SM INVESTMENTS CORPORATION

www.sminvestments.com

SPECIAL ISSUE

INVESTOR

Annual Report 2006

SM moves to merge BDO and EPCIB

EXCLUSIVE INTERVIEW

SM Independent Director

VINCE PEREZ

All Roads Lead to **SM BAYCITY**

Unmasking a Jewel called **HAMILO**

Big, Bright and Beautiful: **SM Mall of Asia**

Lega-SY of Henry Sr.

Mall Operations
Banking
Property
Retail Merchandising
SM LIPA
IMAX
SAVEMORE

...to a WORLD of possibilities.

INVESTMENTS CORPORATION

Retail Merchandising • Mall Operations • Banking • Property

Vision

SM attains growth in new initiatives through thought leadership, risk management, and a thorough understanding of its market and business environment.

Innovation

SM maintains growth in its ongoing endeavors through strategic differentiation, operational agility and prudent incorporation of advanced technologies and methodologies.

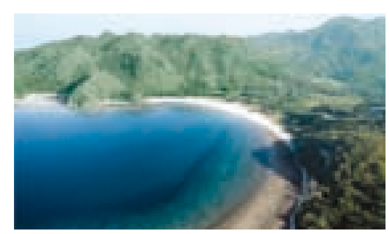
Value

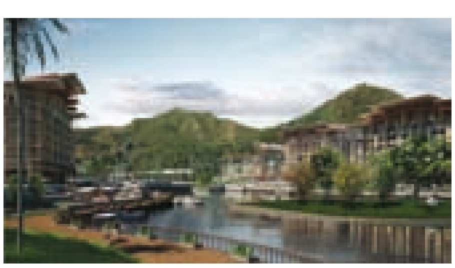
SM sustains growth into the future through financial discretion, methodical expansion, and a relationship of responsibility and integrity towards its stakeholders.

This is SM Investments Corporation.

From Shopping...

FEATURES





INVESTMENTS CORPORATION
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SPECIAL ISSUE INVESTOR

Annual Report 2006

The Makings of a New Publication

A lot of excitement went into re-designing our 2006 Annual Report. There was a consensus among those involved that the standard annual report format couldn't quite capture the life, the color and the dynamism within SM Investments and its many companies. Consequently, we thought of adhering to the company's innovative and creative approach to doing business, We thought of abandoning the old and ushering in the new: *The INVESTOR*, which adopts a real magazine look and feel to our annual report.

This opened many avenues for creative expression for the group. It gave us the freedom and inspiration to write some of the most interesting stories that transpired, not just during the year, but also other stories and interviews that feature personalities who willingly gave their thoughts about SM, the way it has grown over time, and the way it does business. *The INVESTOR* is also a showcase of events, places, and activities through many photographs bursting with life and color; it is a witnessing. More importantly, *The INVESTOR* is about transparency and going beyond mere reporting. It's a complete discussion and a chronicle of the company's 2006 performance and audited financial statements. *The INVESTOR* is our new paradigm in annual reporting.

ON THE COVER: In this issue, we salute the men and women steering the growth and development of SM Investments Corporation and its core subsidiaries:

Standing at the Central Entrance of the SM Mall of Asia (MOA), first row (left-right):
ANNIE S. GARCIA *President - Shopping Center Management Corporation*
JOSE T. SIO *Executive Vice President/Chief Financial Officer - SM Investments Corporation*
JORGE T. MENDIOLA *Senior Vice President, Operations - Shoemart, Inc.*
NESTOR V. TAN *President - Banco De Oro*

back row (left-right):
JOSEFINO C. LUCAS *Executive Vice President for Properties - SM Investments Corporation*
JEFFREY C. LIM *Executive Vice President - SM Prime Holdings, Inc.*
GREGORY L. DOMINGO *Executive Director - SM Investments Corporation*

Corporate Information

Updated as of 1/11/2007 by SMIC (DND)

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1000 Bay Boulevard,
SM BayCity, Pasay 1300
Philippines

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Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan Law Offices
Villaraza & Angangco Law Offices

External Auditor
SyCip, Gorres, Velayo & Co. CPAs

Bankers
ABN AMRO Bank
Banco de Oro Universal Bank
Bank of the Philippine Islands
China Banking Corporation
Citibank, N.A.
Deutsch Bank, A.G.
Equitable PCIBank
Hongkong and Shanghai Bank
ING Bank, N.V.
JP Morgan Chase Bank, N. A.
Metropolitan Bank & Trust Company
Standard Chartered Bank

Stockholder Inquiries
SM Investments Corporation 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 he company's transfer agent:

Stock Transfer Service, Inc.
8th Floor, Phinma Plaza
39 Plaza Drive, Rockwell Center
Makati City 1200 Philippines
Tel. (632) 898.7555
Fax (632) 898.7597

SEC Form 17-A
The Financial information in this report, in the opinion of Management, substantially conforms with the information required in the "17-A Report" submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request addressed to the Office of the Corporate Secretary.

Institutional Investor Inquiries
SM Investments Corporation welcomes inquiries from analysts, the financial community, and institutional investors. Please contact:

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REGULARS

As we move into 2007, we are comforted by the thought that we have already laid the foundations for a new growth cycle which will take SM's vision to the next level. It is a vision that puts excellence, governance and transparency high on our agenda, because we aspire to make SM a globally competitive institution, yet committed to servicing the needs of, and creating a unique lifestyle for the Filipino.

Fellow Stockholders,

2006 was a landmark year for SM Investments Corporation. We saw dramatic changes in the landscape in most of our core holdings, which show our strong commitment in the Philippines and our objective of further growth in a market that we know best how to serve.

We started off the year by issuing Global Depository Receipts (GDR) for Banco de Oro Universal (BDO) to create greater liquidity for its shares and broaden its foreign ownership base. This was the first GDR issued by a Philippine company since the late nineties which resulted in a re-rating of the bank and boosting its market capitalization by 250%.

In May, we opened the SM Mall of Asia, the country's largest mall with 386,000 square meters fronting the scenic Manila Bay. This reinforced SM's dominant position in mall operations, as we opened four other malls in Sta. Rosa, Clark, Lipa, and Pasig which increased the gross floor area by 23% to 3.6 million sqm.

We also saw in 2006 the largest increase in retail space for department stores as it opened in four new malls. In total, we increased our net selling area by 17% with the opening of the branches in Sta. Rosa, Clark, Lipa, and the SM Mall of Asia.

Third quarter of 2006 also witnessed, the infusion of the 27 SM Supermarkets and nine SM Hypermarkets into our retail merchandising business, effectively doubling its revenue and income base.

This consolidation of the retail assets form part of a company-wide realignment of assets to simplify our corporate structure. By doing so, we are able to become increasingly transparent and gain better appreciation of our overall direction as a group.

And probably the most dramatic and least expected of the events we saw in 2006 was the emergence of a golden opportunity to increase our stake in Equitable PCIBank (EPCIB) through a tender offer we made in September. This paved the way for the merger of EPCIB and BDO.

These are big steps we took. Yet through them all, we saw how you, our valued shareholders supported us every step of the way, confirmed by the constant appreciation of our share price. For that, we express our sincerest appreciation.

Indeed, these recent actions were meant to create more value in SM: first, through our vision of sustainable growth; and second, through innovative ways we do business with the creation of new platforms for better customer service and market-moving transactions.

As we move into 2007, we are comforted by the thought that we have already laid the foundations for a new growth cycle which will take SM's vision to the next level. It is a vision that puts excellence, governance and transparency high on our agenda, because we aspire to make SM a globally competitive institution, yet committed to servicing the needs of, and creating a unique lifestyle for the Filipino.

2007 opens new horizons for us. It marks the start of a two-year merger process for our two large banks, BDO and EPCIB. We will also launch two of our major property projects: SM BayCity, a 60-hectare urban development which now houses the SM Mall of Asia; and, Hamilo Coast, a larger venture into tourism which aims to create eco-friendly resorts and communities in Nasugbu, Batangas.

We also have a full program to open new malls and expand existing ones. Corollary to these, we plan to open new department stores, supermarkets and hypermarkets.

As in the past, we continue to be driven by our desire to see our vision materialize. But more importantly, we are driven by our desire to create jobs, improve lifestyles, and give Filipinos a name to own and be proud of. That name is SM.

Henry Sy, Sr.
Chairman

Teresita Sy-Coson
Vice-Chairman

Henry Sy, Jr.
Vice-Chairman

The potential is huge for us to benefit from a resurgent Philippine economy, given our exposure in all the key urban and rural centers nationwide. This, however, is a mere consequence of SM's commitment to the Philippines. Our vision, our resources, and our efforts, had been and will continue to be largely focused into creating value for the country for many generations to come.

President's Report

I am pleased to report that SM Investments Corporation (SMIC or SM) achieved its targets for 2006 in what I would consider one of our best years to date.

Operationally, while our existing base of products and services maintained their steady pace of growth, our subsidiaries forged ahead with their aggressive expansion plans for the year.

SM Department Stores opened four branches in *Sta. Rosa*, *Clark*, *Lipa* and *Pasay*. SM Prime Holdings Inc. opened five malls in 2006, including its largest and most ambitious project, the SM Mall of Asia, with 386,000 square meters of gross floor area. Our three banks, namely Banco De Oro Universal (BDO), Equitable PCIBank (EPCIB), and China Banking Corp. have also shown remarkable growth in loans, deposits and total resources. Meanwhile, our property businesses engaged themselves with high-rise residential condominium developments to take advantage of the resurgence in demand; and launched new projects such as OneE-com Center and SMX Convention Center in our emerging business district, SM BayCity.

One of the year's highlights was our 100% acquisition of Super Shopping Market and Supervalue, Inc., which operate all of the 28 SM Supermarkets and nine SM Hypermarkets, respectively. This move effectively doubled the revenue and income base of our retail operations.

Another exciting development in the third quarter of 2006, was a tender offer we made to increase our stake in EPCIB. The offer, which came as a unique opportunity for SM, proved successful and eventually paved the way for us to obtain shareholder approval to merge EPCIB with our main banking arm, BDO. This development happened towards the year end, capping an eventful 2006 for SM.

From a financial standpoint, our net income for the full year grew by 31.7% to Php10.6 billion, of which recurring income increased 20% to Php7.1 billion. Revenues grew by 64.4% to Php89 billion. Growth was derived from the continued expansion in all our core businesses, and an additional boost from the consolidation of SM Supermarkets and SM Hypermarkets as of June 2006.

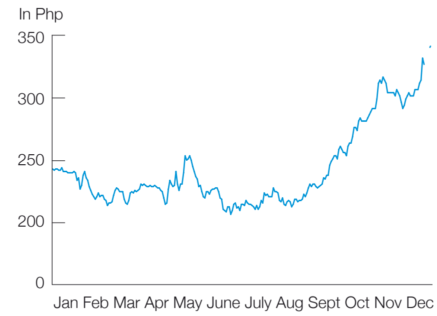
Extraordinary gains of Php 1.8 billion were recorded early in the year after we issued US$115 million worth of Global Depository Receipts (GDRs) for BDO to create greater liquidity for its shares and broaden its foreign ownership base. We also cashed in on some of our marketable securities to take advantage of the bullish trend in the Philippine stock market.

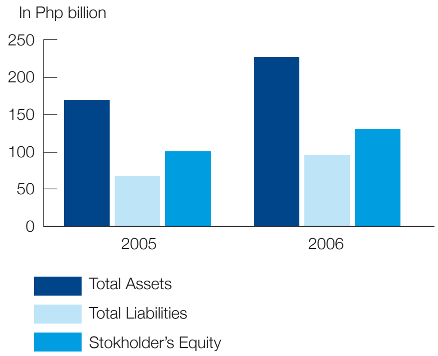
Of total income of Php7.1 billion, retail merchandising contributed 36% while mall operations came in second with 29%. The rest came from banks with 27% and property with 8%.

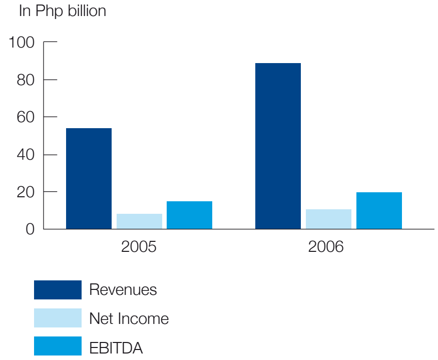
In terms of total revenues, the bulk came from retail merchandising with an 82% contribution. The rest came from mall operations with 13%, banks with 2%, and property with 3%. Retail merchandising is expected to further expand its contribution in 2007 as the numbers reflect the full-year impact of the consolidation of the SM Supermarkets and SM Hypermarkets. The same is true for the banking sector as we consolidate EPCIB, given that the tender offer generated enough shares for us to be a majority holder.

2006 came with its challenges such as higher value-added and corporate taxes; and natural calamities like super typhoons *Milenyo* and *Reming* that came in the 4th quarter of the year. All these tempered our same store sales particularly for department stores which went down by 3%. Same store sales of supermarkets and hypermarkets remained at 7% and 2% respectively. Mall operations had same store sales of 7%.

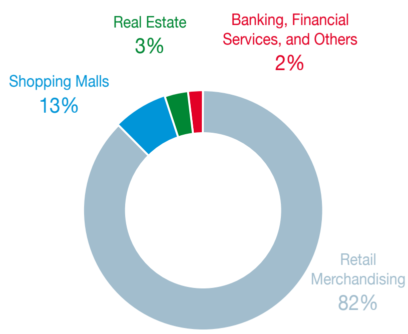
SM Investments Corporation
Share Price Chart (January to December 2006)

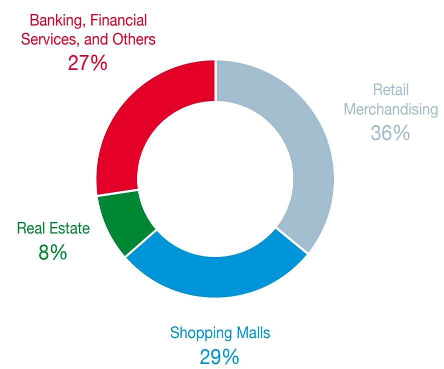






Revenue and Income Profiles





Balance Sheet Highlights

(Php Bn)	Jan-December 2006	%Chg
Total Assets	227.1	33.6
Current Assets	59.6	109.8
Non-current Assets	167.5	18.3
Current Liabilities	52.3	103.1
Non-current Liabilities	43.8	3.8
Total Liabilities	96.2	41.4
Stockholder's Equity	130.9	28.4
Book Value per share (Php)	176.3	19.2

Income Statement Highlights

(Php Bn)	Jan-Sept 2006	% chg
Revenues	88.7	64.4
Gross Profit	16.2	30.4
Other Income/(Expenses)	2.6	109.5
Net Profit Before Tax	18.8	37.5
Net Income	10.6	31.7
Minority Interest	4.7	41.8
EPS (Pesos)	18.8	24.5%

Financial Ratios

	2006	2005
Current Ratio (x)	**1.14:1**	1.10:1
Return on Equity (%)	**11.6%**	11.2%
Debt/Equity Ratio (%)	**34%: 66%**	39%:61%
Net Debt (Php Bn)	**17.7**	19.0
Net Debt/Equity (%)	**15:85**	20:80
Revenue Growth (%)	**64.4%**	9.6%
Net Income Growth (%)	**31.7%**	39.3%
Interest Cover (x)	**4.2x**	5.4x
EBITDA (Php Bn)	**19.6**	14.7
EBITDA Margin (%)	**22.1%**	27.3%
Net Margin (%)	**11.9%**	14.9%

Foot traffic in all our malls grew rapidly as gross floor area expanded by 23% to 3.6 million square meters. We take pride in this because it is our objective to reach out to as many Filipinos, while providing the convenience of a one-stop shopping and leisure concept.

2007 and the coming years hold a lot of promise as 2006 enabled us to create a new platform of growth for SMIC.

Our retail merchandising division is fully consolidated and should be able to work as one unit to further strengthen its foothold in the very buoyant Philippine retail market. The same goes for our mall operations now that we clearly dominate the market both in Metro Manila and in the regions. We have built a strong brand franchise in SM and it has evolved into a product and service that most Filipinos and even foreigners embrace.

Our two banks, BDO and EPCI, are undergoing a two-year merger process, the fruits of which will be borne out of scale and greater efficiency in the use of resources over the medium term. The merger will allow us to operate nationwide with over 700 branches. Meanwhile, China Bank should remain among the most profitable banks in the industry, being well placed in the middle market.

Our property business is relatively young but holds the most promise for growth and value. It supports a landbank with a size greater than most other property companies. We have planted the seeds in residential, commercial and tourism development. The next few years will bear witness to the emergence of a new vision that will create more structures other than our famous shopping malls.

The potential is huge for us to benefit from a resurgent Philippine economy, given our exposure in all the key urban and rural centers nationwide. This, however, is a mere consequence of SM's commitment to the Philippines. Our vision, our resources, and our efforts, had been and will continue to be largely focused into creating value for the country for many generations to come.

Harley T. Sy
President

SM retail managers in one of their daily merchandising exercises

Retail Merchandising

PRO-FORMA INCOME STATEMENTS

Jan-Dec 2006	SM Dept. Stores	SM Supermarkets*	SM Hypermarkets*	Total Retail*
Revenues (Php bn)	42.2	30.6	10.2	83.0
Growth Rate (%)	8.0	12.8	92.2	16.1
% of Total Retail	50.8	36.9	12.3	100
Net Income (Php bn)	1.2	0.9	0.4	2.5
Growth Rate (%)	5.0	-11.8	77.6	5.2
% of Total Retail	45.7	36.7	17.6	100
Net Margins (%)	2.7	3.0	4.4	3.1
Return on Equity (%)	44.4	32.9	62.3	41.2
Total No. of Stores				
end 2006	29	28	9	66
2007 Est: No. of new stores	2	3-4	3.-4	8-10

* Based on full-year earnings results of SM Supermarkets and Hypermarkets.

PRO-FORMA BALANCE SHEET

Jan-Dec 2006	SM Dept. Stores	SM Supermarkets*	SM Hypermarkets*	Total Retail*
Total Assets (Php bn)	10.6	7.5	2.8	20.9
Current Assets (Php bn)	8.0	6.0	2.1	16.1
Current Liabilities (Php bn)	7.8	4.4	2.1	14.3
L-T Liabilities (Php bn)	0.2	0.3	0.0	0.5
Total Liabilities (Php bn)	8.0	4.7	2.1	14.8
Stockholders' Equity (Php bn)	2.6	2.8	0.7	6.1

SM runs one of the largest networks of organized retail stores in the Philippines. As of end 2006, SM had under its retail merchandising sector 29 department stores, 28 supermarkets and nine hypermarkets all over the country. These stores can mostly be found in SM malls as anchor stores, although there are a few stand alone stores in strategic areas within Metro Manila.

For full-year 2006, SM's retail merchandising group reported net profits of Php3.8 billion, up 81%. This was derived from the full-year operations of departments stores, June to December operations of supermarkets and hypermarkets, and dividends and other income from investments of Shoemart, Inc. worth over Php1 billion. Revenues amounted to Php72.6 billion which translates to a net margin of 5% for the group, an improvement from the previous year's margin of 3%. (See related acquisition story on page 20.)

EBITDA for the retail group reached Php9.5 billion, with EBITDA margin improving from 11% last year to 13% in 2005.

Department Stores

Currently encompassing 29 stores in total, SM's retail merchandising segment continues to be the frontrunner in its industry. Leading the way in adopting new technologies as well as consistently providing premium value for money.

In 2006, SM Department Stores expanded aggressively, increasing its net selling area by 17% to 350,455 square meters. It opened branches in Sta. Rosa, Clark, SM Mall of Asia, and in Lipa. This expansion was the main driver of the sector's 8% growth in department store sales to Php42.2 billion.

Same stores sales, however, was not as buoyant with consumer confidence affected early in the year by higher value added and corporate taxes. In addition, some of the new large-format stores affected nearby branches, such as the Lipa branch affecting the store in Sta. Rosa, Batangas, Mall of Asia affecting our branch in Harrison Plaza, and Clark affecting our San Fernando branch in Pampanga.

"We have always viewed our expansion from a larger perspective." Mr. Jojo Mendiola of SM Department Stores was quick to add. "This is a price worth paying for in exchange for new and bigger markets that we are able to tap. Based on our experience, both stores in the same vicinity simultaneously benefit over a period of time as markets in those areas naturally grow with SM."

Indeed, this retail operation has come a long way. SM Department Stores is the oldest in the roster of SM related businesses, spinning off from a mere shoe operation back in the early fifties.

As of end 2006, SM Department Stores had 29 branches all over the country, of which three operate outside SM malls. The biggest and most popular branch is the stand alone SM Department Store in Makati, which also happens to be one of the oldest. Its secret? "We have remodeled and reformatted the store to suit the tastes and preferences of the sophisticated working class in the central business district of Makati," according to SM President Mr. Harley Sy. "We have designed the store to look much more stylish, rich and colorful. We also broadened the merchandise mix to include new concepts, and more branded products, even as we maintained much of the original types of merchandise to cater to our traditional value shoppers."

SM Department Stores also now provide value-added types of services such as our SM Advantage program, bills payments, ticket sales for shows and concerts, foreign exchange service and phone card sales. Mr. Mendiola said, "We really focus now on service innovation and customer satisfaction because we would like to make the shopping experience in SM more and more exciting."

New and interesting prospects await SM Department Stores in 2007. Let's hear more about them from Mr. Jojo Mendiola, Senior Vice President for Operations of SM Department Stores.

Trends and Expectations

Department Stores

Jojo Mendiola - Senior Vice President, SM Department Stores

What do you expect to achieve this 2007?
We expect sales to grow by 16% in 2007. This expectation is based on better same store sales and the additional market share that we can get from opening two new stores in greenfield areas such as Bacolod, Negros Occidental, and Taytay, Rizal.

How is the domestic market behaving given reports that the economy is improving? Do you expect changes in consumer tastes and preferences?
The positive economic indicators in general, will benefit SM Department Stores as higher consumer confidence can only lead to higher spending. But we still think that consumers want value for money. They want quality at the best price.

How does sales in your department stores in Metro Manila compare with those outside?
We have a total of 15 branches in Metro Manila. These branches account for 68% of total sales. The 14 provincial branches account for the remaining 32%.

What have you done to maintain and further improve your market share, particularly in the areas that are highly competitive such as Makati and Ortigas complex?
We protect our market share by knowing what our customers want and need, and even more importantly, we deliver their expectations. We make sure we give them an exciting shopping experience. We constantly innovate.

How do you choose which shoes, clothes and other items to sell in the department store?
It is based on consumer demand, trends and lifestyle. It is a wide assortment from apparel to home, and from basic styles to trendy styles. We stay true to our SM slogan, "We've got it all for you."

Do all your stores nationwide carry the same items or do provincial outlets sell local items as well?
Assortment varies by regions, global brands and nationwide brands based on socio-demographics and psychographic lifestyle of each region.

How many suppliers do you deal with?
We deal with an adequate number of suppliers. More importantly than numbers, they have to be reliable, dedicated suppliers that are in partnership with SM to meet its growth plans.

How do you control your merchandise?
We control our merchandise through tools to better manage sales and inventory. These tools such as Open-To-Buy System (OTB), Stock-to-Sales Ratios (SSR), and Stock Turnover Ratios (Turnover) help us balance and allocate stocks to support our sales requirements.

Is there anything new that the market can look forward to from SM Department Stores?
SM will continue to be the market leader, to provide consumers with the best price and best merchandise at the right place and at the right time. Customer satisfaction will still be our top priority.

What was inventory turnover in 2006?
Our turnover in 2006 was four times, representing an improvement of 8% over 2005.

Just out of curiosity, how many pairs of shoes did you sell in 2006 and how does that compare with 2005?
We sold eighteen million pairs of shoes in 2006 for a 14% sales growth over 2005. That's like selling a pair of shoes to one out of four Filipinos.


We've got it all for you!
SM
DEPARTMENT STORE
MAKATI • CUBAO • HARRISON • NORTH EDSA • STA. MESA • ORTIGAS • LAS PIÑAS • BACOOR • FAIRVIEW • MANILA • PAMPANGA • MANDURRIAO • CEBU • DAVAO
CAGAYAN DE ORO • BICUTAN • LUCENA • BAGUIO • MARILAO • DASMARIÑAS • BATANGAS • DELGADO • SAN LAZARO • SUCAT • STA. ROSA • CLARK • MALL OF ASIA • LIPA • BACOLOD

Supermarkets

SM Supermarket is the Philippines' largest chain of supermarkets with a total of 28 stores nationwide as of end 2006. While most of them are located in SM Malls, some are stand alone stores called SaveMore.

SM Supermarket's vision for providing solutions to the shoppers' needs was seen clearly in its performance in 2006. The supermarket grew its revenues by 12.8%, and is now a Php30.6 billion business. The vision was executed successfully through the introduction of innovations in the stores. The expansion of the fresh section is geared to provide shoppers a solution to the hassles of wet market shopping. SM Supermarket President Herbert Sy adds, "We want to give our shoppers a comfortable place to shop and at the same time, offer value-added services. Fish can be cut, cleaned and scaled at no extra cost. Our meats can be prepared as well. For busy housewives and working moms, we have pre-cut, pre-sliced, and ready-to-cook vegetables that they could quickly sauté at home or cook into a healthy meal. SM Supermarket remains unsurpassed in providing innovations, always having the benefit of the shoppers in mind. Apart from the widest selection of goods, SM Supermarket offers services aimed at making life easier at home."

