and Receivables:				
Cash and cash equivalents	**47,099,259,598**	**47,099,259,598**	15,770,421,570	15,770,421,570
Time deposits and short-term investments (including noncurrent portion)	**23,177,723,939**	**26,586,297,782**	8,258,250,000	8,676,448,824
Receivables (including noncurrent portion of receivables from real estate buyers)	**9,360,460,771**	**9,360,460,771**	6,081,970,519	6,081,970,519
Advances and other receivables (included under "Input taxes and other current assets" in the consolidated balance sheets)	**8,961,904,826**	**8,961,904,826**	4,354,845,052	4,354,845,052
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheets)	**7,303,764,728**	**7,369,220,671**	–	–
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	**288,600,000**	**290,842,693**	200,000,000	208,160,719
	₱96,191,713,862	**₱99,667,986,341**	₱34,665,487,141	₱35,091,846,684

Forward

	2008		2007 (As restated - see Note 5)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Held-to-Maturity				
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheets)	**₱500,000,000**	**₱531,120,000**	₱–	₱–
AFS Investments:				
Shares of stock	**6,026,078,438**	**6,026,078,438**	31,737,329,795	31,737,329,795
Redeemable preferred shares	**2,552,699,740**	**2,552,699,740**	2,218,254,419	2,218,254,419
Bonds and corporate notes	**854,537,130**	**854,537,130**	1,982,210,718	1,982,210,718
Club shares	**5,825,000**	**5,825,000**	5,190,000	5,190,000
	9,439,140,308	**9,439,140,308**	35,942,984,932	35,942,984,932
	₱107,437,141,406	**₱110,944,533,885**	₱73,904,772,025	₱74,331,131,568

	2008		2007 (As restated - see Note 5)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Financial Liabilities at FVPL -				
Derivative liabilities (including current portion)	**₱2,387,302,530**	**₱2,387,302,530**	₱3,290,914,912	₱3,290,914,912
Other Financial Liabilities:				
Bank loans	**18,412,863,309**	**18,412,863,309**	3,678,598,058	3,678,598,058
Accounts payable and other current liabilities	**30,141,517,144**	**30,141,517,144**	25,385,193,719	25,385,193,719
Long-term debt (including current portion and net of unamortized debt issue cost)	**77,403,054,404**	**83,024,289,652**	46,519,230,608	48,881,363,312
Notes payable	**–**	**–**	13,334,438,449	13,554,152,494
Dividends payable	**64,518,698**	**64,518,698**	20,416,956	20,416,956
Tenants' deposits and others	**7,857,711,949**	**7,863,862,911**	6,362,142,309	6,078,533,861
	133,879,665,504	**139,507,051,714**	95,300,020,099	97,598,258,400
	₱136,266,968,034	**₱141,894,354,244**	₱98,590,935,011	₱100,889,173,312

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are the quoted market prices of the instruments at balance sheet date.

Derivative Assets. The fair values of the interest rate swaps, cross currency swaps, foreign currency call options and nondeliverable forwards are based on quotes obtained from counterparties.

Cash and Cash Equivalents. The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 1.60% to 2.10% and 3.07% to 3.66% as of December 31, 2008 and 2007, respectively.

Receivables. The net carrying value approximates the fair value due to the short-term maturities. The carrying value of the noncurrent portion of receivables from real estate buyers likewise approximates to the fair value because the interest rates approximate the prevailing interest rate as of the balance sheet date.

Advances and Other Receivables. The net carrying value approximates the fair value due to the short-term maturities.

Receivable from a Related Party. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used range from 5.76% to 6.33% as of December 31, 2008.

Long-term Notes. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used range from 5.95% to 7.40% and 4.60% to 6.57% as of December 31, 2008 and 2007, respectively.

Held-to-Maturity Investment. The fair value is based on quoted market price ranging from 104.61% to 108.65% as of December 31, 2008.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at balance sheet date. 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 ranged from 3.54% to 8.59% and 4.33% to 7.95% as of December 31, 2008 and 2007, respectively. For unquoted equity securities, the carrying amounts (cost less allowance for impairment losses) approximate fair value 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 value reported in the consolidated balance sheets approximates 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 5.64% to 11.5% and 4.19% to 7.36% as of December 31, 2008 and 2007, respectively.
Variable Rate Loans	For variable rate loans that reprice 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 reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. Discount rates used was 0.82% to 2.4% as December 31, 2008 and 5.20% as of December 31, 2007.

Notes Payable and 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 4.18% to 5.17% as of December 31, 2007 for notes payable and 7.0% to 11.16% and 5.86% to 6.76% as of December 31, 2008 and 2007, respectively, for tenants' deposits.

Derivative Liabilities. The fair values of the cross currency swaps, interest rate swaps and nondeliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to issuance of convertible bonds was obtained from a third party. The fair value of the call options arising from the future sale of SMC common shares was computed using Black-Scholes Merton model.