SM Supermarket introduced new concepts in 2006 to include ready-to-cook and ready-to-eat food concepts. Shoppers can expect a shabu-shabu area in their local supermarket, freshly squeezed fruits, and cooked fresh corn and peanuts as part of healthy snacks. For the more indulgent, crispy lechon is offered at cheaper prices than neighboring stores and restaurants. A food bazaar can also be found every weekend in select supermarkets that offer a wide variety of native and Chinese delicacies, breads and even sugar free sweets and pastries.

Trends and Expectations

Supermarkets

Herbert T. Sy - President, Supervalue Inc./SM Hypermarket

Were your expectations met in 2006?
Overall, business for SM Supermarket went beyond expectations, with sales growing by 12.8% to an all-time high of Php30.6 billion. The growth is largely credited to newly opened stores and to the expansion of our fresh section.

What was inventory turnover in 2006?
Inventory turnover improved slightly from 35 days down to 32 days. We expect to hit a minimum target of 30 days for 2007.

How were you able to improve your margins in 2006?
We improved our margins through rigid sourcing and the expansion of categories that carry good margins.

How is the domestic market behaving given reports that the economy is improving? Do you expect changes in consumer tastes and preferences?
We expect disposable incomes to improve and translate to an increase in transaction count in SM Supermarkets. However, we also expect the average transaction or basket size to remain flat as the improvement in purchasing power is channeled to telecommunications, real estate and basic necessities.

What have you done to maintain and further improve your market share, particularly in areas that are highly competitive?
We shall focus on communicating and offering the following values to our consumers:
A. Freshness and Quality – fresh items come straight from the source, and are available all day, everyday.
B. Value for Money – that shopping at SM Supermarket is a total experience, that customers get great deals through promotions and novel services not found in wet markets.
C. Variety – SM Supermarket carries a complete product line, and is the first to bring new and exclusive product offerings to the market.

Do all your stores nationwide carry the same items or do provincial outlets sell local items as well?
Customers can expect to find their favorite items in any SM Supermarket store since we generally carry the same items nationwide. But we also study the market profile of the areas where our regional stores are located, and carry native and specialty items unique to the region to cater to that certain niche, and to foster our presence in the community.

How do you source the products that you sell in the fresh section? How do you ensure their freshness?
We do market research and tap into professional suppliers who are able to acquire items straight from the source, and are up to par with SM's standard of quality. These suppliers directly sell in our fresh section, and are constantly monitored not only for the quality and freshness of their products, but also by the service they provide our consumers.

How many suppliers do you deal with? Is this a growing number?
We have about about 4,000 suppliers, of which 50% are continuously active throughout the year. This number will continue to grow as part of our move to expand the business and our commitment to consistently provide our consumers with new product offerings.

We are also encouraging Small and Medium Enterprise suppliers to sign in their business with us. This move is being made to be able to expand our product offerings to the market, as well as support growth for these smaller industries.

How do you control your merchandise?
We deploy effective inventory management systems and the use of the latest technology to monitor damages, pilferage, or shrinkages, backed up by an actual physical monitoring of goods. We train our personnel to oversee stock management in the store through quality control, constant coordination, and alignment with our Operations Retail Support Team.

How many stores do you plan to open in 2007?
We plan to open four new stores this year with an estimated total selling area of 16,000 square meters. These are mainly our stand alone SaveMore Supermarket stores that will tap our target markets in strategic areas found outside an SM mall.

Hypermarkets

Hypermarkets performed beyond expectations in 2006 with sales growing by 88% to Php11 billion. Stock turnover was higher and the sector experienced better efficiencies as its number of stores almost doubled. There are now nine hypermarkets, most of which are still in Metro Manila. "The market seems to have warmed up to this new format in retail merchandising which offers a balanced mix of food and non food items," according to Robert Kwee, Executive Vice President for SM Hypermarkets.

The SM hypermarket business was started by the Sy family back in the late '90s in response to the growing needs of the market for more convenience. The new retail format of combining a supermarket with a department store came up as an alternative. While there have been some earlier start ups in this business by other groups, it is only now that many Filipino shoppers are becoming increasingly familiar with a hypermarket set up. "The first ones we opened in Sucat, Bicutan, and Marilao were more of test cases," according to SM President Harley Sy. "We had to find the right formula, and the proper store set up to entice the market to come and experience our new retail offering. As soon as we got it right, we immediately rolled out more stores and folded the business into SM Investments."

While it is the newest sector in SM retail merchandising, SM Hypermarkets deal with most of the existing suppliers of SM who are more than happy to see their relationships and businesses grow and evolve with SM over time.

New relationships are developing as SM Hypermarkets began to invite fresh food stall concessionaires to operate in the hypermarket's fresh market section. These operators sell fresh meat, seafood, fruits, and vegetables directly to the customers, who like the concept of being able to choose the items they want to buy and at the quantity they prefer or can afford to pay for. Quite importantly, the relationship with the concessionaire goes beyond the contract signing. SM also makes sure they operate professionally and within the SM standards by immediately providing their sales and operating staff with training on quality control and customer service.

And just like its business counterparts in SM retail, SM Hypermarkets is also in the mode of constantly introducing new concepts to its customers to enhance the positive shopping experience in the stores. Among the most successful concepts is the chicken rotisserie stall that sold over four million tons of roast chicken in 2006 (see related story below). Other concepts that are also becoming main attractions in the hypermarket stores are the bakery stalls that sell thousands of freshly baked pan de sal, enzymadas, and other types of bread everyday; and Taste Asia, which offers dampa-style dining.

For its plans for 2007, we got the views of Hypermarket Executive Vice President Robert Kwee.

Chicken Run

SM Hypermarket just made the "ordinary" shopping experience a little more flavorful. This now famous roasted whole chicken started in 2001 merely as a promotional concept to reward our customers for patronizing the hypermarket for only Php99; less than US$2.

A well-proven concept has now evolved to a full-scale business and a regular staple for all SM Hypermarket shoppers. This succulent, juicy, hot-off the grill chicken is a healthy alternative to fastfood and the side street's "lechon manok". A no-nonsense, no-frill of a product that everyone in the family can enjoy 365 days in a year with the much less dreaded cholesterol sans the chicken skin. Suffice to say that the Hypermarket roasted chicken is now that famous that we are now about to serve our two-millionth customer in a little more than just five years it's been in operation. The chickens continue to sell fast even now at Php 120 each (US$2.50), though still among the cheapest in town.

But pork lovers need not fret. The rotisserie has expanded into roasted pork knuckles (pata jamon) which is now also putting its own mark in the list of top sellers. This ham-like, tasty, mouth-watering piece of pork knuckle is fast becoming another winner and is only available in all SM Hypermarkets.

Trends and Expectations

Hypermarkets

Robert Kwee - Executive Vice President

What do you expect to achieve in 2007?
We expect sales growth of about 35%, still mainly on account of our aggressive expansion program. We also expect further improvement on efficiency due to logistics.

How is the domestic market behaving given reports that the economy is improving? Do you expect changes in consumer tastes and preferences?
Yes, we do expect buying power to improve due to OFW funds and an improved local employment situation. We will also likely benefit from election-related spending in the first half of the year.

What have you done to maintain and further improve your market share in areas that are highly competitive?
We focus on giving good customer service and product offerings.

How do you choose which dry goods to sell in the hypermarket so that you don't end up competing with SM Department Stores?
We coordinate very closely with SM Department Stores and we both adopt proper merchandise planning; SM Hypermarket focuses on more basic items and more affordable goods to address the needs of low to middle-income households and impulse buyers.

Do all your stores nationwide carry the same items?
Yes, we carry the same items in all our stores. It's a fairly simple merchandising operation for now because out of the nine branches we have, only one hypermarket is outside of Metro Manila, which is in Clark, Pampanga.

How do you source products to sell in the fresh section? How do you ensure their freshness?
We make sure we deal with good and professional suppliers. We also make sure that as they are chosen to directly sell in our fresh market section, we immediately provide them with training and SM standards on quality control.

How many suppliers do you deal with? Is this a growing number?
We now deal with over 1,500 suppliers. We expect this number to continue growing given the fact that our business is also rapidly growing.

What was inventory turnover in 2006?
Our turnover in 2006 was 10 and 15 times depending on the type of product. Food merchandise typically moves faster than non-food.

How do you control your merchandise?
We have a system that we call Proper In/Out selection. We also make it a point to take out the aging stocks, then mark them down to sell faster.

How many stores do you plan for 2007? How much in additional floor spaces is that?
We plan to put up three to four new stores for the year with 25,000 sqm. of net selling area. We are choosing locations that will bring us closer to our customers.

SM Supermarkets and Hypermarkets

complete the retail picture

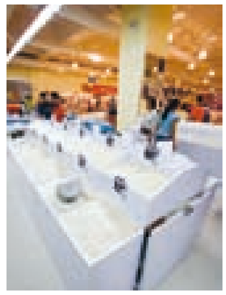
The SM retail business is a large network of department stores, supermarkets and hypermarkets. It sells just about anything from shoes, clothes, and accessories, to meat, fish, and poultry. SM lives up to its slogan: "We've got it all for you!"

So, to put them all in one wing, SM Investments Corporation (SM) acquired all the SM Supermarkets and SM Hypermarkets from their previous owners and put them under SM's retail business, which already has the SM Departments Stores in its portfolio.

The price was Php13 billion, which is 13 times what the stores earned in 2005. This is based on how retail companies in countries like Thailand and Indonesia are valued. In exchange, the previous owners were paid with new shares of SM equivalent to 56 million shares. This increased the outstanding shares of SM to 586 million from just 530 million shares when it was listed at the Philippine Stock Exchange in May 2005.

According to SM President Harley Sy, "The supermarkets and hypermarkets are vital components of SM's retail merchandising portfolio. They will, in fact, double the retail group's revenue and earnings base, and further enhance its growth potential. Consequently, they will also enhance the shareholder value of SM as the holding company."

On a full-year basis, the supermarkets and hypermarkets, together with the department stores, will contribute over 80% to SM's revenues and over 30% to SM's net income. However, since the purchase was made only in June 2006, the 2006 financial statements of SM only consolidated seven months' worth of sales and profits. The full year impact of the consolidation will be felt in 2007.



HYPERmarketing

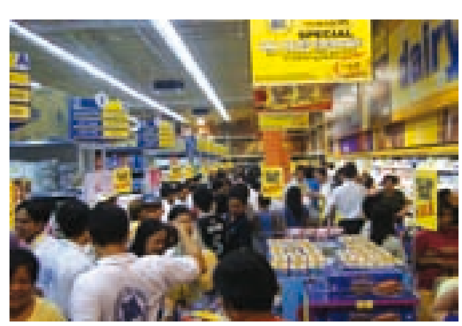
So, what's a hypermarket? Well, it's a store that has nearly everything in it. It's got food and non-food items at highly affordable prices. It's like a supermarket and department store rolled into one big warehouse. It's also a one-stop shopping concept that originated in countries like France and the U.S.

SM Hypermarkets boast of the freshest food items with food inventory moving nearly every week. Market stalls are installed to accommodate fresh seafood and meat consigners. It's like a wet market concept where shoppers can pick the items they want to buy, and in the quantity that they prefer. The store set up is colorful, pleasant, clean, and most importantly during the warm summer days, it is fully air-conditioned. The hypermarket also sells clothes, shoes, bags, accessories, furniture, and appliances.

No wonder people from ALL walks of life now like to shop at SM Hypermarkets. It offers the convenience of shopping for freshness and everything else you need all under one roof.

Save More with

Did you know that a few SM Supermarkets can be found outside malls too? And it's got its own brandname: SaveMore. Unlike most SM Supermarkets located in SM malls, SaveMore branches are stand-alone supermarkets serving the needs of shoppers who like the convenience of proximity and impulse shopping for food and household items. SaveMore shoppers also enjoy the same level of quality, service, and prices that SM Supermarkets offer. As of end 2006, there are seven of these SaveMore branches; with one each in Marikina, Alabang, Mactan, Cebu City, Angono, and two in Iloilo.



Letters from SM Suppliers

From shoes and bags to socks and intimate apparel, and even children's toys. True to its tagline, SM's got it all. And the success of popular brands like Triumph, Wacoal, Figlia, Burlington and Barbie is a testament to the valuable business opportunities being provided by SM to thousands of entrepreneurs who offer good concepts and excellent product lines to consumers.

We spoke to a few suppliers whose businesses have grown with SM over time. They are among many who expanded from just being suppliers to SM stores but have become tenants as well in SM malls. Here's what they have to say…

MR. CHAN KOK BIN
President, Charter International

"We started supplying ladies' shoes to SM since 1986. Our major brand is Figlia, which is exclusive in all SM Department Stores. Figlia was created by Mr. Joey Enriquez, a well-known shoe designer in his time whose family has been in the shoe manufacturing business since 1955. Actually, his father has been a supplier of Mr. Henry Sy, Sr. in the early days of Shoemart in the 1950s. Our company, Celine Marketing Corporation, came in 1998 and we became partners.

In terms of growth, in 1998, we achieved Php58 million sales from SM. Last year, total sales went up to Php143 million so this is almost three times over in the course of nine years.

SM has been growing their shopping malls over the last 10 years. So when they open new malls, they have new department stores. And as a result, we have our shoes counter inside. We are fortunate to be the concessionaire of SM because we benefit from SM's rapid growth.

From being a supplier, we have opened stores in SM malls for our other brands like Celine, CMG, Bysi, So Fab! and Traffic. And we also export some of our products to Japan, Greece, Spain and the USA.

I believe that SM is very, very successful because they started as a retailer and then ventured into department stores. So they understand every detail, the ins and outs of the retail business. Because they understand the retail business, when they design a mall, they know where to locate the anchor tenant and the junior anchor tenants. SM also has the acumen for choosing the right tenant mix. So overall, they are able to come up with the best package for consumers."

TOSHIHISA TANAKA

President and CEO, Philippine Wacoal Corporation

"Philippine Wacoal supplies SM fashionable and upscale undergarments. Since SM is dominant in retail merchandising in the Philippines, we are fortunate because we are able to tap the market that SM serves. Wacoal is a prestige brand which I believe goes well with the trendier and more upscale look of SM Department Stores.

We started doing business with SM in 1989, the same year when we started our business in the Philippines. Our fundamental policy for Wacoal is not only to sell our merchandise but more importantly to give satisfaction to our customers. I think we share the same principles with SM.

Sales in SM account for 57% of our total sales. For 2006, our sales in SM increased by 12%. So we can say that we have grown in 2006 despite all the challenges. For 2007, we are optimistic that sales in SM will have a bigger contribution to our company's growth.

For the year 2007, we need much more help from SM in increasing market share for our brands. We now offer a new brand, the SORCI-age, which is intended for young ladies and career women. SM is a good partner for us and we are committed to keep our partnership strong."

MS. MYRNA YAO

Chief Operating Officer, Richwell Trading Corporation

“We started doing business with SM in 1982 because we believe in its vision, mission and the people behind it. We supply SM with toys like Barbie dolls, Hot Wheels and V-tech electronics. We also supply them infant products like Chicco, Pigeon and Safety First, as well as children’s shoes.

When we started in 1982, we were just very small and Shoemart, at that time, was also not the giant that it is now. But then we saw that they work very hard. Their vision is clear and that is very important for suppliers. You can really depend on them and you would not be afraid to bring in new product lines because you know that you will have the retail stores where you can showcase and sell your products.

The most important thing for us in partnering with SM is that they never stop growing.

Indeed, SM has helped our business grow just by opening new stores. They also give us direction on how we can grow the business with them like having promotions. It all helped boost our sales. At the same time, we have planning sessions with them which is very important. As you plan together like partners then you have a goal to reach and an objective to see to it that you are able to perform by the end of the year.

In 2007, we are still looking forward to a growth of 25-30%, just like what we achieved in 2006. We expect an even stronger business partnership with SM as we continue to work closely together and support each other better.”

MR. RUDY TAN

General Manager, Burlington Industries Philippines, Inc.

“Burlington offers a complete line of socks for men, ladies and children. We are also the trademark owner of Puma brand for socks, Bally, Camp and right now we’re licensing Baleno socks especially for SM.

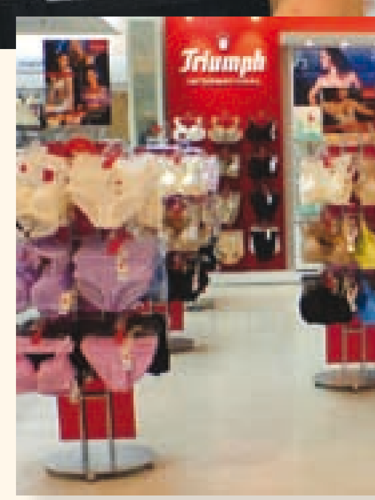
We started doing business with SM when it had its first store in Carriedo. Business has been good because we were able to modernize our operations to meet the demands of the stores, especially with SM which has continuously been expanding. So I can say that we really grew with SM. The pioneering of SM in the provinces also opened the market for a wider distribution of our products.

We could feel the strict competition wherein you really have to excel and we've been doing our best to provide the best products to our customers.

In 2006, we focused on developing the market share for the complete product lines that we carry. This means we'd like to focus not only on Burlington but also on Puma brand, Bally and other products.

For 2007, we hope to achieve more market growth. We will also be coming up with additional new products to give better value to our consumers and also new products for SM stores."

MS. LORELIE DE LEON
Head, Retail Sales and Marketing, Triumph International (Phils.), Inc.



"Triumph supplies SM with a wide range of intimate apparel and swimwear. Our partnership with SM started in the early 80's. This means more than 25 years of building and growing the intimate apparel business in the Philippines. Triumph has consistently grown in double-digit figures over the years.

SM's continuous expansion programs have allowed Triumph to be strategically located in Metro Manila and major cities nationwide thus increasing the brand's exposure to new markets. Triumph's dominance and market leadership can be attributed in part to SM's continued support and its projects/activities which are aimed to achieve the companies' mutual goals.

SM has consistently provided shoppers with fashionable and affordable items to suit every lifestyle. It also implements an aggressive advertising and marketing campaign, constantly upgrades the look of its stores and ensures maximum visual impact through an effective in-store visual merchandising program. In addition, SM continuously improves on customer relations management and offers an effective loyalty program.

These underscore SM's commitment to providing consumers a total shopping experience. All these efforts add value not only to SM but to all the brands housed in the department store as well.

SM values the partnership it has built with its suppliers over the years. The SM and Triumph partnership has fostered a solid business relationship built on common goals, trust and an aligned vision.

Triumph seeks to further strengthen the brand in 2007. We strive to continually provide SM with fashion-driven products that will entice the SM customer and encourage them to come back for more."

STORE Locations

SM Supermarkets

January – December 2006

Supermarkets within Malls (SM Supermarkets)

	BRANCH	DATE OPENED
1	North Edsa (Q.C.)	December 1985
2	Sta. Mesa (Q.C.)	September 1990
3	Megamall (Mandaluyong City)	July 1991
4	Southmall (Las Piñas City)	April 1995
5	Bacoor (Cavite)	April 1995
6	Fairview (Q.C.)	October 1997
7	Manila	April 2000
8	North Reclamation (Cebu City)	August 1998
9	Mandurriao (Iloilo City)	June 1999
10	San Fernando (Pampanga)	November 2000
11	Davao City	November 2001
12	Cagayan De Oro	November 2002
13	Lucena City	October 2003
14	Baguio City	November 2003
15	San Lorenzo (Makati City)	February 2004
16	Dasmariñas (Cavite)	May 2004
17	Batangas City	November 2004
18	Delgado (Iloilo City)	December 2004
19	San Lazaro (Manila)	July 2005
20	Sta. Rosa (Laguna)	February 2006
21	Lipa City (Batangas)	September 2006
	STAND ALONE SUPERMARKETS (SAVE MORE)	
22	Jaro (Iloilo City)	October 1998
23	Marikina City	April 1999
24	Mactan (Cebu)	June 2002
25	Festival Mall (Alabang)	February 2004
26	Elizabeth Mall (Cebu)	December 2003
27	Jaro 2 (Iloilo City)	August 2006
28	Angono (Rizal)	November 2006

Total Gross Selling Area (2006) – 148, 085.64 sqm.

SM Department Stores

January – December 2006

	BRANCH	DATE OPENED
1	SM Quiapo	November 1972
2	SM Makati	September 1975
3	SM Cubao	October 1980
4	SM Harrison	October 1984
5	SM North EDSA (Q.C.)	November 1985
6	SM Sta. Mesa (Q.C.)	September 1990
7	SM Ortigas (Mandaluyong City)	June 1991
8	SM Cebu	November 1993
9	SM Las Piñas	April 1995
10	SM Bacoor (Cavite)	July 1997
11	SM Fairview (Q.C.)	October 1997
12	SM Mandurriao (Iloilo City)	June 1999
13	SM Manila	April 2000
14	SM Pampanga	November 2000
15	SM Davao	November 2001
16	SM Cagayan de Oro	November 2002
17	SM Bicutan	November 2002
18	SM Lucena	October 2003
19	SM Baguio	November 2003
20	SM Marilao (Bulacan)	November 2003
21	SM Dasmariñas (Cavite)	May 2004
22	SM Batangas	November 2004
23	SM Delgado (Iloilo City)	December 2004
24	SM San Lazaro (Manila)	July 2005
25	SM Sucat (Parañaque City)	November 2005
26	SM Sta. Rosa (Laguna)	February 2006
27	SM Clark (Pampanga)	May 2006
28	SM Mall of Asia (Pasay City)	May 2006
29	SM Lipa (Batangas)	September 2006

Total Net Selling Area (2006) – 350, 455.90 sqm.

Supermalls

SM Hypermarkets

January – December 2006

	BRANCH	DATE OPENED
1	Sucat (Parañaque City)	May 2001
2	Bicutan (Parañaque City)	November 2002
3	Marilao (Bulacan)	November 2003
4	Valenzuela City	October 2005
5	Molino (Bacoor, Cavite)	November 2005
6	Clark (Pampanga)	May 2006
7	Mall of Asia (Pasay City)	May 2006
8	North EDSA (Q.C.)	June 2006
9	Pasig City	August 2006

Total Gross Selling Area (2006) – 80, 826.28 sqm.

Mall Operations

The following is an excerpt from the SM Prime Annual Report taken from the report of SM Prime President Mr. Hans T. Sy.

2006 was an exceptional year for SM Prime. Operationally, it opened the most number of malls since it went into operation, one of which is the Philippines' largest mall to date with the SM Mall of Asia. SM Prime's total gross floor area expanded by a record 700,000 square meters (sqm.) or 18% to 3.6 million sqm., while average daily foot traffic in all the malls reached a record high of 2.0 million.

From a financial standpoint, SM Prime achieved a 21 % growth in operating income of Php 7.66 billion, a much higher growth than the annual average of 10% posted in the previous six years. Revenue growth was also at a record high of 19% compared to the annual average growth of only 12% in previous years. Even if net income growth of 10% to Php 5.45 billion was tempered by the mandatory increase in corporate tax rates, EBITDA grew by 26% to Php 9.44 billion translating to a healthy EBITDA margin of 71%.

Apart from the SM Mall of Asia, the other malls that were opened were SM City Sta. Rosa, SM City Clark, SM Supercenter Pasig, and SM City Lipa.

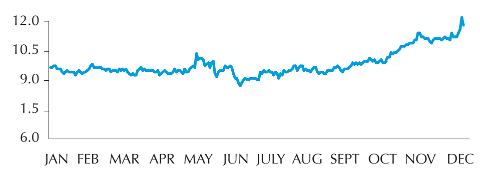
SM Prime takes pride in the fact that the SM Mall of Asia is now being touted as one of the largest malls in the world. It has become a destination mall not just for shoppers but for families, student field trips, tour groups, and business delegates both local and foreign. The mall's ideal location fronting the famed Manila Bay is complemented by new and exciting concepts in the Philippine market such as the country's first Olympic-sized ice skating rink and the only IMAX theater, which in fact, has the world's largest IMAX screen. The mall offers a wide variety of shops, products and services with its over 900 tenants carrying popular local and international brands.

Despite its size, however, SM Prime continues to enjoy the patronage of its tenants, who are in turn, rewarded by the high foot traffic that SM malls generate. The average occupancy in all of SM Prime's malls is a hefty 97% as of end 2006.

It also helped that the domestic economy picked up strongly in the second half of the year allowing same store sales to grow at an average of 6%.

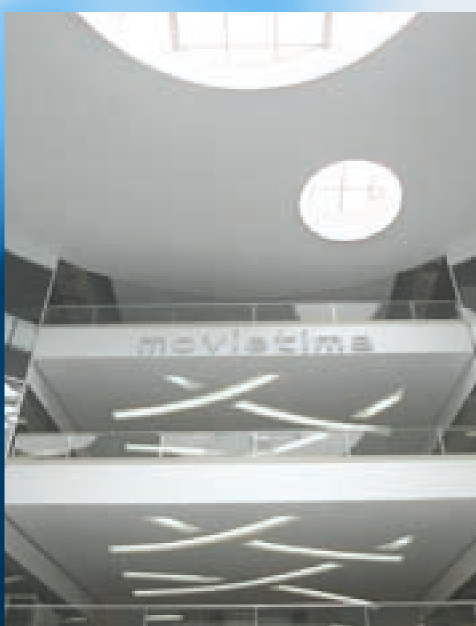
	January to December		
(in Php million)	2006	2005	% chg
Operating Revenues	13,222	10,905	21%
Operating Expenses	5,449	4,850	15%
Income from Operations	9,440	6,055	26%
Income Before Tax and Minority Interest	8,003	6,965	15%
Provision for Income Tax	2,253	1,715	31%
Income Before Minority Interest	5,750	5,250	10%
Minority Interest	301	277	9%
Net Income	5,449	4,973	10%

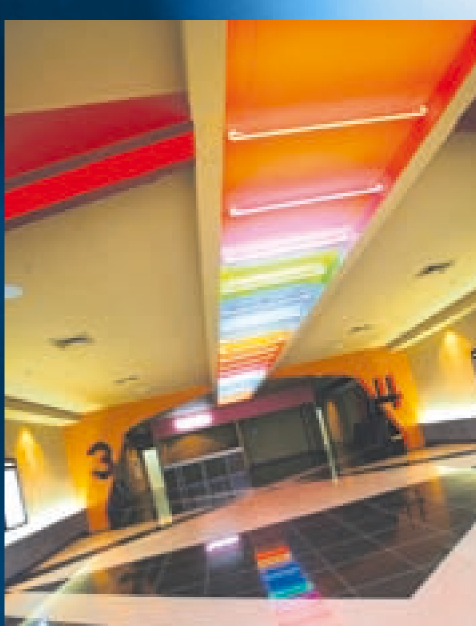
SM Prime Holdings, Inc.
SHARE PRICE CHART (JANUARY TO DECEMBER 2006)






SM
City
NORTH EDSA

SM
City
STA. ROSA


SM
City
LIPA

SM has become the Philippines' retail and mall icon.

Trends and Expectations

Mall Operations

Hans T. Sy - President, SM Prime Holdings, Inc.

What do you expect to achieve in 2007?

In 2007, we will continue our expansion programs geared towards areas outside of Metro Manila. We are building three new malls in Bacolod (Negros Occidental), Taytay (Rizal), and possibly Muntinlupa. We are also expanding four of our existing malls in Cebu, Pampanga, Fairview, and due to its success, even the SM Mall of Asia. The latter is now being expanded to accommodate a Science Museum and Planetarium which will surely be a crowd drawer particularly for children of all ages. We are also now developing the Esplanade, which is a strip mall right in front of Mall of Asia and facing the Manila Bay. This is in partnership with the Salem Group.

How is the domestic market behaving given reports that the economy is improving. Do you expect changes in consumer trends?

SM has become the Philippines' retail and mall icon because of its one-stop shopping concept. The malls have a wide tenant/merchandise mix, value for money proposition, accessible locations and a family-oriented atmosphere. Over the past two decades, SM has gradually redefined its tenant mix to suit customers' evolving tastes. In the past, our tenant mix was 70% retail and 30% dining. Today, it comprises 30% retail – 30% dining – 20% services and 20% wellness, health and beauty. For the more sophisticated shoppers, the presence of brand names from the US and Europe and other trendy retail stores in Asia is highly anticipated. Likewise, for the more practical shoppers, local brands that are equally of good quality are also a hit among consumers.

The trend right now is going towards casual dining, designer coffee shops, health, wellness, and beauty. Recently, we also adopted the supercenter concept which carries the hypermarket as its main anchor store. This format is niched to service the residential communities nearby to address their daily household needs for food and non-food items. This is our way of further establishing our presence and our name as a full service provider to our communities. We don't just stop with one type of product. We would like to be as flexible as our markets demand from us.

On the overall business and economic climate, we remain very optimistic in the growth of the retail sector with the steady growth in OFW remittances and continued increase in GDP. SM stands to benefit from all these as the Philippines is a retail economy with 70% of the economy's output accounted for by consumer spending.

How does rent income in your Metro Manila malls compare with those outside of Metro Manila?

Geographically, rent revenue is composed of 60% from Metro Manila and 40% from provincial malls.

What have you done to maintain your market share, particularly in areas that are highly competitive like Makati and Ortigas Complex?

We constantly innovate our malls for a public that has become more discerning and demanding. We continuously improve infrastructure and conduct maintenance procedures. To better service the disabled customers, we have added hand rails, ramps and convenient parking spaces. We improved traffic routing by adding public transport depots and implemented tightened security procedures by adding more security personnel. We also have bridgeways to interconnect to annexes, more covered pedestrian walks, overpasses and renovated main lobbies. Architectural improvements were done by raising the ceilings and adding skylights in selected malls. More ATM machines were installed around the malls to service the growing needs of customers. Most importantly, our tenant mix is very dynamic and is constantly changing to address the changing needs of our customers.

Despite their size, SM Malls enjoy the patronage of their tenants, who are, in turn rewarded by the high foot traffic that SM Malls generate.

2007 MALL EXPANSION PROGRAM	
	Gross Floor Area (sqm.)
SM City Bacolod	61,000
SM City Cebu Expansion	107,000
SM City Pampanga Expansion	18,000
SM City Fairview Expansion	23,000
SM City Taytay	92,000
SM Supercenter Muntinlupa	52,000
Esplanade Sunset Strip	17,000
Total Floor Area	370,000
Number of Malls by end 2007	30
GFA in 2007 (in sqm.)	3.9 million (+10%)

SM Mall of Asia's IMAX Theater offers a whole new concept in film and movie experience.

tenants can cater to their various needs. We have broken the family unit into man, woman, teens, children to study their specific needs. By conducting such in-depth studies, SM is able to meticulously target its customers with what they want. In addition to reading and research, our managers also constantly travel and do observation tours abroad like HK, Singapore, or Thailand to get a feel of the latest trends in mall operations and based on these they are able to recommend and implement the changes in our shopping centers.

Do all your malls carry the same anchor stores? If not, how much local component do you allow?

No. It depends on the mall size. But the basic like department store/ supermarket/ hypermarket will always be there. The bigger malls are usually anchored by the SM Department Store and the SM Hypermarket / SM Supermarket or SM Hypermarket alone for the smaller malls. The regular mall tenants are usually composed of 80%-Manila based and 20%-local based.


Weekend crowd at SM Mall of Asia

The Surplus Shop is a popular destination for value shoppers.


Opening of SM City Clark on May 12, 2006

How many malls do you plan to open in 2007? How much in additional floor space is that?
For 2007, we are opening three new malls – Bacolod, Taytay and Muntinlupa and we are expanding the SM Mall of Asia to include the development of the Esplanade Sunset Strip. We are also expanding existing malls in Cebu, Pampanga and Fairview. The new malls and expansions will Contribute an additional floor space of 370,000 sqm.

Why are you expanding the space in Cebu, Fairview and San Fernando?
Our expansion will give us a chance to bring new and fresh mall concepts to our customers. More than the usual shopping center, the new annex will be avenues for dining, entertainment and leisure.

Are you happy with SM Mall of Asia's performance thus far?
We are very happy with the performance of SM Mall of Asia. It is doing beyond what we expected.

What makes SM Mall of Asia tick?
The SM Mall of Asia is one of the largest malls in the world. The mall offers several "firsts", such as the country's very first Olympic-sized ice skating rink and the world's largest IMAX screen. The mall also has over 700 tenants composed of popular local and international brands making it a destination mall.

What is the current foot traffic there? How do you plan to increase the weekday traffic in the mall?
On a good weekend, we have between 500,000 to 1,000,000 customers. On a weekday, average foot traffic is about 200,000 to 300,000. We expect weekday traffic to improve as our parent company, SM Investments, builds a community around it. By the third quarter of 2007, the One E-Com Center, which is an office building for business process outsourcing companies, and the SMX Convention Center, which is the largest privately run expo and convention center, will be fully operational.

What is SM Mall of Asia's occupancy rate?
It is 97% occupied as of end 2006.

Are you charging higher fees in SM Mall of Asia compared to other malls given its huge success?
No.

Are you looking to expand beyond the Philippines given that you might soon reach market saturation? What will your source of growth be over the long term?
Over the long term, we will still continue our expansion of three to five malls a year over the next five years. We are also looking at possible opportunities in China but there is nothing definite yet.

Big, Bright and Beautiful

The SM Mall of Asia

At the heart of SM BayCity in Pasay stands a mall like no other in the Philippines.

From size, to design, to features and amenities, the SM Mall of Asia soars above the rest.

The flagship mall opened in May 2006 but SM Chairman Henry Sy, Sr., a known visionary, already had it in mind over a decade prior. "My vision is for shoppers and tourists alike to visit the SM Mall of Asia, not just for shopping but for leisure as well," he said.

That vision has unraveled with literally millions of shoppers and tourists visiting the mall every week, making it the premiere integrated leisure destination in the country. People of all ages shop, dine, unwind, and enjoy a unique experience at the SM Mall of Asia.

Hans T. Sy, president of SM Prime Holdings, Inc. (SM Prime), SM's mall subsidiary, adds, "The SM Mall of Asia elevates the 'malling' experience to a completely new level through its fully integrated, world-class facilities and features. We built it in consonance with SM Prime's commitment to provide its stakeholders with nothing but the best SM malls."

More than the usual mall offerings, several distinct features further attract these people to the SM Mall of Asia.

BIG

One would be its size. Having a floor area of almost four hectares, it is the Philippines' biggest and is currently the world's third largest mall. Leisurely strolling through its expansive area is a welcome treat for city residents.

Rodney Bringas, an entrepreneur and a townhouse dweller, said, "I bring my twin daughters to the Mall of Asia because there is enough space for them to freely and safely roam around. We don't feel cramped."

BRIGHT

Another key feature is the mall's lighting. The SM Mall of Asia was purposely designed to take natural light into the mall. As a matter of fact, it is the brightest mall at daytime. Through skylights and the ingenious use of steel and glass, natural light generously filters in. Consequently, the over-all ambiance is that of a "happy" mall, making it a very pleasant place to visit.

Mall of Asia first-timer Michelle de Ocampo said, "The moment I stepped into the mall, I was impressed by its brightness. It was as if the mall was welcoming me and my friends with a wide, bright smile!"

BEAUTIFUL

What's more, the mall's design gives it beauty and character. It no longer follows the traditional, box-like mall blueprint. Scenic Manila Bay inspired Arquitectonica, the Miami-based architectural firm that designed the SM Mall of Asia. They made use of undulations, ellipses, and swirls, which subtly mimic the bay's waves and currents. These made the mall look and feel very appealing.

UNIQUE

In addition to SM Mall of Asia's size, ambiance, and beauty, there are many other reasons why people flock to it, and among the top reasons are the mall's innovative offerings.

The Mall of Asia has the country's first and only Olympic-sized ice skating rink. Thousands of avid skaters now enjoy the use of the huge rink. And with its opening, the Philippines received accreditation from international ice skating governing bodies and paved the way for the country's participation in world competitions, including the Winter Olympics, and possibly, for winning its first Olympic gold.





The mall offers another innovation: its IMAX theater, again the first and only movie theater of its kind in the country. The theater's 700-square meter, eight-storey high movie screen provides breathtaking images from blockbuster movies and interesting documentaries, a number of which are in three-dimensional (3D) format.

SCENIC

Then there is the bayside dining experience. No other mall could offer diners a spectacular view of the famous Manila Bay sunset while enjoying their favorite dishes. SM Mall of Asia offers one of the widest array of local and international cuisines with various restaurants serving Filipino, Chinese, Thai, American, Mediterranean, Indian, Japanese, Vietnamese and Korean food.

SHOPPING GALORE

Along side all these innovative features are the tried and tested SM brand of value for money and customer satisfaction, as offered by the mall's main anchor stores SM Department Store, SM Hypermarket, and SM Appliance Center. These plus the rest of the over 800 mall tenants offer practically everything at the SM Mall of Asia: grocery items, shoes, books, toys, hardware, clothes, furniture, jewelry, appliances, spa, medical, and dental services.

SPECTACLES

There is more. Every weekend, at 7 p.m., the mall sets off spectacular fireworks to light up the night sky. During the day, marching bands in colorful uniforms play marching tunes to the delight of shoppers and onlookers. During holidays and special occasions, appropriate fun-filled events are staged, such as a mall-wide trick or treat during Halloween, and lighting up the tallest indoor Christmas tree during the yuletide season. There are free concerts too.

All of these add up into one truly delightful and memorable experience. Indeed, no other mall comes close to the SM Mall of Asia

Banking

The banking sector provided a lot of excitement for SM in 2006 as it successfully made a bid to merge BDO and EPCIB. This was done through a tender offer which increased SM's effective interest in EPCIB to 51.8%. The directors and stockholders of the boards of the two banks approved the plan to merge in December 2006. The merger will result in creating the country's second largest bank in terms of resources. (see related story.)

BANCO DE ORO (BDO)

SM's main banking arm, Banco de Oro, was the fifth largest bank in 2006, with total resources of Php304 billion, up 30%. BDO reported profits of Php3.1 billion, up 23% for 2006. Net interest income grew by 22% to Php8.3 billion. On the other hand, non-interest income amounted to Php5.2 billion for a hefty growth of 30%.

Interest expense was up 37%. There were also product and branch expansion efforts undertaken by BDO. From 185 branches as of year-end 2005, total number of branches as of end 2006 stood at 230.

EQUITABLE PCI BANK (EPCIB)

EPCIB also showed very strong numbers with a 23% growth in net income of Php3.4 billion. The bank's ROE improved from 11% in 2005 to 12.18% in 2006 while it reduced its NPL ratio from 4.7% in 2005 to 4.4% in 2006.

Net interest income of Php10.96 billion grew by 3% while consolidated resources expanded by 10.6% to Php345 billion. The total number of branches of the bank stood at 448 in 2006 from 443 in 2005.

CHINA BANKING CORPORATION (China Bank)

For China Bank, 2006 proved to be another banner year with net income reaching a record level of Php3.5 billion. Return on average equity at 15.9% and return on assets at 2.5% continued to be one of the best in the industry. Industry-best cost efficiency was maintained with a cost-to-income ratio of 45.9%.

Total resources stood at Php155.7 billion, also meeting the goals for the year, with loans and deposits growing by 15% and 19% respectively, both exceeding the year's goals. Network expansion was pursued with the opening of seven new branches bringing the total number of branches to 148. Revenue diversification and expansion was sustained with significant strides in key business initiatives such as Bancassurance, wealth management, and remittances.

FINANCIAL HIGHLIGHTS AS OF END 2006

	BANCO DE ORO		EQUITABLE-PCI BANK		CHINA BANK	
	2006 (Php bn)	% Chg	2006 (Php bn)	% Chg	2006 (Php bn)	% Chg
Net Interest Income	8.33	21.8%	10.96	2.9%	6.12	4.8%
Other Income	5.16	30.5%	12.47	30.5%	3.33	8.9%
Interest Expense	10.97	37.4%	8.68	3.3%	5.07	16.3%
Net Income	3.13	23.0%	3.27	21.0%	3.53	10.9%
ROE	13.7%	--	12.18%	--	15.1%	--
Assets	304	30.2%	345	10.6%	156	17.5%
Capital	24	20.7%	46	26.8%	25	13.9%
Deposits	230	43.6%	240	16.2%	122	18.7%
Loans	137	33.9%	178	10.3%	71	15.2%
NPL (%)	4.1%	--	4.39%	--	6.5%	--
NPA (%)	3.5%	--	7.5%	--	4.0%	--

Trends and Expectations

Banking

Nestor V. Tan - President, Banco De Oro

Were your business expectations met in 2006?
Yes, the Bank was able to meet its targets across all business lines and, despite a lower than expected interest rate environment, we are showing bottom line profits slightly better than what we originally budgeted for the year.

What were the growth drivers for BDO in 2006 in terms of deposits and in terms of loans?
The growth of our total deposits and our loan portfolios can be attributed to our pro-active management style and our aggressive marketing efforts. We also introduced new products and services and enhanced our distribution channels and these helped us attain the higher-than-industry growth that we registered last year.

How many branches do you have as of yearend 2006, and how many of those were opened during the year?
As of yearend, BDO was operating 230 branches, of which 45 branches were opened during the year.

What benefits does your company derive from being a part of the SM group?
The Bank derives synergies from the SM group through strategic branch locations in SM malls, access to potential clients from SM's suppliers, tenants walk-in traffic and employees, as well as opportunities for cross-selling and joint product development with other companies in the SM group.

What are your expectations for the banking sector in 2007 and for BDO, particularly in light of the merger with EPCI?
The banking sector will be facing more challenges in 2007. Banks will experience pressure on capital upon the implementation of the Basel 2 requirements in the second half of 2007. International Accounting Standards will make bank earnings more volatile as certain assets will be marked-to-market. Now, more than ever, the core business of intermediation as well as fee-based services will be critical drivers for growth and profitability. The merger of BDO and EPCI will make the Bank a market leader in major business lines such as corporate and consumer lending, trust, leasing and remittances.

How long will the merger process be?
We plan to be operating as one bank by the last quarter of 2007. However, full integration is expected to be completed by 2008.

What is the estimated cost of the merger?
The integration cost associated with the merger is estimated at Php2.0 billion.

When do you expect the merger to be earnings accretive?
From our analysis, we expect the merger to be earnings accretive by the end of the third year.

How much savings do you expect from the merger?
Aside from business synergies, we are looking at cost synergy opportunities estimated at 10-15% of the combined expense base.

Will you need to raise additional capital to comply with Basel 2 requirements? What is the CAR of the merged entity?
The CAR of the merged entity, with the implementation of Basel 2, is estimated at 13%. With this ratio, we do not need to raise capital to comply with the Basel 2 requirements.

How will you position BDO-EPCI in the industry?
Our core strategy remains the same, that is, to become a leading full-service bank focused on specific growth areas and business lines. The bigger branch network will provide a stronger platform to reach new markets and distribute an improved product set from the combination. This would allow the bank to maintain a competitive position relative to its peers.

What strengths are there in BDO and EPCI that you can capitalize on as you merge the two?
The merger is expected to create market-leading positions in the bank's core business lines. The extensive distribution capabilities of EPCI will strongly complement BDO's business development and origination capabilities. This would allow us to further consolidate our position in our chosen markets, and provide better services to our clients.

What areas need improvement?
There is no specific area in the merged entity, which would require much improvement. The main challenge for the Bank is basically the execution and completion of the integration within the targeted timeframe. Secondly, the merger will create a major player in the industry and the key for us is to maintain our growth and profitability. We will continue to expand into new markets and enhance our array of products, while maintaining a focused approach to our various businesses.

What is your vision for the merged entity five to ten years from now? Do you see any further mergers or acquisitions for BDO-EPCI?
Our vision is still for BDO to be the preferred bank of the markets that we service. The Bank's growth strategy is to

expand its presence through organic growth and, if the opportunity arises, through strategic and financially viable acquisitions.

Will you be open to foreign partnerships?

The Bank is open to foreign partnerships as long as it is strategically and financially viable for both sides.

Do you see BDO-EPCI eventually competing in the regional and global markets?

We definitely would want the Bank to be competing in the regional and global markets in the coming years. However, we would want to first establish ourselves as a major local player before we contemplate expansion in regional markets. The EPCI Hong Kong branch is a potential doorway for us to create a presence within the region.

What can customers expect from BDO-EPCI as you achieve operational integration?

The Bank's clients can expect the same level of quality service that they have been accustomed to over the years. They can also expect new and enhanced products and services, which they can access from a more extensive distribution network.

Trends and Expectations

Banking

Peter S. Dee - President and CEO, China Banking Corporation

Were your business expectations met in 2006?

The year 2006 was the first of China Bank's three-year business plan. It was a challenging year characterized by interest rates falling to record lows and punctuated by an unusually volatile second quarter. Nevertheless, it proved to be another banner year with the Bank's net income reaching a record level of Php3.5 billion, surpassing our original target of Php3.3 billion. Return on average equity at 15.9% and return on assets at 2.5% continued to be one of the best in the industry. Industry-best cost efficiency was maintained with a cost-to-income ratio of 45.9%.

Total resources stood at Php155.7 billion, also meeting the goals for the year, with loans and deposits growing by 15% and 19% respectively, both exceeding the year's goals. Network expansion was pursued with the opening of seven new branches, out of the planned 60 branches in three years. Revenue diversification and expansion was sustained with significant strides in key business initiatives such as Bancassurance, wealth management, and remittances.

China Bank won several major awards last year, such as the Webby's Award for the Best Banking and Finance website for its China Bank ONLINE portal. It was also awarded as the No. 2 in Corporate Governance from the Institute of Corporate Directors, next to No. 1 PLDT, and ahead of No. 3 Ayala Corporation.

What were the growth drivers for Chinabank in 2006 in terms of deposits and in terms of loans?

Another record growth in low cost deposits or Php4.3 billion ADB exceeded the most optimistic expectations, and surpassed the record growth achieved in the previous two years by a substantial margin. The CASA ratio to total deposits of 27%, already among the highest in the industry, coupled with better-than-market cost on the money market side due to the strength of the China Bank brand name, accounts for the higher-than-average net interest margins. The record deposit growth reflected the success of its branch-based marketing programs and effective sales management program.

Loans growth was achieved with higher loans volume across the board -- corporate, SME and consumer -- with the consumer segment predictably recording the fastest growth, as the revival of the real estate market drove loans to both developers and retail borrowers.

How many branches do you have as of year-end and how many of those were opened during the year?

The Bank opened seven new branches by the second half of the year, bringing total network to 148 by year-end. ATM network size increased to 225, including 77 strategic off-branch locations.

What is your average investment per branch?

The average investment per branch is about Php10 million (excluding manpower cost).

What benefits does your company derive from being a part of SM group?

SM Group is known as one of the Philippines' largest conglomerates, occupying a dominant position in its line of businesses. As one of the three banks under the SM group, China Bank shares in the reputation of the SM Group in terms of having top quality management, profitable business and solid balance sheet. Our presence in most of the SM malls gives us access to their vast base of retail depositors and borrowers, and provide convenience to our customers including ATM network depositors.

What are your expectations for the banking sector in 2007?

With the further improvement in the country's fiscal position reducing the government's borrowing needs, coupled by the persistent liquidity in the system, interest rates are expected to remain low. The resulting decline in yields and lower interest margins pose a new set of challenges for the banking system. Loans growth will likely pick up spurred partly by the lower interest rates, as banks de-emphasize the investment securities-based part of the business. Banks will have to rely on relationship business such as lending and cross-selling as the usual revenue streams from trading gains from securities become thinner.

Banks which have fully addressed their asset quality and capital adequacy issues are in a better position to grow their loans and asset base. Others are also expected to raise additional capital to comply with the Basel 2 requirements which will be implemented starting July 2007. Recent mergers and acquisition leading to industry consolidation means a heightened competition among banks, as stronger players move to increase market share.

What are your growth prospects for Chinabank in 2007? Will you be more aggressive in growing your deposit and loan base?

The Bank will pursue the strategies and action plans in its three-year business plan. Another double-digit growth in loans is targeted this 2007, with substantial growth expected in all sectors, but still anchored on consumer lending. CASA targets remained ambitious as we embarked on a deposit promotion termed "P 8.7 MN at 87" for the next seven months which aims to assist branches in their CASA marketing efforts. The branch expansion plan, which calls for opening of 60 new branches in three-years. Seven new branches were opened in 2006 and we are targeting about 30 new branches in 2007. The branch-based marketing program will continue to be implemented to clearly target market segments and support customer acquisition and retention. The Bancassurance joint venture with Manulife, which will allow the sale of investment and life insurance products at our branches is expected to significantly contribute to revenues in 2007.

Will you have new product offerings?
Yes. A stronger focus on total customer relationship necessarily requires continuing innovation and enhancement of existing products to match the increasingly complex needs of our customers. Aside from the Bancassurance joint venture, other products in the pipeline include cash card, private banking products, on-time remittance card and deposit products such as kiddie savers.

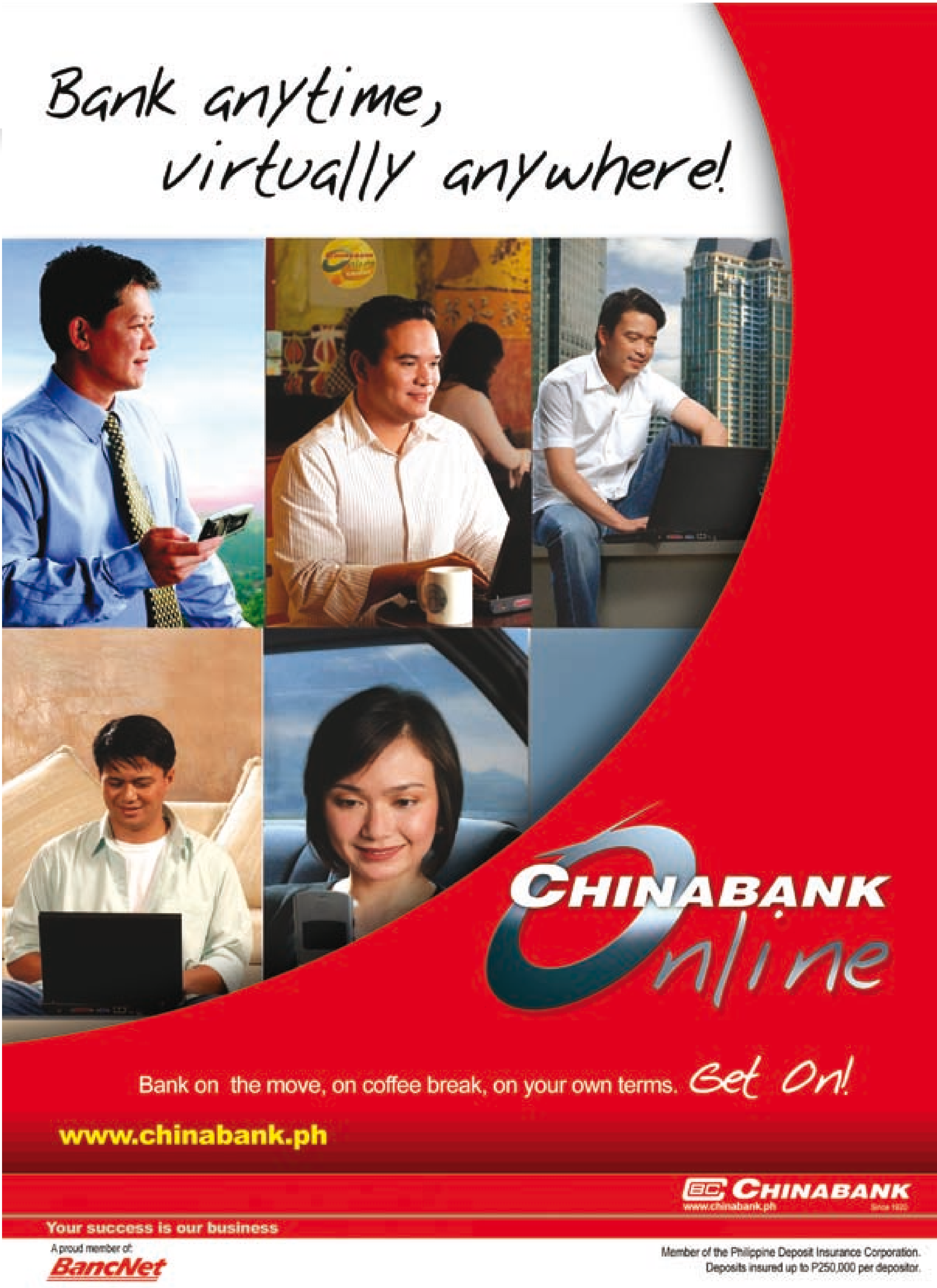
How many branches do you plan to add this year and where do you plan to open them?
The branch expansion program continues apace with about 30 branches this year, in strategic locations particularly commercially viable sites in key provincial cities. This expansion leverages upon the fact that practically all China Bank branches are profitable, and also strengthens the multi-channel network approach as exemplified by the strong transaction and revenue performance of the ATM network, and the success of China Bank ON-LINE internet banking portal which recently won the Webby Awards for Best Banking and Finance website.