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 and nondeliverable forwards. These derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

Derivative Assets (Included under "Other Noncurrent Assets" account in the consolidated balance sheets)

	2008	2007
Subsidiary:		
Fixed to floating interest rate swaps	**₱34,130,728**	₱–
Nondeliverable forwards	**–**	272,130,520
Foreign currency call options	**–**	54,940,698
Floating to fixed interest rate swaps	**–**	20,176,982
	₱34,130,728	₱347,248,200

Derivative Liabilities

	2008	2007
Current		
Parent -		
Call option arising from future sale of SMC common shares	**₱–**	₱236,937,197
Subsidiary:		
Cross currency swap	**861,012,259**	–
Interest rate swap	**40,622,003**	–
	₱901,634,262	₱236,937,197
Noncurrent		
Parent -		
Options arising from convertible bonds	**₱1,485,668,268**	₱1,285,459,199
Subsidiary:		
Cross currency swap	**–**	1,496,387,996
Nondeliverable forwards	**–**	272,130,520
	₱1,485,668,268	₱3,053,977,715

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

	2008		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Cross-currency swaps -			
Floating-Fixed:			
Notional amount	**$70,000,000**		
Receive-floating rate	**6 months LIBOR +margin%**		
Pay-fixed rate	**12.58-12.75%**		
Weighted swap rate	**₱56.31**		
Interest Rate Swaps:			
Floating-Fixed:			
Notional amount	**$80,000,000**		
Receive-floating rate	**6 months LIBOR +margin%**		
Pay-fixed rate	**5.34%**		
Fixed-Floating:			
Notional amount	**₱1,000,000,000**	**₱1,000,000,000**	**₱1,000,000,000**
Receive-fixed rate	**9.3058%**	**9.3058%**	**9.3058%**
Pay-floating rate	**3MPDST +margin%**	**3MPDST +margin%**	**3MPDST +margin%**

	2007	
	<1 Year	>1-<2 Years
Cross-currency swaps:		
Floating-Fixed:		
Notional amount	$70,000,000	$70,000,000
Receive-floating rate	6 months LIBOR +margin%	6 months LIBOR +margin%
Pay-fixed rate	12.58-12.75%	12.58-12.75%
Weighted swap rate	₱56.31	₱56.31
Interest rate swap:		
Floating-Fixed:		
Notional amount	$80,000,000	$80,000,000
Receive-floating rate	6 months LIBOR +margin%	6 months LIBOR +margin%
Pay-fixed rate	5.34%	5.34%

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.

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 short put option pertains to the bondholder's option to require the Parent Company to redeem all or some of the Bond at 110.97% of the principal amount on March 19, 2010.

The long call option pertains to the Parent Company's right to redeem the bond in whole or in part at 118.96% of the principal amount on March 20, 2012.

As of December 31, 2008 and 2007, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱1,485.7 million and ₱1,285.5 million, respectively. The Group recognized unrealized marked-to-market loss of ₱200.2 million in 2008 and gain of ₱675.2 million in 2007, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" in the consolidated statements of income.

Call Options Arising from Future Sale of SMC Common Shares. The stock purchase agreement discussed in Note 12 grants SMCRP the right but not the obligation to pay the remaining balance of the total consideration. Such option is an embedded derivative, which is valued using Black-Scholes Merton model. As of December 31, 2007, the option, which is shown as a current liability in the consolidated balance sheet, has a carrying value of ₱236.9 million. The Group recognized unrealized marked-to-market loss of ₱146.5 million in 2007, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" in the consolidated statement of income. On October 31, 2008, the shares sale was consummated through the PSE of which a realized marked-to-market gain of ₱236.9 million was recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Cross Currency Swaps. In 2004, SM Prime entered into cross currency swap agreements with an aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, SM Prime effectively swaps the principal amount and interest of these US dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of December 31, 2008 and 2007, the cross currency swaps have negative fair values of ₱861.0 million and ₱1,496.4 million, respectively.

Interest Rate Swaps. Also in 2004, SM Prime entered into US dollar interest rate swap agreements with an aggregate notional amount of US$80.0 million. Under these agreements, SM Prime effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2008 and 2007, the floating to fixed interest rate swaps have negative fair values of ₱40.6 million and positive fair value of ₱20.2 million, respectively.

In 2005, SM Prime also entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱3,750.0 million. Under these agreements, SM Prime effectively swaps these fixed rate Philippine peso-denominated five-year and seven-year syndicated fixed rate notes into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to July 2012. As of December 31, 2006, the fixed to floating interest rate swaps have positive fair values of ₱577.0 million. In June 2007, as a result of the prepayment of the underlying obligation, the related interest rate swap was also terminated with net proceeds amounting to ₱438.4 million and realized loss of ₱138.6 million.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million. Under these agreements, SM Prime effectively swaps these fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013. As of December 31, 2008, the fixed to floating interest rate swaps have positive fair values of ₱34.1 million.