As one of the three banks under the SM group, China Bank shares in the reputation of the SM Group in terms of having top quality management, profitable business and solid balance sheet.

How do you plan to maintain your high profitability? How will you protect your margins amid a more competitive banking environment?
The thinning of spreads, increased competition and Basel 2 requirements are expected to dampen banks' profits in 2007. The Bank will continue to implement the second year of its three year plan with these four key initiatives: to expand and diversify revenue sources, broader distribution channels, refocusing towards total customer relationship and organization for growth and productivity. The first initiative calls for continuous expansion of our market base and business volume through growth in loans and deposits, introduction of new products and improvement in other revenue streams such as Bancassurance, remittances and cash and wealth management offerings. Growing our lending business through higher exposure in the middle, retail and consumer markets remained the priority of our marketing as well as branch officers. In terms of broader distribution channels, the Bank will pursue its branch expansion plan which calls for opening of 60 new branches in three-years while continuing the implementation of the Branch-Based Marketing (BBM) framework and further strengthening our internet and mobile banking platform. Stronger focus on customers would mean reorganizing our marketing organization for sharper focus on targeted market segments, industry sectors, from wealth management to total customer/ business relationship. It also means continued pro-active product innovation as well as customer service enhancement projects. In terms of growth and productivity, the Bank will hire key people, streamline the organization and upgrade technology platform and processes to be efficient and cost effective.

Will you need to raise additional capital to comply with Basel 2 requirements as many Philippine banks are, and will be doing?
We don't need additional capital to comply with Basel 2 requirements. China Bank has one of the highest capital to adequacy ratio (CAR) among the peer banks.

To achieve faster growth, is China Bank open to acquire other banks should the opportunities arise?
The Bank will consider acquisition if opportunity arises.



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Dancing with Bears Swimming with Sharks:

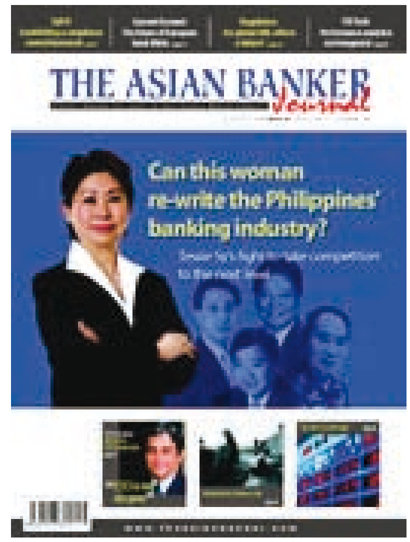
M&A in the Philippines

In one of Asia's smallest and most fragmented banking markets, Tessie Sy has emerged as a force of consolidation in the Philippines. More bank mergers are expected but the journey will be an arduous one.

By Peter Hoflich

(Excerpted from the Asian Banker Journal Issue 65)

> "I woke up one time and saw opportunities. We saw the synergy before but we always thought that in any family business, you emphasize certain things where there is a bigger growth....we thought, 'Why don't we try to deliver the same thing in financial services?'"
>
> Teresita Sy-Coson



Mergers are big news everywhere, but in the family-dominated Philippine banking system, the merger plan that the Sy family controlled conglomerate SM Investments is trying to pull off between the two banks it has invested in is a brave and audacious one. Combining the fourth largest bank, Banco de Oro (BDO), which it controls, and third largest lender Equitable PCI Bank, where it is an investor, would result in the largest bank merger in Philippine history, and create an institution on par with current leaders Metropolitan Banking Corp. (Metrobank) and Bank of the Philippine Islands (BPI).

Engineered over the last three years by the feisty Teresita "Tessie" Sy-Coson, who left her chairmanship at BDO to preside over the Equitable board and its feuding shareholders, the deal is part of her greater vision to grow the bank into a top five player. To be big is her single-minded goal, yet Sy (pronounced see) says that BDO "should have its own life even without Equitable."

A merger would create a well-rounded unit for the financial services arm of the Sy family. "We were looking into the different areas where we can grow", explains Sy. "Basically it could be more on the consumer area." BDO has grown from the top down; historically it has focused on the corporate and middle marker, leaving its retail banking proposition relatively weak. Equitable, which has stronger handle on retail banking, would round off BDO nicely.

With BDO's presence strongest in SM Investments-owned shopping malls there is also little physical overlap. Many synergies can be drawn between consumer retailing and consumer financial services.

The deal has been building up for so long that other mergers, like Union Bank of the Philippines' acquisition of International Exchange Bank, have come and gone. Sy sounds a little defeated, but the eldest daughter of billionaire Henry Sy and the chosen successor at SM Investments accepts that things are "not easy" in the business world in the Philippines. "You have to really persevere in whatever you're doing. It's not just going to happen the way you like it to happen. What I draw from there is, I guess, the perseverance and that you will always be resilient," she says. Sy's remark that "nothing comes to me easy" embodies the difficulties of closing the deal. Although SM Investments had early on cleared the most difficult hurdle, buying out the Go family's stake in Equitable, pension funds have been the potential deal breaker. With revised offers including a stock swap refused, SM Investments went on a non-deal roadshow to explain the mess to its shareholders and came out with a tender offer that gave pension funds the valuation they were looking for.

When the Php92 ($1.84) per share tender offer expired on September 29, SM Investments had pledges for a triumphant 60 percent majority of its target; it needs 67 percent of Equitable shareholders to approve a merger outright. A final stakeholder, Social Security System (SSS), is awaiting the outcome of a court case that will determine whether it can sell its 25.87 percent stake in Equitable to SM Investments. If successful, SM Investments would control 85.53 percent of Equitable.

DANCING AT THE TOP

Sy's career in banking, in many ways reflects the industry's maturing process, now manifesting itself in BDO's herculean efforts in aspiring to be the little bank that could one day dance at the top of the heap.

"I came into the bank in 1984, but this investment was small compared to our other business of retail as well as shopping centres," says Sy, referring to SM Investments main activities. "During that time, I was more interested in growing shopping centres and our retail business. I did spend some time in the bank but not as much. But as you get to know a business, you get to see what are the opportunities."

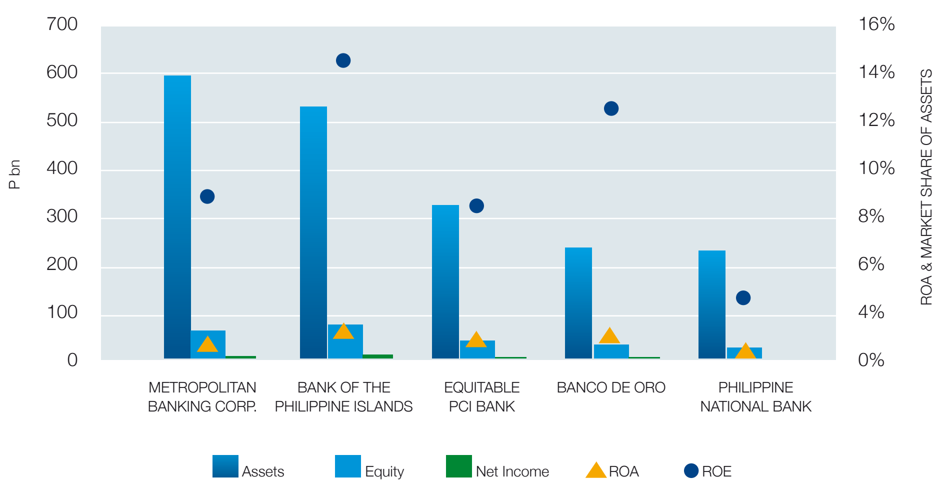
Although the stake SM Investments had in BDO was small compared to the other industries it was invested in at the time, Sy needed to get to the point where she could see the possibilities for herself. It was only many years later, in 1995, that she began hatching a plan to grow the bank. "I woke up one time and saw opportunities. We saw the synergy before but we always thought that in any family business, you emphasize certain things where there is a bigger growth… we thought, 'Why don't we try to deliver the same thing in financial services? '"

She would need people in her camp who could see the same directions and opportunities as she did. Her first call was to Nestor Tan, then based in London, to join BDO. Tan is now its president.

"That consumer demand is what we believe will spur our economic growth. However, you need scale to reach these consumer markets and to service them efficiently"

Nestor Tan
President, Banco de oro

MERGING EQUITABLE PCI AND BDO WOULD FORM A MORE FORMIDABLE COMPETITOR TO METROBANK AND BPI



Source: Asian Banker research
Note: Figures as of December 31, 2005

With time, her experience in banking grew and so did her confidence. The Asian financial crisis intervened, but "as 2000 came we were in the market aggressively. We thought of other things. Mostly it was the people in the organization who thought about it; I just supported whatever were good ideas. From year 2000 to 2003, we went into public listing even though we were not ready because of the regulatory requirements. Later on we acquired a few smaller banks which is good practice for us. Right now for a smaller bank, we can integrate completely in about three months time," she explained.

Along the way, Sy found disfavor among the establishment, remarking that "I'm really an outsider." This naturally included the board at Equitable, which she had to run with an eye to put SM Investments in a position to manage a historic merger.

"The only thing is, we do have a lot of disagreement with the other stockholders because they all think that what I want is to merge them and dilute them," Sy complains. She believes that Equitable's stockholders are taking a mercenary view and not seeing eye to eye with her, which is growing the bank's numbers. "Maybe not all of them come from the banking area. Right now I may be more of an insider than some of them. They think it's a dilution. Maybe they don't understand that there is no dilution of the share. I have been doing relentless effort on this. I think that we are doing a lot of wasteful conflict."

The conflicts have also been played in public. Sy Explained, "[Equitable] always has problems with the board and I'm not the first one. I just happened to be in this conflict longer than the other groups. Before us there were two sets of board [members] – very different people on the board – that have been conflicting. One was conflicting, the other one had problems with political and us again is conflicting. This bank has been used to a lot of conflicts in the past."

It did not help that the move on SM Investments' part to engineer a smaller bank's takeover of a larger bank was bound to be controversial. Equitable reported assets of $6 billion at end-2005, while BDO's was $4.4 billion. Integrating a bigger bank is also a different ballgame than the series of smaller banks BDO had acquired in the past.

"To some extent some of the industry players thought that it [BDO] would just stay as a mom and pop operation," says Corazon P. Guidore, vice-president of investor relations at SM Investments. "So people got very surprised that all of a sudden it is a very aggressive buyer of other banks, aggressively buying a much bigger bank like Equitable PCI, so it caught people by surprise." Tan concurs: "In the Philippines there's this mindset that you cannot do it."

Through her battles, Sy has had to find inner strength, especially dealing with a board that has its good days and its bad days, when meetings are adversarial and when they are cordial. "Things here in the Philippines are unpredictable," she sighs. "You just have to dance [to the music.] I dance with them so I guess I just have to be flexible in both ways – nice and not nice."

OUT OR IN?

Some view the game as one of size. In order to get customers and deals, nothing sells success better than size. "If you want to be a universal bank and cover the whole thing you have to be one of the top three or four, five at most," says Bautista. "It's either you go top five, or concent yourself at being number fifteen but be very profitable in the niches that you operate in."

The shakeout that is due to happen in the Philippines in the next few years will probably see a few more stories like Tessie Sy's. A strong leader, a vision, a bloody boardroom battle and a creatively structured deal, or it could be the product of stealth and finesse. Union Bank's deal with iBank was just such as unprecedented occasion. "You wake up one morning and it's happened," says Coronel.

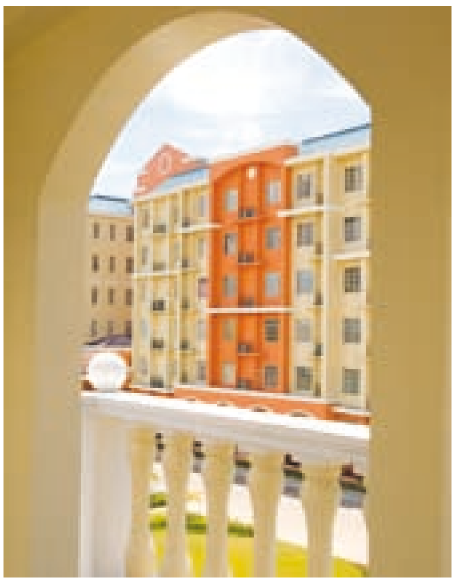
"If you know our environment, it's usually abuzz with rumors. That was a secret that was well-guarded. In fact, I think even some of the personalities involved inside the bank were surprised."

This type of stealth was not seen in the more significant BDO and Equitable story, where "there was a lot of fireworks and hot air before it actually happened." Banks that want to duke it out should not expect any help from the regulators, either. Sy describes her ordeal as "it's very complicated but it's a very complicated political thing. It's not what you see. It's uniquely Filipino."

Ultimately, the story will be ruled by hard decisions, brought on by the hard new world that the banks in the Philippines are facing. "Some people may just say, 'Well, I give up, I'd probably better to play in some other playing court rather than the financial services, because it's really tough'", explains Coronel. "It's not like the no-brainer business before where you can make your buck without so much of the sophistication and the skills you need to put in the organization, the training. It's a very different world out there now."

The shakeout that is due to happen in the Philippines in the next two years will probably see a few more stories like Tessie Sy's.

Property



2006 was important for the property sector because it was the year that much groundwork was laid for many of its major projects in residential, commercial and tourism development.

The urban residential condominium projects of SMDC continued to be the earnings growth driver for the group in 2006 as it started booking profits from the Bicutan project called Chateau Elysee. This is a French Mediterranean-inspired 'condoville' with six clusters. Each cluster is built with one-, two-, or three-bedroom units with floor areas of 20, 40, and 60 sqm respectively. It has seen the completion of Clusters 1 and 2, and 71% completion of Cluster 3. To date, this project has sold 675 units, of which 351 were sold in 2006. Chateau Elysee is selling a total of 1,527 units for four clusters.

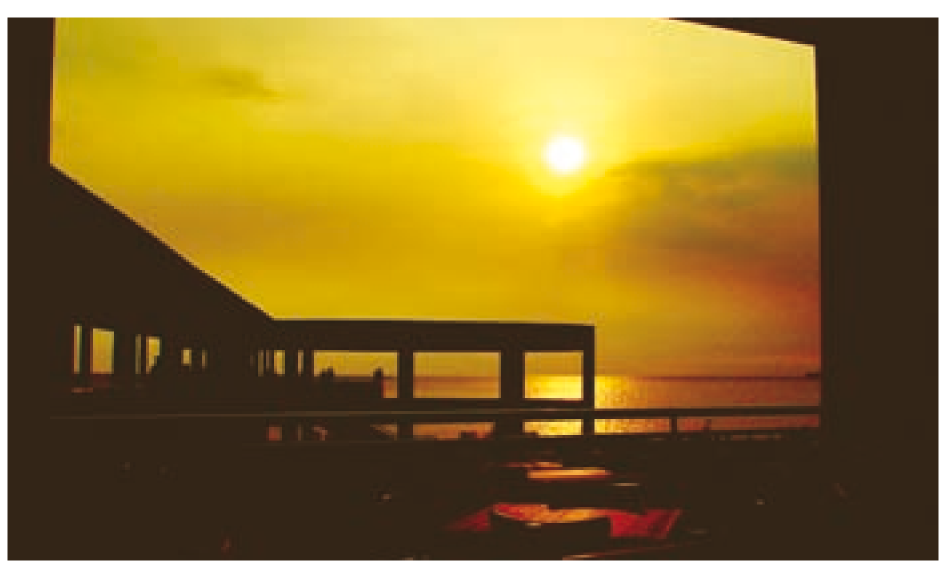
SMDC is also developing Mezza Residences in Sta. Mesa Manila, although that was just 5% complete as of end December, having been launched in late 2006. It will have four 38-storey towers connected by a retail podium. Each of the buildings will also have one-, two-, or three-bedroom cuts of 20, 40, and 60 sqm respectively. It has since pre-sold 946 units, most of which will be booked in the next two to three years as more progress is made on the whole project. Mezza Residences is selling a total of 2,420 units, and is expected to be completed in three years.

Meanwhile, 60-hectare SM BayCity kickstarted two of its major building projects, namely, SMX Convention Center and OneE-comCenter. (See related stories on pages 58-59.) The projects commenced as planned, and pre-leasing activities went as scheduled with some major commitments secured. (See related stories on page 56.)

The commercial property group also secured long-term lease contracts with two major Call Center/BPO companies for built-to-suit facilities in Baguio City and Makati City. Both projects will provide recurring rental income to the group over a 10- to 15-year period.

For the Hamilo Coast development in Batangas, 2006 was basically devoted to laying the groundwork for the maiden project to be launched in the first quarter of 2007. Plans have been completed for Pico de Loro Cove while horizontal development started in 2006. (See related story on page 65.)

Overall, the SM property group is hard at work with building the organization, planning its immediate and long-term moves, executing its ambitious plans, and bringing to life a new vision to develop and build new local economies in the Philippines.



One of the spectacular sunsets in SM BayCity.

Trends and Expectations

Property

Josefino C. Lucas - Executive Vice President

What do you expect to achieve in 2007?

For residential development, SMDC should proceed in completing its first two projects in Bicutan and Sta. Mesa. Sales are expected to remain brisk as economic factors bode well for homebuyers given the low interest rate levels for home financing, strong interest from overseas Filipino workers, and improved consumer confidence.

SMDC is also expected to launch three new projects. The project in Susana Heights, Muntinlupa is a residential subdivision called Lindenwoods. The other two are residential condominiums in Quezon City, of which one is in a school zone, Katipunan Road, and another is near the SM North EDSA mall.

In SM BayCity, we hope to complete the two anchor projects, OneE-comCenter and SMX Convention Center. We also have plans to begin developing a 16,000 seat sports arena, and a ferry terminal that will service the clients of Hamilo Coast in addition to other commercial routes that will be made available over time.

We also plan to formally launch our maiden project in Hamilo Coast, which will be a platform for SM to go big in tourism development. This is a very exciting phase for the property group as we break ground in this beautiful coastal property. We will also pre-sell the condominium units in Pico de Loro, and sell the beach and country club shares.

What are the plans for SM Land? Will you eventually go public with this company and de-list the other listed subsidiaries?

SM Land is envisioned to be the mother company for all the property development businesses within the SM Investments family, but outside of the mall properties. All existing and future property development companies within SM Investments are planned to be moved under SM Land.

SM Land will initially have four major groups: Residential Properties, Commercial Properties, Resort Properties, and Hotels.

At present, there are no plans to list SM Land or de-list any of SM Investments' property development subsidiaries.

Why did you call the reclaimed property in Pasay SM BayCity?

The property is envisioned as an emerging central business district located in the famous Manila Bay area. With the planned mix of land uses and building projects to be developed by SM, BayCity aptly describes the vision and the group's aspirations. SM BayCity is an integrated urban development project that will provide a new dimension to city living.

Apart from SMX Convention Center and OneE-comCenter, what other plans do you have for SM BayCity?

As I mentioned earlier, we will break ground for the SM Bay Arena, an ultra-modern 16,000-seat sports arena that will set new standards for sports facilities in the country. This will also be beside the SM Mall of Asia and adjacent to the SMX Convention Center.

Hotels are also important components of the land use and plans are afoot for the development of 3 and 4-star hotels to complement our SMX Convention facility. If the market continues to show buoyancy, SM will continue with the succeeding development of its office building cluster projects across OneE-comCenter. Other interim but revenue-generating projects will be incorporated in the planning to support the main building uses in the SM BayCity.

Pico de Loro Cove

What are your funding sources for these projects?

Projects are currently being funded by SM Investments. Over time, as SM Land becomes the corporate owner of all our property projects, funding will be handled from that level.

Do you see SM BayCity becoming a prime business address in Metro Manila?

That is the overall objective, to transform the 60-hectare property into a prime business district and address. This is achievable given its prime location, the resources and investments that SM puts into the project, the planning that draws people and allows SM BayCity to become a destination, and the unwavering commitment of the group to see it through to its completion.

What are your plans for Hamilo Coast?

The long-term vision for Hamilo Coast is to create a long corridor of residential resort communities along a 34-kilometer coastline of Nasugbu, Batangas interspersed with planned developments focused around its 13 coves.

It will become Metro Manila's nearest tourism destination, which will offer unrivalled opportunities for residential location within the regional market.

Why did you call the project Hamilo? What is its relevance?

Hamilo was the original name of the first of the 13 coves from where the resort corridor begins. In Latin, it means 'to see many things.' As a name, therefore, Hamilo is a more apt description of the whole place. Naming it Hamilo Coast succinctly captures the breadth and coverage of the whole development.

How long does it take to get there and what modes of transportation are available?

Hamilo is accessible by land from Manila via Tagaytay through the Batangas-Ternate road with a travel time of two-and-a-half hours. In about two years, people can take the ferry from Manila Bay to Hamilo Coast, which will take about an hour and a half. The ferry system is one of the key components of the project and ferry terminals will be built in both SM BayCity and Hamilo Coast.

What do you intend to do with all that land and how long will it take for SM to develop that property?

The topography of the land lends itself to specific types of land uses. The Hamilo Coast project addresses the capability potential of the land parcels along the coastline from the beachfront to the hills and mountains overlooking the sea. For the inland sections of the property where flatlands merge with mountainous slopes and vegetation, other possible land uses may apply which will require further studies. As a principle, developments will only be on areas suitable for physical intervention and not on areas where conservation and preservation are necessary.

The ultimate development timetable will cover many decades depending on how fast the market grows.

Why is SM venturing into tourism? Is this still within the core competency of the company?

SM sees an untapped growth potential in tourism. It is an industry that can become one of the country's major growth drivers, once it is given the proper impetus and attention. The group has already invested in this industry with Taal Vista Hotel and the forthcoming resumption of its Cebu City hotel project.

What kind of market are you tapping? Does it include foreigners?

The project caters both to the domestic and foreign markets. The target segments are the A and B markets while foreign sales are expected to come from established overseas Filipinos and expatriates.

How is Hamilo different from the other developments in the country?

It boasts of a single longest coastline and largest number of private coves and beaches in one contiguous property. The large size of the property allows limitless possibilities in terms of product offerings and longevity. Its proximity to the capital city and accessibility puts it ahead of the rest.

How much are you selling the condominium units?

We will initially be selling the units between Php2.3 million and Php10.3 million depending on the size and location of the units.

What benchmarks are you using in terms of development and in terms of financial returns for Hamilo?

In terms of physical standards the project is upmarket but priced competitively. Returns are expected to be better than industry norms and should be well within SM's hurdle rates.

How much growth can investors expect from the property business in the next five years?

If the upward trend continues, we should see sustained growth from 2006 levels. This will be driven, however, by certain sectors and not entirely across the board. Projects will have to be innovative to capture a bigger share of a relatively small but growing market. What is important is to have a good mix of real estate products from development sales to recurring income types.

What funding sources are available for the group considering the scale and magnitude of your projects?

The construction and development of the projects will be done on a controlled basis, i.e., based on market demand rather than developing whole projects and waiting for the demand. While the masterplan for the project is huge, the actual development will be done in phases. Also, some projects (especially on the resort and housing) will be done on a pre-selling basis.

Overall, the capital budget for Hamilo and SM BayCity for 2007 is about Php3 billion which SM Investments can finance directly.

Are you open to joint venture partnerships?

There will be opportunities for joint ventures depending on the kind of business model and products we are contemplating. More importantly, we will see to it that there will be a right fit in terms of corporate objectives and working methods.

What is the group's long-term vision for the property business?

To grow the business and to become a major, if not, the dominant property company in the industry.

All Roads Lead to SM BayCity

Sunset Strip at The Esplanade

A new business district is emerging at the southend of EDSA in Pasay City. SM BayCity is, in fact, now the home of the country's largest mall, the SM Mall of Asia.

SM BayCity is a 60-hectare reclaimed property that faces the Manila Bay. "It's a one-of- a-kind proposition," according to Jess Lucas, Executive Vice President of SM's property business. "SM BayCity is the only business district that sits right by the bay giving its locators the unique opportunity to enjoy, or even take advantage, of the scenic view of the bay and its glorious sunsets."

"The land's not for sale," says Mr. Henry Sy, Jr., SM Vice Chairman and Managing Director of the Property Group. "What we plan to do with this property is build structures for lease so we can generate recurring income for SM's property group. We also see a lot of value in holding on to this land over the long term."

On that note, SM BayCity has been masterplanned to become more than just a business district, because its location gives the distinct advantage of integrating entertainment, recreational, tourism, and residential land uses into the plan. As such, apart from constructing office buildings, the plan is to put up hotels on the lots closest to the bay, a convention center, a 16,000-seater sports arena, and a ferry terminal.

For now, SM BayCity's main attraction is the world's third largest mall, the SM Mall of Asia (see related story on page 36) which boasts of having over 900 retail and food outlets, the country's first IMAX Theater which has the largest IMAX screen in the world, and the country's first Olympic-sized skating rink. And by 2007, the SM Mall of Asia will also house a planetarium and a science museum which complements the educational tone of the IMAX Theater. This

SM BayCity Masterplan

will attract students of all ages and their families to learn and experience new things at the mall.

The SM Mall of Asia will also see an extension with the Sunset Strip at the Esplanade, a 16,000 sqm. outdoor strip mall that is now being built along the promenade of SM BayCity. This will lease space for coffee, dining, and other specialty shops for those who want to enjoy an early morning walk or a leisurely afternoon by the bayside.

SM BayCity will also soon see the completion of the country's largest privately run convention center called SMX Convention Center (see related story on page 58) and its first office building tailor fit for call centers and business process outsourcing companies, called OneE-comCenter (see related story on page 59). Both buildings will be launched in October 2007.

Indeed, SM BayCity's landscape will change rapidly in the next ten years. As more and more structures rise in the gleaming urban landscape, all roads will eventually lead to this SM city by the bay.

SMX Convention Center will be the country's largest trade and cultural and convention center.

Major Expos and Conventions Soon to Make Their Way Into SM BayCity

It's all systems go for the country's largest trade and cultural convention center with world-class exposition amenities for major conferences and trade exhibits. SMX Convention Center, which broke ground in March 2006, is situated in the heart of SM Bay City adjacent to the SM Mall of Asia. Its completion is expected by the third quarter of 2007.

The three-storey structure has a gross floor area of 46,074 sqm. The main lobby will feature a pre-function area of 1,879 sqm. with Concierge, electronic billboard monitors and VIP rooms. Level One is an exhibition area with 9,160 sqm. of space that can be divided into four halls with commercial shops at perimeter areas. Level Two is a commercial area with a pre-function area of 1,252 sqm., 561 sqm. of shops, and a pedestrian bridgeway leading to the SM Mall of Asia. Level Three is a function area with 7,909 sqm. of space that can be divided into six halls. It also has a pre-function area of 2,259 sqm. and nine meeting rooms with total area of 810 sqm.

SMX Convention Center is touted to become the preferred venue for major conferences and trade exhibits with the building's contemporary design, flexible open spaces and modern facilities, and ideal location.

SM goes full scale in BPO Center Development

After breaking ground in March of 2006, OneE-comCenter is well on its way to being completed by the third quarter of 2007. OneE-com is SM's response to the strong demand for appropriate office space for BPOs seeking to establish their Philippine operations, if not to expand their existing ones.

"BPO companies are looking for office space with technologically advanced facilities to serve their needs. We will provide that type of space with a building that has open floor plans, and advanced telecom facilities." according to Mr. Henry Sy, Jr.

The 98,651-square meter OneE-comCenter will sit on a one-hectare lot just beside the SM Mall of Asia in SM BayCity. It was designed by international firm Arquitectonica and Architect Felix Lim. With its large floor plate configuration, OneE-comCenter will be able to accommodate not just BPOs but various types of office tenants as well. It will provide cutting-edge facilities to meet the growing needs of technology-based companies engaged in software development and BPOs such as contact centers, animation, and medical transcription. OneE-comCenter will also accommodate financial services, consulting, and even tourism-related offices.

The building will have leasable space of 74,600 square meters. Seven floors will be allotted for office space, and the ground floor for commercial use. The average floor plate will be about 9,000 square meters. There will be two-and-a-half levels for parking with 600 slots. Offices on all floors can look out into a courtyard in the middle of the whole structure.

In addition to its design features, tenants of OneE-comCenter will also enjoy tax incentives as SM BayCity is now registered with the Philippine Export Zone Authority (PEZA).

Its strategic location and proximity to the domestic and international airports auger well for OneE-comCenter Interestingly, the building will be connected by a second level pedestrian bridgeway to the 386,000-square meter Mall of Asia, the country's largest shopping mall. The Mall of Asia, the centerpiece of SM BayCity, already houses the call center of computer maker, Dell, Inc. and adjacent is another call center, Teletech, which is housed in Building F of the SM Corporate Offices.

Apart from E-comCenter projects, SM Investments will also be putting up build-to-suit BPO facilities in other strategic parts of the country by 2007.

OneE-comCenter has open floor plans, with technologically advanced facilities to serve the needs of BPO companies.

Unmasking a Jewel Called Hamilo Coast

SM is blazing yet another trail. This one leads to a seeming island paradise with 30 kilometers of coastline, and 13 natural coves, all having their own unique landscapes of white sand beaches, limestone cliffs, rocky terrain amid lush greenery, or a combination of all.

Interestingly, this gem of a place is unlike many remote island resorts in the country. It's just 2 ½ hours away from Metro Manila by car. Better yet, in about 18 months from now, it'll be just be an hour and a half away by ferry ride from SM BayCity which, in turn, is just 10-15 minutes away from the Ninoy Aquino International Airport.

It's called Hamilo, a large piece of property northwest of Batangas Province, facing the South China Sea.

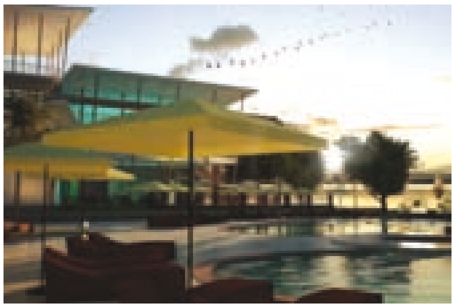
What to do with a prized asset such as Hamilo? SM Investments clearly saw its potential for tourism back in the mid-eighties when the property was acquired. SM Chairman, Mr. Henry Sy, Sr. is often heard saying, "The Philippines has very good potential for tourism. We have all the right reasons to intensively promote it with our climate, our ability to speak fluent English, our talented people, our love for music, and our excellent cuisine."

Indeed, Hamilo will be SM's springboard into Philippine tourism as its vision begins with the development of the 1,700-hectare Hamilo Coast, the coastal zone of Hamilo, which has an unobstructed view of the South China Sea.

And there's no better area to locate its maiden project than the southern area of Hamilo Coast, called Pico De Loro Cove, a 40-hectare property with a two-kilometer stretch of white sand beach, and lush greenery amid mountains on both sides. The cove has been named after Mt. Pico de Loro, a national park within Hamilo, favored by hikers and mountaineers because its peak offers a breathtaking view of Caylabne Bay, and nearby towns.

SM property group head Mr. Henry Sy, Jr. said, "Hamilo is of unmatched size and scale,

Pico de Loro Cove Masterplan



with natural beauty that can stand among the world's best tourist destinations. By developing one of its coves, we are setting a new standard in prime tourism development. For that matter, we have meticulously planned for this project to become one of the country's most prestigious tourism destinations, by applying international standards in all aspects of development, even as we aim to introduce the best that Filipino culture and tradition can offer."

Pico de Loro Cove will offer a complete package for an eco-leisure community that will be surrounded with all the elements of a clean, natural environment, while indulging in secure and comfortable homes, and the amenities of a beach club, a country club, and eventually, retail shops, and facilities of two resort hotels.

The development also aims to foster environmental/cultural appreciation and conservation. These include efforts such as recycling of energy and water supplies, as well as the use of alternative energy sources. Units will be strategically laid out to minimize the use of airconditioning. Low impact four- to six-storey condominium buildings are designed to blend with the natural environment, retaining most of the land's natural forests and foliage to allow forest flora and fauna to continue to thrive.

The seven-billion, mixed-use project is being developed in phases over a five-year period. First on the agenda are the beach and country clubs and the 11 residential condominium buildings surrounding a man-made lake. Over 1,000 units will be pre-sold by May 2007 with varying sizes of 28 square meters (sqm.) for a studio to 138 sqm. for a penthouse unit.

The second phase will include the construction of townhouse clusters with 440 units with an average size of about 160 sqm. per unit.

Pico de Loro Cove also has provisions for two resort hotels. Development will commence once the operator has been identified by SM.

The success of Pico de Loro will signal a more aggressive pursuit to unfold SM's vision of building an integrated network of communities in Hamilo Coast, a proof of SM's commitment to keep tourism as a major part of its property portfolio. SM's rich landbank and strong cashflows provide endless possibilities in tapping business opportunities in tourism, and in turn, unlock greater value for the company.

Phase IA:
Pico de Loro Look-out Point
Pico de Loro Beach & Country Club
4 Condominium Buildings
The Pico de Loro Lagoon

Residential condominiums and townhouses will surround a man-made lake by the sea.

Phase IB:
The Boardwalk
7 Condominium Buildings
Hamilo Coast Visitor's Center

Phase 2:
Pico de Loro Townhouses

Development Opportunities

- 13 natural coves for development
- Opportunity for four and five-star accomodations
- Managed residential apartments and villas
- Retail/Commecial Facilities
- Spa & Wellness Facilities
- Scuba Diving, Windsurfing & other watersport facilities
- Mountain and seaside experience with an environmental and cultural play
- Eco-tours and nature experiences in Mt. Pico de Loro

“Promoting Philippine tourism is the most important economic job this country has. It is through tourism that we can compete in the global marketplace.”

Henry Sy, Jr.

Why Pico de Loro?

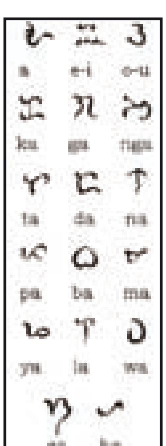
Hamilo's first development, Pico de Loro Cove, was named after a nearby mountain called Mt. Pico de Loro, because from the cove's beach and from where the residential condominiums will be situated, there is an excellent view of the mountain, with its distinct feature of a parrot's beak.

Mt. Pico de Loro is located 85 kilometers southwest of Manila, with the island of Corregidor and the Caraballo Mountains in the north, Nasugbu Batangas in the south, Maragondon on the east and the South China Sea on the west.

Mt. Pico de Loro is part of Mt. Palay-Palay National Park which has two peaks. The other peak is that of Mt. Palay-Palay Park, which is actually the mountain within the bounds of Hamilo. Mt. Pico de Loro is the highest point on a series of rolling hills and mountains within Cavite and Batangas. Its peak is about 664 meters above sea level.

While it isn't among the highest mountains in the Philippines, it offers spectacular views from the summit, facing the South China Sea stretching all the way to the Manila Bay offering a strategic vantage point to watch passing cargo and passenger ships. On the south-eastern side is a view of the Batangas and Cavite provinces along with mountains like Batulao and Talamitam. Mt. Pico de Loro appears majestic when seen near the base camp and looks like a smaller version of the North American rocky mountains.

What's In A Name?



The most important document in the study of ancient Philippine History is the Laguna Copperplate, which dates back to the year 900 C.E. It show the writings in Alibata over 1100 years ago.

"Hamilo" means "to see many things." It comes from two Latin words: "ami" which means "many" and "ilo" means "to see". It aptly describes the whole 5,700 hectares of Hamilo with its many interesting sites and breathtaking sights.

The curious scripts on the logo above the name Hamilo are Alibata characters which translate to "a - mi - lo".

Alibata is an ancient writing system that was used in the Philippines. It was discovered over 1,100 years ago along with the Philippines' ancient language called Puliran Malay when the Laguna Copperplate was discovered, the most important document in the study of ancient Philippine History, which dates back to the year 900 C.E.

Although it was all but extinguished by Western colonization, variants of Alibata are still used in parts of Mindoro and Palawan, and it is also increasingly used by Filipino youth as a way to express their identity.

The vowel following the consonant can be modified by diacritical marks either above or below the graph. These marks are called kudlit. A kudlit placed above the graph changes the vowel to /e/ or /i/.

ba

be-bi

A kudlit below the letter changes the vowel to /o/ or /u/

ba

bo-bu

URBANLIVING AT MEZZA RESIDENCES

The following is an excerpt from the SM Development Corporation Annual Report

Not even a full year after its launch, units at the Mezza Residences, SMDC's first high-rise development, are literally flying off the shelves. Since breaking ground in late 2006, the project is about 5% complete, yet 946 of the total 2,420 residential units spread out among four towers have been sold.

A winning combination of product attributes can account for its exceptional sales showing. Mezza Residences mirrors the distinctive SMDC idea of a lifestyle coupling—a residence anchored on an SM mall. With SM City Sta. Mesa as its take-off point, Mezza Residences has created a new market for high-quality vertical residential developments in the vicinity of Araneta Avenue and Aurora Boulevard in Quezon City. It is the first high-rise project in the area and a looming benchmark for future developments that are sure to follow in its lead.

With its positional niche well marked out, Mezza Residences satisfies the criteria for a smart, sound real estate investment. Adding more pull to middle-income buyers is its lifestyle blueprint—a retail podium connecting all four towers, exclusive bridgeway to the SM mall, an impressive array of deluxe amenities and service features, and masterful design. It promises an experience of a discriminating life for today's urban sophisticates, with practical and affordable one-, two-, or three-bedroom unit cuts of 20, 40 and 60 sqm.

Indeed, Mezza Residences represents an idea of an enviable urban sanctuary that resonates deeply in its market, paving the way for positive word of mouth and accelerated sales. Only the second product offering of SMDC, it is expected to continue to gain in popularity and market uptake until its completion in 2009.

With four, 38-story residential tower, 1,000 square meter garden area, bridge way to SM City Sta. Mesa the Mezza Residences offers young professionals and starting families a place to call home.

mezza

Top Ten Things to Look for in a Contemporary Urban Home

Mezza gets a 10!

Every upwardly mobile modern man or woman goes through a typical, life-changing conundrum—buying the right home that will complement his or her discriminating taste and urban-bred lifestyle. Whether you are happily attached and starting a family, or blissfully single and gunning for another promotion, Mezza Residences represents the smart, intelligent choice. But first, let's see how Mezza rates in this ultimate list of Top Ten Things to Look For in a Contemporary Urban Home.

1. Location. Cliched yes, but you'll never go wrong with an address in a central, strategic location. And what can be more central than the area of Aurora Boulevard and Araneta Avenue, a bustling hub of business enterprises, medical schools and centers, and residences. With your home at Mezza, you are linked directly and exclusively to the SM City mall via an enclosed bridgeway.
2. Design and concept. Your home is an extension of your personal statement. Nothing says more eloquently that you have arrived than a sophisticated apartment that speaks of your taste, maturity and standing. Mezza Residences began with a masterstroke of a plan that takes into account every aspect of your lifestyle—from space to overall ambience, from your health to your privacy. All other features of the building outside of your residential unit have been thought out to expand your experience of the life you deserve. And for design suggestions for the inside of your home, Mezza model homes feature minimalist yet homey interpretations by interior designer Monica Sarmiento.
3. Bankable developer. Buying a condominium unit is an exercise in trust. Mezza Residences is developed by the same company that has changed the landscape of Philippine retail forever-- SM. You can't get any bankable than that.
4. Price. You work hard for your money. You value your practicality and prudence when it comes to finances. That is why you know a good value deal when you see one. Mezza Residences gives you and your family the space and freedom to live the life you want at the price you deserve.
5. Accessibility and mobility. You want to be able to step out of your home and be anywhere without a hitch. The LRT station is but a stone's throw away from Mezza Residences, and because you are right smack in the intersection of two major city routes, it will be a cinch finding you and you getting away.
6. Amenities and features. What's a swanky pad without an array of choices for relaxation and kicking back? Mezza Residences promises to be your gateway to the good life with 800 square meters of top-rate amenities. Indulge yourself in a 25-meter lap pool with submerged lounge deck, wet play area, zen garden and reflexology path, healthwalk, cabanas, barbecue area, and a playground for children. Just below, at the podium level, are retail and service outlets for shopping convenience.
7. Exclusivity. Your home should be your own intimate sanctuary and a true private haven for you and your family. Only you and your invited guests will have access to the facilities and amenities at Mezza to ensure your privacy. Round-the-clock security is on hand at all times. Likewise, the bridgeway is for the exclusive use of Mezza residents.
8. Investment potential. More than a comfortable habitat, a house bought is an investment gained. But not every investment is worth investing in. Mezza Residences promises great growth potential, especially with its brisk sales performance and increasing market demand. As the first high-rise development in a very central, economically active area, its market value should see a continuous upward trend.
9. Units. Are there enough choices of unit sizes, styles and layouts to choose from? Are they planned out well? How's the quality of the materials used? Your days and nights will be spent inside your chosen space, so be meticulous and be exacting. Units at Mezza Residences are characterized by smart space planning, no matter the configuration—one-, two- or three- bedroom, and suite units. A complete range of options, all equally practical in price.
10. The view. Why pay top money just to ogle your neighbor's back wall? The view is sweet, whatever your orientation at the Mezza. At 38 storeys per tower, you get a commanding vista of either the Manila Bay, Antipolo City, Quezon City or the in-building gardens with the skyline of Ortigas and Makati.

"Not so many people can do it. You may have the interest, but not the resources. You may have the resources and the interest but not the guts. You have to have the guts to do this. You have to look long term. You have to be optimistic."

LEGA-SY

From the time he moved to the Philippines, there was no looking back for the young Henry Sy. In the decades to come and notwithstanding various difficulties that would buffet the country, Mr. Sy continued to innovate.

We are continually faced by great opportunities brilliantly disguised as insoluble problems.
– Lee Iacocca

In the context of the on-going life and times of Henry Sy, Sr., the iconic Iacocca could not have put it more accurately. Indeed Mr. Sy has consistently seen viable and valuable opportunities where others would have seen the contrary.

Flashback to 1945. Everything in post-World War II Manila was in shambles. Henry Sy, Sr. had little left except his father's two sari-sari stores (convenience stores), one looted and the other razed to the ground. For many, that would have been a deeply tragic situation bereft of hope and optimism. But not for the man who would eventually bring Philippine retail to its vibrant state today. Sensing the acute shortage of footwear in war-ravaged Manila, Mr. Sy astutely sold shoes brought in by enterprising American soldiers or GIs.

Fast forward to 1985. Divisive political and economic turmoil wracked the country. Again, it seemed a hopeless situation to many. For Henry Sy, however, it was a time to make one of his many dreams come true. He built his very first "supermall", the SM City North EDSA amid cajoling peers who wondered if he was going mad.

On to 1991. The country was still recovering from the ill effects of violent military led coups and a bevy of natural disasters. The incumbent administration was winding down, with a new one still to be elected in about a year. Surely, these were more than enough reasons for businesses to take a wait and see attitude. But Henry Sy again defied conventional wisdom and on desolate grassland along EDSA, built the now hugely successful and popular SM Megamall.

Present day. In a reclaimed area, now called SM BayCity, Henry Sy yet again built the SM Mall of Asia, the Philippines' largest mall facing Manila Bay, which is famous for its spectacular sunsets. This mall was conceived in his mind as early as 15 years back.

Mr. Sy was caught saying this not so long ago about the Php7 billion, 38.6 hectare mall, "Not Many people can do it. You may have the interest, but not the resources. You may have the resources and the interest, but not the guts. You have to have guts to do this. You have to look long term. You have to be optimistic."

Clearly, the man has the guts and the vision that beats seemingly insurmountable odds and has withstood the cruel test of time. For half a century now, his vision guides, and his courage enables him to build, create, innovate, and succeed, which are the fascinating and inspiring elements of his life story.

This then is his story.

Build.

1936. Mr. Henry Sy, Sr. was 12, an age when most pre-adolescents are preoccupied with the simple joys of juvenile play and innocent banter. This adventurous youth looked at things quite differently, as he braved a long arduous journey from his original hometown of Jinjiang, China to Binondo, Manila. He traveled the

In 1948, at the age of 24, Henry Sy, Sr. opened his very first shoe store in Echague, Manila.

Henry and Felicidad Sy. He was selling shoes; she was selling laces and embroideries in Carriedo when they met.

vast distance to join his father, who was then already residing in Manila and was operating a sari-sari store.

The circumstances of this young, barefoot immigrant's arrival in Manila were nothing short of daunting. He spoke neither English nor Tagalog. The surroundings in which his father lived and worked were very humble and less than ideal.

Times were tough; life was hard. A problem or an opportunity? For Henry Sy, the answer was obvious. It was an opportunity to turn things around and improve his and that of his father's situation.

He wasted little time. He deeply immersed himself into his father's sari-sari store business, often for 12 hours a day. Added to his backbreaking daily routine were his schooling to learn the English language and his selling of various merchandise at the Quiapo market in Manila. These he did for the next five years.

Then World War II engulfed Manila. Tragedy struck the two stores left behind by his father. Still undaunted and possessing that prodigious perseverance, he engaged in the buy and sell business amid life threatening conditions. He once was hit by a shrapnel while selling. But he had to make ends meet, because by then, he had his own family to support.

After the war and in spite of his father's going back to China, Henry Sy stayed on and sold shoes. This proved serendipitous as it led him into a partnership with a footwear trader and eventually, in 1948 and at 24 years old, he opened his very first shoe store along Echague St., Quiapo. It was a modest, nameless shoe store, upon which he would eventually build an empire.

Due to the war's resultant chaos and destruction, Mr. Sy failed to finish high school. Mustering enough grit and gumption, the young man then asked the Far Eastern University (FEU) to allow him to take its entrance exams. His lack of a high school diploma notwithstanding, he passed the exam and had two years of college education at FEU.

Mr. Sy couldn't help but recall these pre- and post war stories because they keep him strong and steadfast when met by extreme challenges. Those were times when he came face to face with his gutsy, courageous persona.

Create.

Within a decade of putting up his humble store in Echague, and through sheer determination and plain hard work, Mr. Sy created Shoemart, a footwear store along Rizal Avenue, also in Quiapo, Manila.

It was also around this time that he saw another excellent opportunity: Travel. He left school and with no foreign contacts, network, nor generous sponsor to finance his trip, he used his own savings. Again with sheer guts, he left his family for the time being in the Philippines and embarked on a unique learning experience. He flew off to New York and other US cities, where he observed first hand and deeply imbibed the latest international trends in fashion and retail merchandising. What he learned abroad, he deftly applied to his burgeoning business back in the Philippines.

"Fashion is crazy," he muses. "When I first traveled, hemlines and pants were long. However, shortly after, they started to become shorter and shorter. That's why I make it a point to receive valuable feedback from employees who are at the frontlines of our stores. They know exactly the ever changing tastes and needs of our clients," he adds.

Innovate.

Successfully utilizing his newfound knowledge upon his return, he expanded his original Shoemart store by opening branches in Makati and Cubao. He also boldly innovated by transforming his footwear outlets into full-blown department stores and changed their brand name from Shoemart to simply SM. Over four decades later, SM still goes by the slogan: "We've got it all for you!"

From that time on, there was no looking back. In the decades to come and notwithstanding various difficulties that would buffet the country, Mr. Sy continued to innovate.

He pioneered the one-stop shopping convenience by putting up malls, attracting millions of people from all walks of life. His stores and his malls would be far from ordinary, as many would have several "firsts". SM Megamall, for instance, would provide the Philippines' very first ice-skating rink. SM Mall of Asia, on the other hand, houses the country's first IMAX theater, currently the largest in the world, which boasts of a 3D-capable, 600 square meter movie screen.

In 2006, inspired by Henry Sy's vision to grow all of its businesses, SM Investments, through the leadership of eldest daughter Teresita Sy-Coson, surprised the Philippine banking industry by making a bold move to merge SM's main banking arm Banco de Oro with the larger Equitable PCI Bank.

Succeed.

From owning one humble shoe store in Quiapo, Henry Sy, Sr., the once barefoot immigrant who entered the Philippines speaking not a word of English nor Tagalog, could now speak proudly of his company and all of its achievements.

For countless Filipinos today, SM is a byword and forms an indelible part of their daily lives. For them, SM is the place to shop, eat, or watch a movie. SM is also a place where they can transact with a bank even on weekends. SM has also created homes, offices and places of leisure for them. SM has become an experience where valuable time is shared with family, friends and business colleagues.

SM Investments went public on May 2005, the largest IPO to date in the Philippines.

More interestingly, SM has ceased to be just a multitude of stores and malls, it has become a conglomerate.

Looking ahead.

However, at a time when many successful people would probably opt to simply coast along and enjoy their sweet victories, the passion is still alive in Henry Sy. For him, golden opportunities still present themselves for the taking.

His current passion is tourism. "Our country is perfect for tourism. Our climate is neither too cold nor too warm. We speak fluent English. Our people are highly talented; there are many accomplished musicians. We have a vibrant entertainment industry. Our cuisine is excellent, with seafood and fruits in abundance. We have all the right reasons to intensively promote tourism."

Typically, he does not end with ideas – he turns them into reality. That is why SM bought Tagaytay's landmark hotel Taal Vista Hotel, and is also developing residential condominiums in a mountain resort called Tagaytay Highlands, through its subsidiary Highlands Prime, Inc. SM will also soon launch its ecotourism project, the Hamilo Coast in Nasugbu, Batangas. Consisting of 13 scenic and pristine coves, it is an innovative, integrated network of coastal resort communities to be enjoyed and relished by countless local and foreign tourists for many decades to come.