Foreign Currency Call Options. To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, SM Prime entered into the following cost reduction trades:

Trade Date	Start Date	Notional Amount	Strike Rate	Premium (p.a.)	Payment Dates
January 25, 2007	January 25, 2007	₱3,942,000,000	₱52 (US$1.00)	1.00%	October 18, 2007 April 18, 2008
June 27, 2007	April 18, 2007	₱3,942,000,000	₱49 (US$1.00)	1.00%	October 18, 2007 April 18, 2008 June 30, 2008
June 27, 2007	February 15, 2007	₱1,200,000,000	₱49 (US$1.00)	1.00%	February 15, 2008 June 30, 2008

In these trades, SM Prime will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the USD/PhP exchange rate trade above the strike price on the two dates, SM Prime will have to pay a penalty based on an agreed formula. As of December 31, 2007, the positive fair value of the currency option is ₱54.9 million. Realized loss from currency option contracts amounted to ₱16.9 million in 2008.

Nondeliverable Forwards. In 2007, SM Prime entered into forward contracts to sell ₱ and buy US$ with different counterparties at an aggregate notional amount of US$180.0 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160.0 million. The average forward rates range from ₱41.05 to ₱46.53, which mature in various dates in 2008. Also in 2007, SM Prime entered into forward contracts to sell US$ and buy ₱ with different counterparties at an aggregate notional amount of US$180.0 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160.0 million. The average forward rates range from ₱41.31 to ₱46.68, which mature in various dates in 2008. As of December 31, 2007, the net fair value of the above forward contracts is immaterial. SM Prime recognized derivative asset and derivative liability amounting to ₱272.1 million from these forward contracts. Realized gain from this forward contracts amounted to ₱47.0 million in 2008.

The net unrealized marked-to-market gain (loss) on derivative transactions, shown as part of "Gain on sale of AFS investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income, amounted to ₱7,554.2 million, (₱38.9 million) and (₱123.6 million) for the years ended December 31, 2008, 2007 and 2006, respectively.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as of December 31 are as follows:

	2008	2007
Balance at beginning of year	**(₱2,943,666,712)**	(₱123,555,081)
Net change in fair value:		
Premium on options embedded in convertible bonds and future sale of SMC shares	**–**	(2,051,167,405)
Recognized in profit or loss	**7,554,182,785**	(38,920,988)
Fair value of derivatives on settled contracts	**(6,963,691,875)**	(730,023,238)
Balance at end of year	**(₱2,353,175,802)**	(₱2,943,666,712)

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2008	2007
Derivative assets (see Note 17)	**₱34,130,728**	₱347,248,200
Derivative liabilities (including noncurrent portion)	**2,387,302,530**	3,290,914,912
Balance at end of year	**(₱2,353,171,802)**	(₱2,943,666,712)

32. EPS Computation

	2008	2007 (As Restated - see Note 5)	2006
Net income attributable to common equity holders of the Parent			
Net income attributable to common equity holders of the Parent for basic earnings (a)	**₱14,003,704,586**	₱12,111,349,599	₱10,525,784,720
Effect on net income of convertible bonds, net of tax	**–**	(1,164,492,144)	–
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**14,003,704,586**	10,946,857,455	10,525,784,720
Weighted average number of common shares outstanding			
Weighted average number of common shares outstanding for the period (c)	**611,023,038**	611,023,038	585,232,753
Dilutive effect of convertible bonds	**–**	16,002,779	–
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**611,023,038**	627,025,817	585,232,753
Basic EPS (a/c)	**₱22.92**	₱19.82	₱17.99
Diluted EPS (b/d)	**₱22.92**	₱17.46	₱17.99

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS in 2008 of ₱25.90.

33. Other Matters

a. In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a negotiated sale and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from DBP.

   Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge, filed with the Regional Trial Court (RTC) of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of the mortgages of these properties. The Parent Company was impleaded as a party defendant in 1995. The RTC of Makati voided the foreclosure by the DBP on the mortgaged properties and declared the Parent Company a buyer in bad faith.

   The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain minority 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. Recently, 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. DBP believes that all the legal requirements on the foreclosure of the mortgages were complied with and the said foreclosures of mortgages are legal and binding and the Parent Company also believes that it had no notice of any infirmity that would void its title.

b. On December 12, 2008, SMIC acting in consortium with SM Land, Inc. and its subsidiaries (SMDC and SM Hotels), SMCPI and Premium Leisure and Amusement, Inc., obtained a provisional license from the Philippine Amusement and Gaming Corporation (PAGCOR) to build an entertainment and resort facilities within the Mall of Asia Complex in Pasay City. As a condition imposed by PAGCOR for the grant of the license, the SMIC consortium committed to infuse US$1,000.0 million in building the entertainment and resort facilities. As required, SMIC opened an escrow account which shall be used for all disbursements on the project.

SPECIAL EDITION

INVESTOR

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Deutsche Bank, A.G.
Hongkong and Shanghai Bank
ING Bank, N.V.
JP Morgan Chase Bank, N.A.
Metropolitan Bank & Trust Company
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Land Bank of the Philippines
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Philippine National Bank
Bank of Tokyo - Mitsubishi UFJ
Australian New Zealand Bank

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:

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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.

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