Most likely, Hamilo Coast will not be the last in Henry Sy's story of opportunities and successes. There will be many more stories told, and stories that could be told, because of one man's gutsy unraveling of the intimidating facade of challenges that reveal the brilliant glow of breathtaking opportunities.

God is good and generous with His gifts to us. He gives us many opportunities and equal time everyday. It is for us to make full use of them. – Henry Sy, Sr.

SM Foundation, Inc.

An excerpt from the SM Foundation Annual Report

People helping people. This philosophy guides SM Foundation, Inc., the socio-civic arm of the SM Group of Companies. Established in March 1983 by SM founder and Chairman Henry Sy, Sr., the Foundation aims to help the communities it serves.

SM Foundation takes a holistic approach to respond to the social needs of the marginalized segments of society by serving more communities as SM builds more malls, stores, and properties around the country.

SM Foundation is a channel for its employees, customers, tenants, suppliers and service providers to extend immediate and long-range assistance to deprived communities in areas served by SM, its subsidiaries and affiliates.

Over the years, SM Foundation has built strategic partnerships with the media, local government units, various government agencies, non-profit and civic organizations, foreign agencies as well as other corporations. It is also an active member of the League of Corporate Foundations, the Association of Foundations and the Philippine Council for NGO Certification.

These partnerships and associations are vital in carrying out the numerous projects and undertakings of the Foundation throughout the country.

In order to accomplish its mission, SM Foundation adopts four areas of advocacy-Education, Health, Mall-based Outreach, and Religious and Community Projects.

The Education advocacy aims to provide quality education to deserving but underprivileged high school graduates through its College Scholarship Program. This program currently supports over 500 students taking four- to five-year courses in business and education. It also supports basic education by building and improving school buildings and facilities.

The Health advocacy aims to provide medical assistance and promote the well-being of individuals in the communities through health missions and wellness center programs. This program has provided medical consultation, dental extraction, laboratory examinations and the provision of complete dosage of medicines and vitamins to thousands of Filipinos through Gamot Para sa Kapwa, and the SM Mobile Clinic

The Mall-based Outreach aims to provide mall shoppers, tenants and suppliers a venue to extend assistance by making charitable donations in designated areas in the malls. These donations are in turn, distributed to various communities.

Religious and Community Projects aim to help provide fitting venues for religious activities through the construction, renovation and repair of churches.

Furthermore, SM Foundation aims to uplift the quality of life in depressed communities by supporting housing programs through the SM-Gawad Kalinga Housing projects.

Throughout the year, SM Foundation has its hands full with events and activities aimed at bringing smiles to the less fortunate as they are given access to basic services and inspiration to hope and strive for a better life.

For Everyone's Best Interest

Corporate Governance is one that's already deeply embedded within the SM culture that oftentimes, the practice is seen more as standard operating procedure. But the Board of Directors has been quite conscientious in making sure that Corporate Governance as an advocacy in SM is taken to the next level in order to achieve greater transparency, better risk management, and a stricter observance of proper conduct and business ethics.

When asked about the role of corporate governance in SM, Executive Vice President Jose T. Sio is often heard saying, "Corporate governance is a means to safeguard the welfare of our stakeholders at SM: our employees to ensure they are properly compensated and treated with fairness; our creditors so that they are always paid on time; our investors to ensure they get the best returns on their investments; the government so that they are paid the right taxes; and most importantly, our customers to ensure they are given the best products and services that they deserve for their money."

Investor Relations

Among the initiatives for the year was setting up an investor relations office to service the needs of our investors. Its task is to enhance corporate communication and transparency in order to provide retail and institutional investors the proper information for making investment decisions. Investor relations has become a mainstay and an essential service for listed companies. It is there to make sure investor concerns are properly addressed and communicated to the Board, and shareprice movements are closely monitored vis-à-vis the movement of the whole equities market and other related stocks.

SM hired a highly experienced investor relations officer in the person of Ms. Corazon P. Guidote who pioneered investor relations in the government under the auspices of the Bangko Sentral ng Pilipinas. "I am happy to pioneer investor relations (IR) in SM Investments. It is a large market capitalized company with solid corporate fundamentals. This is something that many portfolio investors now appreciate. We aim to pursue more initiatives in corporate communications and investor relations such as holding analyst briefings, conducting roadshows, and joining conferences to meet with domestic and foreign investors and get their sentiments about SM and its businesses." Ms. Guidote has since built up a staff of eight, including herself, handling investor relations, corporate communications and equities market research.

Asset Realignment

The Board of Directors also approved the plan to simplify the corporate structure of SM by putting subsidiaries, affiliates and other assets together in their respective lines of business or interest. It has the primary objective of re-aligning the ownership of shares and properties within SM to follow major business lines, namely retail merchandising, mall operations, banking and financial services, real estate, and private investments.

The process when completed will further enhance the corporate value of and make the company even more transparent to the investing public. It will also help investment analysts forecast the company's future earnings and place a more realistic value on its assets.

Executive Director Gregory L. Domingo said, "Being one of the country's largest conglomerates merits greater simplicity to better achieve efficiencies and provide more clarity in our financial reports. This signals our intent to put priority on increased transparency as one of our primary responsibilities to our minority shareholders."

The restructuring will also help unveil the true value and further realize the growth potential of SM's highly integrated businesses. Funding options for future projects will likewise broaden as the specific lines of business can then tap specialized investment funds that match their specific areas of interest.

Corporate Risk Management Policy

The Board also approved recently the creation of an Enterprise Risk Management Committee, and the establishment of a uniform procedure for the identification, analysis, management and monitoring of risks, namely strategic risks like those relating to the economy, environment and technology; and operational risks such as those related to financial and legal matters.

Other corporate governance initiatives approved by the Board are the Code of Business Conduct and Ethics, and Conflict of Interest Policy.

Executive Director Gregory L. Domingo said, "Being one of the country's largest conglomerates merits greater simplicity to better achieve efficiencies and provide more clarity in our financial reports. This signals our intent to put priority on increased transparency as one of our primary responsibilities to our minority shareholders."

SPOTLIGHT

SM Investments Corporation's Independent Director

Vince Perez, Jr.

Vincent S. Perez was a credit analyst, international banker, debt trader, Wall Street partner, and a Philippine energy minister. He also briefly served as Department of Trade and Industry Undersecretary and as managing head of the Board of Investments. Currently, he is chairman of Meritt Partners, a boutique energy advisory firm focused on Asia. He is also chairman of Next Century Partners, Chikka Holdings, and Veritas Mobile Solutions. In 2005, his fellow ASEAN energy ministers gave him an Excellence in Energy Management Award. Mr. Perez holds a Masters Degree in Business Administration from the Wharton Business School of the University of Pennsylvania and a Bachelor's degree in Business Economics from the University of the Philippines.

In an interview, Vince Perez shares his thoughts on being an independent director of SM.

I am also impressed to witness the gradual transition in the company's day-to-day management to a new generation of highly competent members of the Sy family. This has been quite a remarkable process.

Since when were you an independent director of SM?

I became an independent director of SM in May of 2005, just a few months after the company's initial public offering. I may be one of the newer independent directors.

What do you think are the main reasons why you were invited to be an independent director?

I guess you may have to ask that question from the Sy family; either there was a sense of familiarity with me, or they've heard of my reputation or hopefully my integrity. My feeling is that they wanted someone who could add value to their board. I am privileged to have been invited as an independent director of SM.

What are your specific responsibilities as an independent director?

As an independent director, I see my role, on top of my statutory obligations, as the particular member of the board who asks certain questions: how would a particular transaction benefit the shareholders, particularly the minority shareholders? Is an acquisition accretive to the shareholders? Is it properly valued? Is a convertible issue priced in such a way that it is favorable to existing shareholders? My task is to ask those questions on behalf of the minority shareholders. I believe that our role is to participate in the board discussions. That is my style – where one actively participates.

Which among your past and present work experience has greatly helped you in functioning as an independent director? How were those experiences of help?

In my previous job as partner of the investment bank Lazard Freres, I was responsible for, among others, introducing institutional investors to attractive companies in emerging markets. My group took several Asian and Latin American companies public in the New York Stock Exchange and NASDAQ. Later, as a private equity investor with my own firm, Next Century Partners, we invested in several companies here in the Philippines and took them public in the Singapore Stock Exchange.

My government stint at the Departments of Trade and Industry and Energy gave me a balanced perspective, particularly on the macro-fundamentals that make SM such an attractive investment play. I also served as an independent director in several other listed companies in Australia and Singapore. Perhaps one could say that I bring an international perspective to what global investors would expect from their investment in SM.

What would you consider as your greatest contribution to the company as an independent director?

If there were investors in New York, London, or Singapore, and they see that I am a member of the board, given my international exposure, then hopefully that adds to their comfort level as far as their investments in SM are concerned.

How would you describe your experience of being the company's independent director?

Being an SM independent director has been a rewarding experience, especially to see the company's continuing efforts to attract professional managers as the business is growing. I am also impressed to witness the gradual transition in the company's day-to-day management to a new generation of highly competent members of the Sy family. This has been quite a remarkable process.

What is unique in my case, compared to other independent directors, is that I sit in the holding company of the SM Group. At that level, you get to see the group's entire range of activities, a hilltop view. I feel blessed to have that kind of view.

In your view, what is the company's best competitive advantage?

In my opinion, the management of SM is one of the sharpest, most focused, competent business groups in the country. They are astute investors with a remarkable long-term investment outlook. I think that is certainly one of the company's most compelling competitive advantages.

How was the year just passed (2006) for the company?

It looks like 2006 was another blockbuster year. The year was full of milestone activities, such as Banco de Oro's acquisition of Equitable-PCI Bank; a GDR placement in London to create more liquidity for Banco de Oro; and the acquisition of the retail business. Given a business environment where we had an expanded value added tax and increases in oil prices, it is remarkable that the company continued to grow.

What is your 2007 prognosis for the company?

Let me just say that, perhaps not limited to 07, but also the near term, the next two years, I see a lot of exciting things happening for SM. Investors should just be patient, and if there are those who are not investors yet, hopefully they will join the rest who already are.

Board of Directors







Henry Sy, Sr.
Chairman

Teresita Sy-Coson
Vice Chairman

Henry T. Sy, Jr.
Vice Chairman

Harley T. Sy
Director

Jose T. Sio
Director

Gregory L. Domingo
Director

Vicente S. Perez, Jr.
Independent Director

Board Committees

Compensation or Remuneration Committee

Teresita T. Sy	Chairman
Harley T. Sy	Member
Jose T. Sio	Member
Vicente S. Perez, Jr.	Member (independent director)

Nomination Committee

Henry T. Sy, Jr.	Chairman
Harley T. Sy	Member
Vicente S. Perez, Jr.	Member (independent director)
Gregory L. Domingo	Member
Atty. Corazon I. Morando	Member

Audit Committee

Vicente S. Perez, Jr.	Chairman (independent director)
Henry T. Sy, Jr.	Member
Jose T. Sio	Member
Gregory L. Domingo	Member
Serafin U. Salvador	Member

Compliance Committee

Atty. Corazon I. Morando	Chairperson
Atty. Felicitas A. Arroyo	Member
Atty. Antonio C. Pacis	Member
Mr. Jose T. Sio	Member

CREDENTIALS

HENRY SY, SR. is the Chairman of the Board of Directors of SMIC. He is the founder of the SM Group and is currently Chairman of SM Prime, Shoemart, Inc., SM Development Corporation, and Highlands Prime, Inc. among others. Mr. Sy opened the first Shoemart store in 1958 and has been at the fore in SM Group's diversification into shopping malls, retail merchandising, financial services, and real estate development and tourism.

Directorships held in other reporting companies

Name of Corporation	Position
SM Prime Holdings, Inc.	Chairman
SM Development Corporation	Chairman
Highlands Prime, Inc.	Chairman
Banco De Oro Universal Bank	Chairman Emeritus
China Banking Corporation	Honorary Chairman
SM Keppel Land, Inc.	Chairman and President
Republic Glass Holdings, Inc.	Director

TERESITA T. SY is the Vice Chairman of SMIC. She has had varied experiences in retail merchandising, mall development and banking businesses. She is a graduate of the Assumption Convent. At present she is Vice Chairperson of EquitablePCI Bank, and Director of SM Prime. She is the President of Shoemart, Inc., and also holds board positions in several companies within the SM Group.

Directorships held in other reporting companies

Name of Corporation	Position
Equitable PCI Bank	Vice Chairperson
SM Prime Holdings, Inc.	Director

HENRY T. SY, JR. is the Vice Chairman of SMIC. He is also the Vice Chairman of SM Development Corporation and Highlands Prime, Inc., and Director of SM Prime Holdings, Inc., China Banking Corporation and San Miguel Corporation. He is responsible for the real estate acquisitions and development activities of the SM Group, including the identification, evaluation, and negotiation for potential sites. He graduated with a management degree from De La Salle University. He also holds board positions in several companies within the SM Group.

Directorships held in other reporting companies

Name of Corporation	Position
SM Development Corporation	Vice Chairman/Chief Executive Officer
Highlands Prime, Inc.	Vice Chairman
Belle Corporation	Vice Chairman
China Banking Corporation	Director
San Miguel Corporation	Director
SM Prime Holdings, Inc	Director

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

Directorships held in other reporting companies

Name of Corporation	Position
China Banking Corporation	Director

JOSE T. SIO is a Second Executive Vice President and Chief Financial Officer of SMIC. He is also a Director of BDO Universal Bank. BDO Private Bank and Generali Pilipinas Holding Company, Inc. as well as other companies within the SM Group. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was a senior partner at Sycip, Gorres, Velayo & Co.

Directorships held in other reporting companies

Name of Corporation	Position
Banco De Oro Universal Bank	Director

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.

Directorships held in other reporting companies

Name of Corporation	Position
Manila Electric Company	Director

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. 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 and Economics from the University of the Philippines.

* *Independent Director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director.*

Corporate Executives of Core Businesses

SM Corporate Executives



Harley T. Sy
President
SM Investments Corporation

Jose T. Sio
Executive Vice President
Chief Financial Officer
SM Investments Corporation

Ruby L. Cano
Vice President
Financial Controller
SM Investments Corporation



Cecilia R. Patricio
Vice President
Corporate Tax
SM Investments Corporation

Grace F. Roque
Vice President
Finance
SM Investments Corporation

Epitacio B. Borcelis
Vice President
Legal Department
SM Investments Corporation



Corazon P. Guidote
Vice President
Investor Relations
SM Investments Corporation

Corazon I. Morando
Senior Vice President
Legal and Corporate Affairs
SM Investments Corporation

Marianne M.Guerrero
Senior Vice President
Legal Department
SM Investments Corporation

Doreen T. Rojo
Vice President
Mergers and Acquisitions
SM Investments Corporation

Retail Merchandising


Herbert T. Sy
President
Supervalue Inc./SM Hypermarket

Jorge T. Mendiola
Senior Vice President,
SM Department Store


Robert S. Kwee
Executive Vice President
SM Hypermarket

Ricky A. Lim
Senior Vice President,
Controllership
Shoemart, 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
SM Prime Holdings, Inc.

Annie S. Garcia
President
Shopping Center Management Corporation

Banking

Teresita T. Sy
Chairman
Banco De Oro

Nestor V. Tan
President
Banco De Oro

Jesus A. Jacinto
Vice Chairman
Banco De Oro

Peter S. Dee
President and CEO
China Bank

Gilbert U. Dee
Chairman of the Board
China Bank

Ricardo R. Chua
Executive Vice President, COO
China Bank

Alexander C. Escucha
First Vice President
China Bank

Property

Henry T. Sy, Jr.
Vice Chairman and Head of Property Group
SM Investments Corporation

Josefino C. Lucas
Executive Vice President for Properties
SM Investments Corporation

Jose B. Amantoy
Vice President, Property Group
SM Investments Corporation

Carlos V. Chikiamco
Vice President, Real Property
SM Investments Corporation

Efren L. Tan
Vice President, Sales
SM Investments Corporation

Rogelio R. Cabuñag
President
SM Development Corporation

Antonio A. Henson
President
Highlands Prime, Inc.

SM Investments Corporation

Financial Statements

SM Investments Corporation and Subsidiaries

Management's Discussion and Analysis of Financial Condition and Results of Operations

Periods Ended December 31, 2006 and December 31, 2005

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2006	12 / 31 / 2005	% Change
Revenue	**₱88.7**	**₱54.0**	**64.4%**
Cost and Expenses	**72.5**	**41.5**	**74.6%**
Income from Operations	**₱16.2**	**₱12.5**	**30.4%**
Other Income (Charges)	**2.6**	**1.2**	**109.5%**
Provision for Income Tax	**3.6**	**2.4**	**51.4%**
Minority Interest	**4.7**	**3.3**	**41.8%**
Net Income	**₱10.6**	**₱8.0**	**31.7%**

Consolidated revenues for the year 2006 amounted to ₱88.7 billion or a growth of 64% from ₱54.0 billion of the same period last year. Income from operations increased by 30.4% to ₱16.2 billion from ₱12.5 billion. Operating income margin and Net profit margin is at 18% and 12%, respectively. Net income for the year ended December 31, 2006 increased by 31.7% to ₱10.6 billion compared to ₱8.0 billion of the same period last year. The reported income of ₱7.1 billion as of December 31, 2005 has been restated to ₱8.0 billion to reflect the recognition of goodwill as a result of the acquisition of EPCIB Shares in 2005. Please see Note 12 to the Consolidated Financial statements for more details.

Retail Sales remains to be the largest part of the revenue, comprising 77% of the total revenues for the year. Consolidated Retail sales increased by 75% to ₱68.4 billion for the year ended December 31, 2006. The sales contribution of the Supermarket and Hypermarket operations (from June 2006 to December 2006) accounted for 38% of the total sales for the year. Retail sales from the Department store operations similarly registered a strong performance primarily due to the contribution of the newly opened SM Department Stores, namely SM San Lazaro and SM Sucat, opened in later part of 2005, and SM Sta. Rosa, SM Clark, SM Mall of Asia, and SM Lipa which were opened in 2006. There were four department stores, three supermarkets, and four hypermarkets opened in 2006.

Location of New retail branches in 2006

	SM Department Stores	***SM Supermarkets***	***SM Hypermarkets***
1	SM City Sta. Rosa	SM City Sta. Rosa	SM City Clark
2	SM City Clark	SM City Lipa	SM Mall of Asia
3	SM Mall of Asia	Save More, Jaro (Iloilo)	The Block, SM City North Edsa
4	SM City Lipa		SM Supercenter Pasig

As of December 31, 2006, SM Investments' retail subsidiaries have 29 branches of SM Department stores, 27 branches of SM Supermarkets, and 9 branches of SM Hypermarkets.

Real estate sales for the year ended December 31, 2006 improved by 106% to P479.1 million. The increase came from the sale of condominium units in Clusters 1, 2 and 3 of SM Development Corporation's Chateau Elysee, a six-cluster, six-storey French-Meditarrenean inspired residential development near SM City Bicutan in Paranaque, and the sales of units at Towers 1 and 2 of Mezza Residences, a 38-storey four-tower high rise condominium across SM City Sta. Mesa.

Rental revenue from malls grew by 15% to P9.0 billion in 2006. The primary source of growth for the period was the rental revenues from supermalls opened in 2005 namely SM City San Lazaro, SM Supercenter Valenzuela and SM Supercenter Molino, and new supermalls opened in 2006 namely SM City Sta. Rosa, SM City Clark and SM Mall of Asia and SM City Lipa. These new malls have an average occupancy level of around 95%. Same stores growth of the rental revenues for the year is 7%. As of December 31, 2006, SM Prime Holdings, Inc. has 27 supermalls, amassing a gross floor area of 3.6 million square meters.

Cinema ticket sales and amusement revenues increased by 20% from ₱1.9 billion last year to ₱2.3 billion this year. The growth in this account is attributable to more blockbuster movies shown during the current period as compared to the previous year.

Equity in net earnings of associates increased by 33% to ₱2.8 billion in 2006 from ₱2.1 billion in 2005, primarily due to the increase in the effective ownership and in the net income of certain non-consolidated subsidiaries

Dividend income amounted to ₱1.03 billion for the year 2006 compared to ₱1.08 billion in 2005.

Gain on sale of investments and properties significantly increased to ₱4.8 billion from ₱193 million in 2005 due to the gain realized in the sale of certain shares of stock, and the net extraordinary income of ₱1.8 billion from the Banco De Oro Global Depositary Receipts Offering. Please see Note 12 to the audited consolidated financial statements.

The net unrealized mark-to-market gain on investments increased by 26% to ₱529.0 million due to the restatement of investments in listed company shares, to reflect the market to market valuation.

Total cost and expenses rose by 75% to ₱72.5 billion for the year ended December 31, 2006 compared to 2005. Cost of sales increased 79% to ₱54.9 Billion primarily brought about by consolidation of the supermarket and hypermarket operations and the increased sales volume of the retail subsidiaries. Cost of Sales (June to December 2006) of the supermarket and hypermarket accounted for 40% of total cost of sales. Operating expenses increased 63% in 2006 to ₱17.6 billion due to expenses associated to newly opened malls, department stores, supermarkerts and hypermarkets.

Interest Expense amounted to ₱3.4 billion in 2006, an increase of 40% compared to the previous year of ₱2.4 billion due to the increase in loan availments of the parent company and certain subsidiaries. Interest Income slightly decreased by 4% to ₱2.6 billion in 2006 due to lower average level of cash during the year.

Provision for income tax increased by 51.4% to ₱3.6 billion for the year 2006 from ₱2.4 billion in 2005 due to the increase in taxable income and the increase in the corporate tax rate from 32% to 35% effective November 2005.

Financial Position
(amounts in billion pesos)

Accounts	**12 / 31 / 2006**	**12 / 31 / 2005**	**% Change**
Current assets	₱59.6	₱28.4	109.8%
Noncurrent assets	167.5	141.6	18.3%
Total assets	**₱ 227.1**	**₱170.0**	**33.6%**
Current liabilities	₱52.3	₱25.8	103.1%
Noncurrent Liabilities	43.8	42.2	3.8%
Total Liabilities	**₱96.2**	**₱68.0**	**41.4%**
Stockholders' Equity	**₱130.9**	**₱102.0**	**28.4%**
Total Liabilities and Stockholders' Equity	**₱227.1**	**₱170.0**	**33.6%**

The Company's Balance Sheet remained robust. Consolidated assets as of December 31, 2006 totaled to ₱227.1 billion, higher by 34% from ₱170.0 billion in previous year. Consolidated liabilities similarly increased to ₱96.2 billion in 2006 from ₱68.0 billion in previous year.

Total current assets Increased to ₱59.6 Billion as of December 31, 2006 from ₱28.4 Billion as of last year mainly due to the Increase in cash balance; reclassification of the maturing time deposit; and increase in investments available for sale and merchandise inventories.

Total consolidated noncurrent assets improved by 18.3% to ₱167.5 billion as of December 31, 2006. The increase in this account is due to several factors namely: (a) increase in Investments in shares of stocks of associates as a result of the increase in Investments in EPCIB shares brought about by the tender offer. (b) Increase in Investment Properties, mainly due to construction activities related to completed mall projects like SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM North Edsa, SM Supercenter Pasig, SM City Lipa and SM City Bacolod. Ongoing mall projects are SM City Taytay, SM City Cebu Annex, and SM Supercenter Muntinlupa.

Total consolidated current liabilities increased by 103% to ₱52.3 billion as of December 31, 2006, primarily due to the reclassification of the 5-year $300 Million Global Notes of the parent company which will mature in October 2007.

Total Non Current Liabilities is almost steady at ₱43.8 Billion, mainly due to the net effect of the reclassification of the 5-year $300 Million Notes to current liabilities, and the recognition of the ₱12.3 Billion representing the present value of remaining balance of Company's obligation for the EPCIB tender offer. The details of these transactions are further discussed in Notes 12,and 19 to the audited consolidated financial statements.

Total Stockholders' equity amounted to ₱130.9 billion as of December 31, 2006, while total Equity attributable to equity holders of the parent amounted to ₱103.3 billion. See Note 20 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 year ended December 31, 2006, and nine months ended December 31, 2005:

Accounts	12 / 31/ 2006	12 / 31/ 2005
Current Ratio	1.14 : 1.00	1.10 : 1.00
Debt-equity Ratio	34% : 66%	39% : 61%
Return on Equity (annualized)	11.6%	11.2%
Net Income to Revenue	12%	15%
Revenue Growth	64.4%	9.6%
Net Income Growth	32%	39%
EBITDA	₱19.6B	₱14.7B

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

Current Ratio	Current Assets / Current Liabilities
Debt – Equity Ratio	Total Interest Bearing Liabilities *(net of time deposits)* / Total Stockholders' Equity (attributable to equity holders of the parent) + Total Interest Bearing Liabilities *(net of pledged time deposits)*
Return on Equity	Net Income / Average Stockholders' Equity (attributable to equity holders of the parent)
Net Income to Revenue	Net Income / Total Revenue
Revenue Growth	Total Revenues (Current Period) / Total Revenues (Prior Period)
Net Income Growth	Net Income (Current Period) / Net Income (Prior Period)
EBITDA	Income from operations + Depreciation & Amortization

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, 2006 and 2005, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2006, the nine months ended December 31, 2005 and the year ended March 31, 2005, and the 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 stockholders and Board of Directors.

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

Independent Auditors' Report

SGV & Co

The Stockholders and the Board of Directors
SM Investments Corporation

We have audited the accompanying consolidated financial statements of SM Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the year ended December 31, 2006, the nine months ended December 31, 2005 and the year ended March 31, 2005, and a summary of significant accounting policies and other explanatory notes.

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 did not audit the financial statements of 14 consolidated subsidiaries. The accompanying consolidated financial statements include the accounts of such consolidated subsidiaries which reflect total assets amounting to ₱40,286.7 million (17.74% of total assets) and ₱17,801.5 million (10.54% of total assets) as of December 31, 2006 and 2005, respectively, and net income amounting to ₱6,076.9 million (39.87% of net income), ₱1,429.5 million (13.72% of net income) and ₱885.0 million (10.05% of net income) for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, respectively. We also did not audit the financial statements of three associates in 2006 and four associates in 2005, the investments of which are reflected in the accompanying consolidated financial statements using the equity method of accounting and amounted to ₱9,822.2 million and ₱12,684.1 million as of December 31, 2006 and 2005, respectively. The Company's equity in the net earnings of such associates for the year ended December 31, 2006, the nine months ended December 31, 2005 and the year ended March 31, 2005 amounted to ₱1,046.3 million, ₱1,145.3 million and ₱784.6 million, respectively. The financial statements of these subsidiaries and associates were audited by other auditors whose unqualified reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors. 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 is 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, 2006 and 2005, and their financial performance and their cash flows for the year ended December 31, 2006, the nine months ended December 31, 2005 and the year ended March 31, 2005 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0267366, January 2, 2007, Makati City

March 7, 2007

SM Investments Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 17, 19, 21, 27 and 28)	**₱21,037,492,714**	₱11,174,935,676
Time deposits (Notes 8, 19, 21 and 28)	**7,825,188,000**	–
Investments held for trading and sale (Notes 9, 19, 21, 27 and 28)	**16,959,734,059**	8,806,359,001
Receivables - net (Notes 3, 10 and 28)	**7,287,814,474**	5,553,669,974
Merchandise inventories - at cost (Note 22)	**4,488,187,321**	1,357,734,162
Input taxes and other current assets - net (Note 15)	**1,981,157,885**	1,500,961,720
Total Current Assets	**59,579,574,453**	28,393,660,533
Noncurrent Assets		
Available-for-sale investments - net (Notes 3, 11, 21 and 28)	**34,526,871,725**	37,615,868,061
Investments in shares of stock of associates (Notes 3, 12 and 21)	**46,546,777,199**	28,741,943,509
Property and equipment - net (Notes 3, 13 and 17)	**12,300,930,057**	16,602,886,544
Investment properties - net (Notes 3 and 14)	**56,421,608,280**	42,751,632,491
Land and development (Notes 3 and 15)	**1,836,350,808**	1,542,482,817
Time deposits (Notes 8, 19, 21 and 28)	**–**	12,744,490,601
Other noncurrent assets (Notes 12, 16, 24, 25 and 28)	**15,861,151,637**	1,587,598,236
Total Noncurrent Assets	**167,493,689,706**	141,586,902,259
	₱227,073,264,159	₱169,980,562,792
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 27 and 28)	**₱13,319,576,097**	₱10,179,014,000
Accounts payable and other current liabilities (Notes 12, 18, 21 and 28)	**18,240,321,118**	12,528,113,787
Income tax payable	**848,188,273**	684,450,397
Current portion of long-term debt (Notes 19, 21, 27 and 28)	**17,629,400,122**	1,291,945,923
Current portion of notes payable (Notes 12 and 28)	**1,746,898,971**	–
Dividends payable (Note 28)	**556,008,628**	1,086,764,312
Total Current Liabilities	**52,340,393,209**	25,770,288,419
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 27 and 28)	**22,970,657,371**	37,995,523,313
Notes payable - net of current portion (Notes 12 and 28)	**12,332,385,033**	–
Defined benefit liability (Note 24)	**478,577,517**	311,818,485
Deferred tax liabilities (Note 25)	**2,627,883,460**	465,474,969
Tenants' deposits and others (Notes 26 and 28)	**5,432,020,960**	3,474,432,032
Total Noncurrent Liabilities	**43,841,524,341**	42,247,248,799

(Forward)

	2006	2005
Equity Attributable to Equity Holders of the Parent		
(Notes 20 and 27)		
Capital stock	**₱5,860,000,000**	₱5,300,000,000
Additional paid-in capital	**35,030,709,537**	23,382,709,537
Cost of common shares held by subsidiaries	**(55,213,502)**	(500,000,000)
Net unrealized gain on available-for-sale investments		
(Notes 11 and 12)	**11,261,528,843**	7,038,286,318
Retained earnings:		
Appropriated	**5,000,000,000**	5,000,000,000
Unappropriated	**46,206,903,642**	38,126,047,243
Total Equity Attributable to Equity Holders of the Parent	**103,303,928,520**	78,347,043,098
Minority Interests	**27,587,418,089**	23,615,982,476
Total Stockholders' Equity	**130,891,346,609**	101,963,025,574
	₱227,073,264,159	₱169,980,562,792

See accompanying Notes to Consolidated Financial Statements.

SM Investments Corporation and Subsidiaries

Consolidated Statements of Income

For The Year Ended December 31, 2006, the Nine Months Ended December 31, 2005
and The Year Ended March 31, 2005

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months - Note 29)	March 31, 2005 (One Year)
REVENUE			
Sales:			
Merchandise	**₱68,401,569,764**	₱39,152,692,213	₱36,237,623,630
Real estate (Notes 3 and 15)	**479,055,252**	232,188,876	254,679,388
Rent (Notes 21 and 26)	**9,804,324,538**	8,323,506,121	7,634,117,120
Equity in net earnings of associates (Note 12)	**2,758,843,422**	2,079,267,626	1,374,938,708
Cinema ticket sales, amusement and others	**2,250,326,516**	1,877,347,517	2,027,757,049
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives (Notes 9, 11 and 28)	**2,220,001,892**	595,304,482	268,521,829
Dividend income	**1,034,343,716**	1,077,831,319	739,787,307
Management fees (Note 21)	**290,855,338**	268,478,195	310,842,849
Others	**1,500,074,942**	359,157,491	370,063,854
	88,739,395,380	53,965,773,840	49,218,331,734
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	**54,685,342,080**	30,560,093,042	28,342,838,497
Real estate	**199,427,085**	135,165,819	152,112,813
Operating expenses (Note 23)	**17,594,679,955**	10,805,040,773	10,347,846,073
	72,479,449,120	41,500,299,634	38,842,797,383
OTHER INCOME (CHARGES) - Net			
Interest expense (Notes 17, 19 and 21)	**(3,442,071,078)**	(2,455,502,507)	(3,293,615,659)
Gain on sale of investments in shares of stock, investment properties and property and equipment (Note 12)	**3,010,548,347**	15,932,917	937,790,979
Interest income (Note 21)	**2,535,713,725**	2,656,700,652	2,138,867,148
Foreign exchange gain (Note 27)	**462,750,431**	103,694,310	251,670,848
Excess of share in net assets of an associate over cost (Note 12)	**–**	904,183,856	676,855,798
	2,566,941,425	1,225,009,228	711,569,114
INCOME BEFORE INCOME TAX	**18,826,887,685**	13,690,483,434	11,087,103,465
PROVISION FOR INCOME TAX (Note 25)			
Current	**3,300,523,777**	2,083,273,249	2,230,883,330
Deferred	**285,200,291**	285,292,403	47,104,213
	3,585,724,068	2,368,565,652	2,277,987,543
NET INCOME	**₱15,241,163,617**	₱11,321,917,782	₱8,809,115,922
ATTRIBUTABLE TO:			
Equity holders of the Parent	**₱10,571,856,399**	₱8,029,241,507	₱5,764,086,098
Minority interests	**4,669,307,218**	3,292,676,275	3,045,029,824
	₱15,241,163,617	₱11,321,917,782	₱8,809,115,922
Earnings Per Common Share (Note 30)	**₱18.84**	₱15.15	₱14.12

See accompanying Notes to Consolidated Financial Statements.

SM Investments Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

	Equity Attributable to Equity Holders of the Parent									Minority Interests	Total Stockholders' Equity
	Preferred Stock (Note 20)	Common Stock (Note 20)	Additional Paid-in Capital (Note 20)	Deposits for Future Stock Subscription (Note 20)	Cost of Common Shares Held by Subsidiaries (Note 20)	Net unrealized Gain on Available-for-Sale Investments (Notes 11 and 12)	Appropriated Retained Earnings (Note 20)	Unappropriated Retained Earnings (Note 20)	Total		
Balance at December 31, 2005	₱–	₱5,300,000,000	₱23,382,709,537	₱–	(₱500,000,000)	₱7,038,286,318	₱5,000,000,000	₱38,126,047,243	₱78,347,043,098	₱23,615,982,476	₱101,963,025,574
Profit for the period	–	–	–	–	–	–	–	10,571,856,399	10,571,856,399	4,669,307,218	15,241,163,617
Net gain from fair value adjustments during the period	–	–	–	–	–	4,223,242,525	–	–	4,223,242,525	1,463,543,398	5,686,785,923
Total income for the period	–	–	–	–	–	4,223,242,525		10,571,856,399	14,795,098,924	6,132,850,616	20,927,949,540
Issuance of common shares	–	560,000,000	11,648,000,000	–	–	–	–	–	12,208,000,000	–	12,208,000,000
Disposal of common shares held by subsidiaries	–	–	–	–	479,305,000	–	–	–	479,305,000	–	479,305,000
Acquisition of common shares held by subsidiaries	–	–	–	–	(34,518,502)	–	–	–	(34,518,502)	–	(34,518,502)
Cash dividends - ₱4.70 a share	–	–	–	–	–	–	–	(2,491,000,000)	(2,491,000,000)	–	(2,491,000,000)
Cash dividends received by minority interests	–	–	–	–	–	–	–	–	–	(2,161,415,003)	(2,161,415,003)
Balance at December 31, 2006	₱–	₱5,860,000,000	₱35,030,709,537	₱–	(₱55,213,502)	₱11,261,528,843	₱5,000,000,000	₱46,206,903,642	₱103,303,928,520	₱27,587,418,089	₱130,891,346,609
Balance at March 31, 2005	₱–	₱5,300,000,000	₱23,382,709,537	₱–	(₱500,000,000)	₱–	₱10,000,000,000	₱26,797,289,270	₱64,979,998,807	₱21,002,364,686	₱85,982,363,493
Effect of change in accounting for financial instruments	–	–	–	–	–	4,332,183,838	–	154,516,466	4,486,700,304	2,440,414,245	6,927,114,549
Net share from fair value adjustments of associates during the period	–	–	–	–	–	170,605,372	–	–	170,605,372	36,227,284	206,832,656
Balance at April 1, 2005	–	5,300,000,000	23,382,709,537	–	(500,000,000)	4,502,789,210	10,000,000,000	26,951,805,736	69,637,304,483	23,479,006,215	93,116,310,698
Profit for the period	–	–	–	–	–	–	–	8,029,241,507	8,029,241,507	3,292,676,275	11,321,917,782
Net gain from fair value adjustments during the period	–	–	–	–	–	1,893,708,186	–	–	1,893,708,186	(405,252,159)	1,488,456,027
Net share from fair value adjustments of associates during the period	–	–	–	–	–	641,788,922	–	–	641,788,922	52,322,795	694,111,717
Total income for the period	–	–	–	–	–	2,535,497,108	–	8,029,241,507	10,564,738,615	2,939,746,911	13,504,485,526
Reversal of appropriation for long-term expansion and improvement projects	–	–	–	–	–	–	(5,000,000,000)	5,000,000,000	–	–	–
Cash dividends - ₱3.50 a share	–	–	–	–	–	–	–	(1,855,000,000)	(1,855,000,000)	–	(1,855,000,000)
Cash dividends received by minority interests	–	–	–	–	–	–	–	–	–	(2,802,770,650)	(2,802,770,650)
Balance at December 31, 2005	₱–	₱5,300,000,000	₱23,382,709,537	₱–	(₱500,000,000)	₱7,038,286,318	₱5,000,000,000	₱38,126,047,243	₱78,347,043,098	₱23,615,982,476	₱101,963,025,574
Balance at March 31, 2004	₱1,900,000,000	₱2,350,000,000	₱–	₱54,865,261	(₱500,000,000)	₱–	₱10,000,000,000	₱21,033,203,172	₱34,838,068,433	₱18,434,351,127	₱53,272,419,560
Profit for the year	–	–	–	–	–	–	–	5,764,086,098	5,764,086,098	3,045,029,824	8,809,115,922
Conversion of preferred stock to common stock	(1,900,000,000)	1,900,000,000	–	–	–	–	–	–	–	–	–
Issuance of common shares upon initial public offering	–	1,050,000,000	23,382,709,537	–	–	–	–	–	24,432,709,537	–	24,432,709,537
Application of deposit for future stock subscription against subscribed capital stock	–	–	–	(54,865,261)	–	–	–	–	(54,865,261)	–	(54,865,261)
Cash dividends received by minority interests	–	–	–	–	–	–	–	–	–	(3,389,880,565)	(3,389,880,565)
Increase in share of minority interests	–	–	–	–	–	–	–	–	–	2,912,864,300	2,912,864,300
Balance at March 31, 2005	₱–	₱5,300,000,000	₱23,382,709,537	₱–	(₱500,000,000)	₱–	₱10,000,000,000	₱26,797,289,270	₱64,979,998,807	₱21,002,364,686	₱85,982,363,493

See accompanying Notes to Consolidated Financial Statements.

SM Investments Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the Year Ended December 31, 2006, the Nine Months Ended December 31, 2005
and the Year Ended March 31, 2005

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months - Note 29)	March 31, 2005 (One Year)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱18,826,887,685**	₱13,690,483,434	₱11,087,103,465
Adjustments for:			
Interest expense	**3,442,071,078**	2,455,502,507	3,293,615,659
Depreciation and amortization (Note 23)	**3,355,058,496**	2,283,024,304	2,054,307,522
Gain on sale of investments in shares of stock, investment properties and property and equipment	**(3,010,548,347)**	(15,932,917)	(937,790,979)
Equity in net earnings of associates (Note 12)	**(2,758,843,422)**	(2,079,267,626)	(1,374,938,708)
Interest income	**(2,535,713,725)**	(2,656,700,652)	(2,138,867,148)
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives (Notes 9, 11 and 28)	**(2,220,001,892)**	(595,304,482)	(268,521,829)
Provisions for impairment losses and others (Note 23)	**1,596,489,245**	–	100,000,000
Unrealized foreign exchange loss (gain)	**(1,064,025,038)**	39,386,633	(98,179,539)
Dividend income	**(1,034,343,716)**	(1,077,831,319)	(739,787,307)
Excess of share in net assets of an associate over cost	**–**	(904,183,856)	(676,855,798)
Operating income before working capital changes	**14,597,030,364**	11,139,176,026	10,300,085,338
Decrease (increase) in:			
Receivables	**(1,418,133,926)**	(1,081,484,345)	(1,664,564,421)
Merchandise inventories	**(168,890,284)**	280,524,369	(274,465,723)
Input taxes and other current assets	**(595,666,091)**	(436,498,464)	(202,915,970)
Increase (decrease) in:			
Accounts payable and other current liabilities	**862,454,240**	1,562,347,186	496,834,130
Defined benefit liability	**166,759,032**	(71,569,911)	8,490,895
Tenants' deposits and others	**1,140,788,264**	807,079,855	325,051,397
Net cash generated from operations	**14,584,341,599**	12,199,574,716	8,988,515,646
Income tax paid	**(3,402,961,108)**	(2,072,925,713)	(2,100,543,780)
Net cash provided by operating activities	**11,181,380,491**	10,126,649,003	6,887,971,866
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments held for trading	**(4,574,027,022)**	(2,256,262,463)	(4,566,995,559)
Proceeds from sale of:			
Investments in shares of stock	**10,193,165,348**	599,940	–
Investments held for trading	**4,798,336,290**	3,557,224,601	2,545,858,764
Available-for-sale investments	**2,174,153,339**	–	4,547,868
Property and equipment	**316,155,540**	1,945,280	40,054,624
Investment properties	**59,618,827**	7,489,551	225,519,126

(Forward)

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months - Note 29)	March 31, 2005 (One Year)
Decrease (increase) in:			
Investments in shares of stock of associates	**(₱8,457,493,567)**	(₱10,056,755,430)	(₱2,892,830,695)
Available-for-sale investments	**(1,111,797,033)**	(11,208,928,648)	(5,536,116,518)
Time deposits	**4,322,913,206**	1,353,471,818	904,770,752
Other noncurrent assets	**(2,113,152,778)**	(606,740,512)	(582,495,409)
Land and development	**(560,059,180)**	(198,407,843)	(609,391,601)
Additions to:			
Investment properties	**(338,306,259)**	(2,840,043,098)	(1,525,608,200)
Property and equipment	**(9,446,754,607)**	(9,881,775,004)	(7,145,518,509)
Interest received	**2,554,375,159**	2,801,379,239	2,178,084,633
Dividends received	**1,153,377,663**	1,710,451,221	824,408,523
Net cash used in investing activities	**(1,029,495,074)**	(27,616,351,348)	(16,135,712,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Bank loans	**19,203,402,675**	15,242,069,510	6,555,515,000
Long-term debt	**6,200,000,000**	8,847,058,986	10,830,833,002
Payments of:			
Bank loans	**(15,548,257,328)**	(17,868,820,510)	(794,732,602)
Long-term debt	**(3,467,999,530)**	(8,961,928,211)	(1,677,530,810)
Interest paid	**(4,676,627,236)**	(2,744,542,716)	(3,052,338,772)
Dividends paid	**(3,021,755,684)**	(872,971,058)	(124,675,497)
Net cash received from acquisition of subsidiaries (Note 5)	**1,649,500,526**	–	–
Decrease in minority interests	**(697,871,605)**	(767,608,564)	(3,301,996,541)
Disposal of common shares held by subsidiaries	**479,305,000**	–	–
Acquisition of common shares held by subsidiaries	**(34,518,502)**	–	–
Net proceeds from initial public offering of common shares	**–**	–	24,432,709,537
Collections of subscriptions receivable	**–**	–	195,134,739
Net cash provided by (used in) financing activities	**85,178,316**	(7,126,742,563)	33,062,918,056
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(374,506,695)**	(310,289,414)	53,516,616
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**9,862,557,038**	(24,926,734,322)	23,868,694,337
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**11,174,935,676**	36,101,669,998	12,232,975,661
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱21,037,492,714**	₱11,174,935,676	₱36,101,669,998

See accompanying Notes to Consolidated Financial Statements.

SM Investments Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines. Its registered office address is Building A, SM Corporate Offices, Bay Boulevard, SM BayCity, Pasay, Metro Manila.

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

On March 22, 2005, the Parent Company completed its initial public offering (IPO) of 115,000,000 common shares (approximately 21.70% of the total outstanding common stock) at an offer price of ₱250 a share for total gross proceeds of ₱28,750.0 million (see Note 20).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 7, 2007.

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, the Group's functional and reporting currency, and all values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council.

Basis of Consolidation

The consolidated financial statements of the Group include the accounts of the Parent Company and the following subsidiaries which were likewise incorporated in the Philippines:

	Effective Percentage of Ownership	
Company	**2006**	2005
Shopping Mall Development -		
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	**52**	53
Retail Merchandising:		
Supervalue, Inc. (SVI)* a	**100**	–
Super Shopping Market, Inc. (SSMI)* a	**100**	–
Marketwatch Investments Co., Inc. (Marketwatch) and Subsidiaries *	**100**	100
MH Holdings, Inc. (MH Holdings) and Subsidiaries *	**100**	100
Sanford Investments Corporation (Sanford) and Subsidiary *	**100**	100
Henfels Investments Corporation (Henfels) and Subsidiaries *	**99**	99
HMS Development Corporation (HMS) and Subsidiaries *	**99**	99
Romer Mercantile, Inc. (Romer) and Subsidiaries *	**99**	99
Shoemart, Incorporated (Shoemart)	**65**	65
SM Mart, Inc.	**65**	65
Financial Services -		
Primebridge Holdings, Inc. (Primebridge) *	**98**	98
Real Estate Development and Tourism:		
Mountain Bliss Resort and Development Corporation (Mountain Bliss) and Subsidiary *	**100**	100
SM Land, Inc. * b	**99**	–
Intercontinental Development Corporation *	**97**	97
Multi-Realty Development Corporation (MRDC)*	**91**	91
Bellevue Properties, Inc. *	**62**	62
SM Development Corporation (SMDC) and Subsidiary	**53**	53

* *The financial statements of these subsidiaries were audited by other independent auditors.*
a *Acquired by the Company in June 2006.*
b *Incorporated on October 20, 2006 and has not yet started commercial operations.*

The accounts of Mountain Bliss, including its 93% interest in Manila Southcoast Development Corporation (MSDC), have been included in the December 31, 2006 and 2005 consolidated financial statements as a result of the Parent Company's 100% beneficial ownership over Mountain Bliss. As of December 31, 2006, Mountain Bliss and MSDC have not yet started commercial operations.

In 2006, Shoemart sold 45.15 million shares of SM Prime. The gain from sale amounted to ₱263.7 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 consolidated financial statements include the accounts of the subsidiaries as of and for the years ended December 31, 2006, 2005 and 2004, except for the accounts of Shoemart which are as of December 31, 2006, December 31, 2005 and March 31, 2005 and for the periods then ended. Certain adjustments were made for the effects of significant transactions or events that occurred between the date of the subsidiaries' financial statements and the date of the consolidated financial statements.

The financial statements of the subsidiaries are prepared using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognized in assets 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.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial periods except as follows:

Starting January 1, 2006, the Group adopted the following new and amended PAS and Philippine interpretations from International Financial Reporting Interpretation Committee (IFRIC). Except for additional disclosures, the adoption did not have a significant impact on the consolidated financial statements of the Group.

- PAS 19, *Amendments to Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*, requires additional disclosures about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit costs. The adoption did not have a recognition or measurement impact as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statements of income.

- PAS 21, *Amendments to the Effects of Changes in Foreign Exchange Rates*, states that all exchange differences arising from a nonmonetary item that forms part of a company's net investment in foreign operations are recognized in a separate component of stockholders' equity in the financial statements regardless of the currency in which the monetary item is denominated. The Group does not have a net investment in foreign operations.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendments for Financial Guarantee Contracts*, requires the initial recognition of financial guarantee contracts at fair value and generally re-measured at the higher of the amount determined in accordance with PAS 37, Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, Revenue Recognition. As the Group has no such transactions, the amendment did not have an effect on the consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Hedges of Forecast Intragroup Transactions*, permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction and that the foreign currency risk will affect the consolidated statements of income. As the Group has no such transactions, the amendment did not have an effect on the consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for the Fair Value Option*, restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated statements of income. The Group had not previously used this option, hence the amendment did not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied.

- Philippine Interpretation Q&A 2006-1-PAS 18, Appendix, paragraph 9, *Revenue Recognition for Sales of Property Units under Pre-completion Contracts*, states that the law in different countries may determine the point in time at which the entity transfers significant risks and rewards of ownership and that the examples in the Appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place. In the Philippines, equitable interest may vest in the buyer before a condominium is complete and before legal title passes since the concept of equitable interest is recognized in Presidential Decree 957, known as the Condominium and Subdivision Buyers' Protective Decree. Although the sale of property units under pre-completion contracts is not within the scope of PAS 11, Construction Contracts, the method of determining the stage of completion and revenue recognition as provided in that standard may be referred to for guidance in determining revenue as the acts are performed.

  The adoption of this Interpretation was accounted for retrospectively and resulted in the decrease in total assets and liabilities amounting to ₱10.0 million as of December 31, 2005, as receivables are now recognized only to the extent of the recognized revenue which is equivalent to the stage of completion of the project. Any excess of collections over the recognized receivables is included in the "Accounts payable and other current liabilities" account in the liabilities section of the consolidated balance sheets. Previously, receivables are recognized in full and the corresponding unfulfilled obligation is credited to liabilities.

The Group has also early adopted amendment to *PAS 1*, *Presentation of Financial Statements*, which requires the Group to make additional disclosures to enable the users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 27. The adoption of this amendment did not have any effect on the financial position of the Group. It did, however, give rise to additional disclosures.

Standards not yet Effective
The Group did not opt for the early adoption of the following standards and amendments that have been approved but are not yet effective:

- PFRS 7, *Financial Instruments: Disclosures* - This requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The revised disclosures from the amendments will be included in the Group's consolidated financial statements when the amendments are adopted in 2007.

- PFRS 8, *Operating Segments* - This will be effective January 1, 2009 and will replace PAS 14, *Segment Reporting*. PFRS 8 adopts a management approach to reporting segment information. It is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippines Securities and Exchange Commission (SEC) for purposes of issuing any class of instruments in a public market. The Group will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

- IFRIC Interpretation 8, *Scope of IFRS 2* - This requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The interpretation will have no impact on the financial position of the Group.

- IFRIC Interpretation 9, *Reassessment of Embedded Derivatives* - This becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group assessed that the adoption of this interpretation will have no significant impact on its consolidated financial statements.

- IFRIC Interpretation 10, *Interim Financial Reporting and Impairment* - This standard provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and available-for-sale investments. This interpretation has no significant impact on the consolidated financial statements of the Group.

- IFRIC 11, *IFRS 2 - Company and Treasury Share Transactions* - This interpretation will be effective January 1, 2008. This 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. The Group currently does not have any stock option plan and therefore, does not expect this interpretation to have any impact on its consolidated financial statements.

- IFRIC 12, *Service Concession Arrangements* - This will become effective beginning January 1, 2008. This interpretation, which covers contractual arrangements arising from entities providing public services, is not relevant to the Group's current operations.

3. Significant Accounting Judgments, Estimates and Assumptions

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.

Revenue Recognition on Real Estate. Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the sufficiency of cumulative payments by the buyer and completion of development.

Operating Lease Commitments. The Group has entered into commercial property leases in its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of the properties which are leased out on operating leases.

Impairment of AFS Investments. 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. This 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.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill as of December 31, 2006 and 2005 amounted to ₱5,115.4 million and ₱255.7 million, respectively (see Note 16).

Impairment of Trademarks and Brand Names with Indefinite Lives. The Company determines whether trademarks and brand names are impaired at least annually. This requires an estimation of the value in use of the assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the trademarks and brand names and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of trademarks and brand names as of December 31, 2006 amounted to ₱6,124.8 million (none as of December 31, 2005) (see Note 16).

Impairment of Other Nonfinancial Asset with Definite Lives. PFRS requires that an impairment review be performed when certain impairment indicators are present.

Determining the value of property and equipment, investment properties and other long-lived 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 property and equipment, investment properties and other long-lived assets are impaired. Any resulting impairment loss could have a material impact on financial condition and results of operations 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 under PFRS.

The total carrying values of investments in shares of stock of associates, property and equipment, investment properties and land and development amounted to ₱117,105.7 million and ₱89,638.9 million as of December 31, 2006 and 2005, respectively (see Notes 12, 13, 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.

The carrying values of investments in shares of stock of associates amounted to ₱46,546.8 million and ₱28,741.9 million as of December 31, 2006 and 2005, respectively (see Note 12).

Impairment of Available-for-Sale Financial Assets. The computation for the impairment of available-for-sale debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of available-for-sale equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group's investments.

The carrying values of available-for-sale investments amounted to ₱34,526.9 million and ₱37,615.9 million as of December 31, 2006 and 2005, respectively (see Note 11).

Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. 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 a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the profit and loss and equity.

The total fair values of financial assets and liabilities amounted to ₱88,556.0 million and ₱94,827.3 million as of December 31, 2006, respectively, and ₱75,723.6 million and ₱67,367.4 million as of December 31, 2005, respectively (see Note 28).

Estimated Useful Lives. 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 limits on the use of the asset. It is possible, however, that future results of operations 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 operating expenses and decrease noncurrent assets. The total carrying values of property and equipment and investment properties amounted to ₱68,722.5 million and ₱59,354.5 million as of December 31, 2006 and 2005, respectively (see Notes 13 and 14).

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 is based on the projected taxable income in the following periods. Based on the projection, not all deductible temporary differences will be realized, therefore, only a portion of the Group's deferred tax assets were recognized.

Unrecognized deferred tax assets as of December 31, 2006 and 2005 amounted to ₱2,520.8 million and ₱2,578.3 million, respectively (see Note 25).

Allowance for Doubtful Accounts. The allowance for doubtful accounts relating to trade and other receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are reevaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is determined.

The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

Receivables, net of allowance for doubtful accounts, amounted to ₱7,287.8 million and ₱5,553.7 million as of December 31, 2006 and 2005, respectively (see Note 10).

Pension Cost. The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Those 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. This 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 loss amounting to ₱226.2 million and ₱82.6 million as of December 31, 2006 and 2005, respectively, and a net cumulative unrecognized actuarial gain amounting to ₱88.7 million as of March 31, 2005 (see Note 24).

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 32).

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Time Deposits

Time deposits are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but not exceeding one year 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.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

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

Determination of Fair Value. The fair value for 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.

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. 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.

Classified as financial assets at FVPL are investments held for trading (see Note 9) and derivative financial instruments (see Note 28).

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 or financial asset at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

Loans and receivable are classified as current assets when the Group expects to sell the asset within twelve months from the balance sheet date.

The Group's time deposits and receivables are included in this category.

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no investments classified as held to maturity as of December 31, 2006 and 2005.

AFS Investments. AFS investments 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 investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported in the 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 effective interest rate.

AFS investments are classified as current assets when the Group expects to sell the asset within twelve months from the balance sheet date.

The Group's investments in shares of stocks, redeemable preferred shares, bonds and club shares are classified under this category (see Note 11).

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.

Included in this category are the Group's derivative financial instruments with negative fair values (see Note 28).

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.

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

This category includes bank loans, accounts payable and other current liabilities, dividends payable, notes payable, long-term debt and tenants' deposits.

Debt Issuance Costs
Debt issuance costs (shown as deduction from the related debt) are amortized over the terms of the related borrowings using the effective interest rate method.

Derivative Financial Instruments
Freestanding Derivatives. The Group uses derivative financial instruments such as long-term currency swaps, foreign currency call options and interest rate swaps to manage its risks associated with fluctuations in foreign currency and interest rates. 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 net profit or loss for the year.

Embedded Derivatives. 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 fair value through profit or loss.

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 where:

- 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.

Where 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 nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Where 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 an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or 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 either directly or 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 individually 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. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS Investments. For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of equity investment classified as AFS, this would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the 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, impairment is based on the same criteria as loans and receivables and HTM financial assets. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset. If, in the subsequent year, the fair value of a debt instrument can be objectively related to an asset occurring after the impairment loss was recognized in the statements of income, the impairment loss is reversed through the statements of income.

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.

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 inventories are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. Cost is determined primarily based on the first-in, first-out method.

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 marketing. 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, the 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 associates' accounting policies 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, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Land is stated as 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 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 the 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 an additional cost of property and equipment.

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

Buildings, condominium units and improvements	5-35 years
Store equipment and improvements	5-10 years
Data processing equipment	5 years
Furniture, fixtures and office equipment	3-15 years
Machinery and equipment	5-10 years
Leasehold improvements	10-25 years or term of lease, whichever is shorter
Transportation equipment	5-10 years

The asset's residual values, useful lives and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial yearend.

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 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 upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the asset is derecognized.

<u>Investment Properties</u>
Investment properties, except land, are measured 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 is calculated on a straight-line basis over the following estimated useful lives of the assets:

Buildings and improvements	35 years
Building equipment, furniture and others	3-15 years

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

Investment properties are derecognized when either they have been disposed of or when the investment property 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 year 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.

<u>Construction in Progress</u>
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.

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statements of income in the year in which the expenditure is incurred.

The useful life of intangible assets are assessed to be either finite or indefinite.

Trademarks and Brand Names. The cost of trademarks and brand names acquired in a business combination (included under "Other noncurrent assets" in the consolidated balance sheets) is the fair value as at the date of acquisition. Following initial recognition, trademarks and brand names are carried at cost less any accumulated amortization and any accumulated impairment losses.

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 tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. 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.

Research and Development Costs. Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

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 recognized.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. The amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period in which the asset is not yet in use, it is tested for impairment annually.

Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The net selling price is the amount obtainable from the sale of an asset in arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the 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 inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income as profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation 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.

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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Business Combinations
Business combinations are accounted for using the 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 company, 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.

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

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

Negative goodwill, which is not in excess of the fair values of acquired identifiable nonmonetary assets of subsidiaries and associates, is charged 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 goodwill is recognized in the consolidated statements of income.

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

Sale of Merchandise Inventories. Revenue is recognized upon delivery and transfer of ownership of goods to customers.

Sale of Real Estate. Revenue and costs from sales of completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contracts to complete the project after the property is sold. Under this method, gain 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 the "Accounts payable and other current liabilities" account in the liabilities section of the consolidated balance sheets.

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

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.

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

Dividend. Revenue is recognized when the shareholders' right to receive the payment is established.

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

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

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

<u>Pensions Benefits</u>
The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

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.

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 until the assets are substantially ready for their intended use. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Group. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

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 at balance sheet date.

Deferred Tax. Deferred income 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

- in respect of 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 income tax assets are recognized for all deductible temporary differences and carryforward benefits of minimum corporate income tax (MCIT) and net operating loss carryover (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 income 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

- in 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 income 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 income 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 asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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. Revenues, expenses and assets are recognized net of the amount of sales 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 receivables or payables in the balance sheets.

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. Leases, which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are recognized as assets and liabilities in the balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of 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 directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases, which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an 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, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating leases is recognized as income in the consolidated statements of income on a straight-line basis over the lease term.

Foreign Currency-denominated Transactions
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items in the financial statements of each entity are measured using that functional currency. Foreign currency-denominated transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate at balance sheet date. All foreign exchange gains and losses arising from the settlement or restatement are taken to the consolidated statements of income.

Earnings Per Common Share
Earnings per common share is computed by dividing the net income for the year by the weighted-average number of issued and outstanding common shares during the year, with retroactive adjustment for any stock dividends declared.

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

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. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After Balance Sheet Date
Post-yearend events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Business Combinations

On December 13, 2005, the BOD approved SMIC's acquisition of 100% of the outstanding common shares of SVI and 81% of the outstanding common shares of SSMI in exchange for SMIC common shares with a valuation based on the 30-day volume weighted average price of SMIC.

On June 9, 2006, SMIC executed the relevant documents for the exchange of SVI and SSMI shares of stock for 56,000,000 shares of SMIC common stock to be issued upon the approval by the Philippine SEC and the Philippine Stock Exchange (PSE).

On June 28, 2006, the PSE approved the listing of 56,000,000 new shares in connection with the share-for-share swap transaction with SVI and SSMI. On November 6, 2006, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from registration requirements. Pursuant to the agreements entered into among SMIC, SVI and SSMI, the 56,000,000 shares were exchanged for 2,000,000 common shares (100%) of SVI and 810,000 common shares (81%) of SSMI at a total swap price of ₱13,104 million. The listing of the shares was completed on November 17, 2006. As a result of the acquisition, SVI and SSMI became wholly-owned subsidiaries of SMIC (see Note 20).

Acquisition of SVI
SVI is an unlisted company engaged in the business of buying and selling at retail, all kinds of goods.

The fair value of the identifiable assets and liabilities of SVI as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair Value	Carrying Value
Cash and cash equivalents	₱1,502,552,535	₱1,502,552,535
Receivables	404,043,452	404,043,452
Merchandise inventories	2,418,482,931	2,269,680,194
Prepaid expenses and other current assets	305,457,492	305,457,492
Investments and advances - net	23,395,332	23,395,332
Property and equipment - net	1,536,704,443	1,374,146,398
Other noncurrent assets	55,075,715	55,075,715
Trademarks and brand names	4,876,521,000	–
	11,122,232,900	5,934,351,118
Trade and other payables	(3,566,325,511)	(3,566,325,511)
Income tax payable	(106,664,453)	(106,664,453)
Deferred tax liability	(1,511,723,714)	–
	(5,184,713,678)	(3,672,989,964)
Net assets	5,937,519,222	₱2,261,361,154
Goodwill arising from acquisition	4,538,525,166	
Total consideration	₱10,476,044,388	

The total cost of the acquisition was ₱10,476.0 million and comprised an issue of equity instruments and costs directly attributable to the acquisition. The Group issued 47,900,000 shares with a fair value of ₱218 each, being the published price of the shares of SMIC at the date of exchange.

Cost:	
Shares issued, at fair value	₱10,442,200,000
Costs associated with the acquisition	33,844,388
	₱10,476,044,388
Cash inflow on acquisition:	
Net cash acquired with the subsidiary	₱1,502,552,535
Cash paid	(33,844,388)
Net cash inflow	₱1,468,708,147

Acquisition of SSMI

SSMI is an unlisted company engaged in the business of trading, importing and exporting goods, food items and other general merchandise on a wholesale and/or retail basis.

The fair value of the identifiable assets and liabilities of SSMI as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were follows:

	Fair Value	Carrying Value
Cash and cash equivalents	₱205,532,070	₱205,532,070
Receivables	49,662,503	49,662,503
Merchandise inventories	543,079,944	466,711,087
Prepaid expenses and other current assets	35,756,036	35,756,036
Investments and advances - net	80,400	80,400
Property and equipment - net	605,621,788	595,629,177
Other noncurrent assets	117,310,654	117,310,654
Trademarks and brand names	1,248,241,000	–
	2,805,284,395	1,470,681,927
Trade and other payables	(987,150,570)	(987,150,569)
Income tax payable	(62,892,931)	(62,892,931)
Deferred tax liability	(377,470,083)	–
	(1,427,513,584)	(1,050,043,500)
Net assets	1,377,770,811	₱420,638,427
Goodwill arising on acquisition	412,768,880	
Total consideration	₱1,790,539,691	

The total cost of the acquisition was ₱1,790.5 million and comprised an issue of equity instruments and costs directly attributable to the acquisition. The Group issued 8,100,000 shares with a fair value of ₱218 each, being the published price of the shares of SMIC at the date of exchange.

Cost:	
Shares issued, at fair value	₱1,765,800,000
Investment cost of SVI in SSMI	19,000,000
Costs associated with the acquisition	5,739,691
	₱1,790,539,691
Cash inflow on acquisition:	
Net cash acquired with the subsidiary	₱205,532,070
Cash paid	(24,739,691)
Net cash inflow	₱180,792,379

From the date of acquisition, SVI and SSMI have contributed ₱692.8 million (before eliminating intercompany expenses totaling ₱1,532.3 million) to the net profit of the Group. If the combination had taken place at the beginning of the year, the consolidated net income of the Group would have been ₱15,755.2 million and the consolidated revenue would have been ₱103,805.9 million.

Goodwill was valued using the Business Enterprise Residual Method. The recoverable amount of goodwill has been determined using the value in use calculation using the cash flow projections based on the financial budgets approved by senior management covering a 10 year-period. The significant valuation assumptions used were average annual growth rate on net sales and discount rate which was based on the weighted average cost of capital. The discount rates used were 11.99% for SVI and 10.83% for SSMI.

For trademarks and brand names of SVI and SSMI, the Relief-from-Royalty Method was adopted. The royalty rate used was 3.5%, which is the prevailing royalty rate in the retail assorted category where the two entities fall.

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 investment 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. Those transfers are eliminated in consolidation.

Business Segment Data

	December 31, 2006 (One Year)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Revenues	**₱13,479,214**	**₱47,706,249**	**₱1,322,188**	**₱5,532,603**	**₱20,699,141**	**₱88,739,395**
Segment results:						
Income before income tax	**₱8,003,138**	**₱8,412,352**	**₱563,210**	**₱3,189,829**	**(₱1,341,641)**	**₱18,826,888**
Provision for income tax	**(2,253,233)**	**(1,313,674)**	**(45,744)**	**(61,144)**	**88,071**	**(3,585,724)**
Net income	**₱5,749,905**	**₱7,098,678**	**₱517,466**	**₱3,128,685**	**(1,253,570)**	**₱15,241,164**
Net income attributable to:						
Equity holders of the Parent	**₱5,448,922**	**₱7,098,678**	**₱517,466**	**₱3,128,685**	**(₱5,621,894)**	**₱10,571,857**
Minority interests	**300,983**	**–**	**–**	**–**	**4,368,324**	**4,669,307**
Segment assets (excluding deferred tax)	**₱70,760,000**	**₱44,758,440**	**₱18,863,522**	**₱100,501,424**	**(₱8,163,886)**	**₱226,719,500**
Segment liabilities (excluding deferred tax)	**₱33,442,512**	**₱19,037,892**	**₱10,362,657**	**₱41,353,668**	**(₱10,642,695)**	**₱93,554,034**
Net cash flows provided by (used in):						
Operating activities	**₱7,282,710**	**₱5,916,739**	**₱1,619,388**	**₱13,600,926**	**(₱17,238,383)**	**₱11,181,380**
Investing activities	**(5,227,155)**	**2,151,252**	**(5,368,036)**	**(14,695,470)**	**22,109,914**	**(1,029,495)**
Financing activities	**2,331,556**	**(5,726,207)**	**4,698,190**	**1,815,383**	**(3,033,744)**	**85,178**
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	**–**	**242,854**	**112,403**	**2,403,586**	**–**	**2,758,843**
Capital expenditures	**6,791,388**	**2,017,460**	**697,354**	**838,918**	**–**	**10,345,120**
Depreciation and amortization	**1,855,352**	**1,222,943**	**8,550**	**268,213**	**–**	**3,355,058**

	December 31, 2005 (Nine Months - see Note 29)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Revenues	₱11,491,252	₱43,224,754	₱767,440	₱8,353,631	(₱9,871,303)	₱53,965,774
Segment results:						
Income before income tax	₱6,964,617	₱4,765,873	₱748,723	₱8,501,007	(₱7,289,737)	₱13,690,483
Provision for income tax	(1,714,896)	(615,288)	(19,132)	(19,250)	–	(2,368,566)
Net income	₱5,249,721	₱4,150,585	₱729,591	₱8,481,757	(₱7,289,737)	₱11,321,917
Net income attributable to:						
Equity holders	₱4,972,906	₱4,084,540	₱722,781	₱8,481,757	(₱10,232,743)	₱8,029,241
Minority interests	276,815	66,045	6,810	–	2,943,006	3,292,676
Segment assets (excluding deferred tax)	₱59,321,168	₱41,006,188	₱12,465,527	₱115,618,699	(₱58,700,151)	₱169,711,431
Segment liabilities (excluding deferred tax)	₱25,589,541	₱13,214,407	₱4,627,184	₱33,829,737	(₱9,708,807)	₱67,552,062
Net cash flows provided by (used in):						
Operating activities	₱6,273,848	₱3,466,439	₱1,572,598	(₱2,741,598)	₱1,555,362	₱10,126,649
Investing activities	(10,728,283)	562,787	(2,658,948)	(12,948,288)	(1,843,619)	(27,616,351)
Financing activities	(1,882,045)	(2,809,464)	373,820	(7,095,304)	4,286,250	(7,126,743)
Other information:						
Investments in shares of stock of associates	₱–	₱936,757	₱20,491	₱27,784,696	₱–	₱28,741,944
Equity in net earnings of associates	–	230,672	685	1,847,911	–	2,079,268
Capital expenditures	10,403,059	853,795	1,492,528	170,844	–	12,920,226
Depreciation and amortization	1,519,580	616,953	7,891	138,600	–	2,283,024

	March 31, 2005 (One Year)					
	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
			(In Thousands)			
Revenues	₱10,484,824	₱39,850,379	₱647,810	₱7,397,060	(₱9,161,741)	₱49,218,332
Segment results:						
Income before income tax	₱6,543,135	₱4,808,477	₱542,388	₱5,845,163	(₱6,652,060)	₱11,087,103
Provision for income tax	(1,656,927)	(583,063)	(16,100)	(21,897)	–	(2,277,987)
Net income	₱4,886,208	₱4,225,414	₱526,288	₱5,823,266	(6,652,060)	₱8,809,116
Net income attributable to:						
Equity holders	₱4,621,406	₱4,160,786	₱528,216	₱5,823,265	(₱9,369,587)	₱5,764,086
Minority interests	264,802	64,628	(1,928)	–	2,717,528	3,045,030
Segment assets (excluding deferred tax)	₱54,874,715	₱31,481,294	₱8,103,483	₱107,451,742	(₱47,564,776)	₱154,346,458
Segment liabilities (excluding deferred tax)	₱24,042,972	₱9,883,808	₱2,507,469	₱36,704,666	(₱4,713,623)	₱68,425,292
Net cash flows provided by (used in):						
Operating activities	₱5,581,799	₱445,076	₱508,771	₱1,857,077	(₱1,504,751)	₱6,887,972
Investing activities	(10,410,207)	2,100,498	203,276	57,462	(8,086,741)	(16,135,712)
Financing activities	4,777,733	(2,441,375)	105,947	25,150,171	5,470,442	33,062,918
Other information:						
Investments in shares of stock of associates	₱–	₱1,066,974	₱2,061,233	₱14,351,232	₱–	₱17,479,439
Equity in net earnings of associates	–	(549)	–	1,375,488	–	1,374,939
Capital expenditures	5,426,300	1,417,518	2,341,744	94,956	–	9,280,518
Depreciation and amortization	1,318,835	564,918	4,710	165,845	–	2,054,308

7. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks (see Note 21)	**₱4,575,992,141**	₱1,944,444,029
Temporary investments (see Notes 17, 19 and 21)	**16,461,500,573**	9,230,491,647
	₱21,037,492,714	₱11,174,935,676

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

8. Time Deposits

This account consists of:

	2006	2005
Pledged	**₱6,815,170,000**	₱7,963,500,000
Long-term	**1,010,018,000**	4,780,990,601
	7,825,188,000	12,744,490,601
Current portion of time deposits	**7,825,188,000**	–
Long-term portion of time deposits	**₱–**	₱12,744,490,601

Time deposits amounting to US$159.6 million (₱7,825.2 million) and US$240.1 million (₱12,744.5 million) as of December 31, 2006 and 2005, respectively, which bear annual interest of 7.1% (net of tax), will mature in October 2007. A portion of these time deposits amounting to US$139.0 million (₱6,815.2 million) and US$150.0 million (₱7,963.5 million) as of December 31, 2006 and 2005, respectively, was used as collateral for a loan obtained by SMIC (see Note 19).

9. Investments Held for Trading and Sale

This account consists of:

	2006	2005
Investments held for trading:		
Bonds	**₱7,401,164,280**	₱6,531,524,468
Shares of stock	**1,980,684,348**	2,274,834,533
	9,381,848,628	8,806,359,001
Available-for-sale investments (see Note 11):		
Bonds	**260,951,500**	–
Shares of stock	**7,316,933,931**	–
	7,577,885,431	–
	₱16,959,734,059	₱8,806,359,001

The Group recognized ₱529.0 million and ₱418.7 million gain from fair value adjustments of investments held for trading as of December 31, 2006 and 2005, 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:

	2006	2005
Trade:		
Tenants (see Note 21)	**₱1,785,547,343**	₱1,507,517,125
Banks, credit cards and others	**1,464,893,956**	818,728,275
Real estate buyers	**486,097,720**	148,900,397
Accrued interest (see Note 21)	**662,437,737**	681,099,171
Management fees (see Note 21)	**201,733,010**	273,632,502
Others (see Note 21)	**2,696,298,760**	2,132,986,556
	7,297,008,526	5,562,864,026
Less allowance for doubtful accounts	**9,194,052**	9,194,052
	₱7,287,814,474	₱5,553,669,974

Trade receivables are substantially noninterest bearing and are settled throughout the financial year.

The terms and conditions relating to related party receivables are further discussed in Note 21.

11. Available-for-Sale Investments

This account consists of investments in:

	2006	2005
Shares of stock:		
Listed	**₱35,347,943,061**	₱31,103,968,504
Unlisted (net of allowance for probable losses of ₱45,131,638 in 2006 and ₱31,250,000 in 2005)	**435,095,738**	358,840,557
Redeemable preferred shares (see Note 21)	**5,270,194,577**	5,154,500,000
Bonds	**1,046,853,780**	989,944,000
Club shares	**4,670,000**	8,615,000
	42,104,757,156	37,615,868,061
Less current portion (see Note 9)	**7,577,885,431**	–
Long-term portion	**₱34,526,871,725**	₱37,615,868,061

Investments in listed shares of stock include investments in San Miguel Corporation totaling ₱10,000.3 million consisting of 160.85 million shares at an average purchase price of ₱62.17 a share.

The account also includes investments of SM Prime in redeemable preferred shares of certain companies with annual dividend rates of 6.5% to 10.46% (see Note 21). 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. These shares are mandatorily redeemable in 2009 to 2011.

Investments in government bonds were purchased with fixed interest rates ranging from 10.625% to 15.625%. These investments are peso-denominated and will mature on various dates starting January 27, 2007 until September 8, 2010.

The Group recognized gain from fair value adjustments of its listed available-for-sale investments amounting to ₱4,223.2 million and ₱1,893.7 million for the periods ended December 31, 2006 and 2005, respectively.

12. Investments in Shares of Stock of Associates

The details and movements of this account are as follows:

	2006	2005
Investments in shares of stock of associates:		
Acquisition cost:		
Balance at beginning of year	**₱21,601,741,605**	₱13,289,569,071
Additions	**18,485,302,297**	10,028,625,916
Disposals/reclassifications	**(2,911,417,151)**	(1,716,453,382)
Balance at end of year	**37,175,626,751**	21,601,741,605
Accumulated equity in net earnings:		
Balance at beginning of year	**7,140,201,904**	4,396,703,008
Equity in net earnings during the period	**2,758,843,422**	2,079,267,626
Share in unrealized gain on available for sale investments of associates	**680,258,565**	694,111,717
Dividends received	**(659,705,475)**	(618,481,282)
Accumulated equity in net earnings of investments sold/reclassified	**(118,447,968)**	(315,583,021)
Recognition of excess of share in net assets over cost of investment	**–**	904,183,856
Balance at end of the year	**9,801,150,448**	7,140,201,904
	46,976,777,199	28,741,943,509
Less allowance for probable losses	**430,000,000**	–
	₱46,546,777,199	₱28,741,943,509

Certain investments in shares of stock held by subsidiaries amounting to ₱1,715.9 million as of April 1, 2005 were previously accounted for as investments in associates in the consolidated financial statements. These were previously carried at cost, plus the equity in net earnings and other changes in net assets of the investees from date of acquisition, less any impairment in value. These certain investments are now accounted for by the subsidiaries as investments available for sale and investments held for trading in accordance with PAS 39. This resulted in reversal of the previously recognized equity in net earnings of the associates against retained earnings amounting to ₱315.6 million as of April 1, 2005.

The Group recognized its share in the net gains on available-for-sale investments of the associates amounting to ₱680.3 million, ₱694.1 million and ₱206.8 million for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, respectively. The net unrealized gain was recognized directly as a separate component of the stockholders' equity.

The associates of the Group are as follows:

Company	Effective Percentage of Ownership 2006	2005	Principal Activities
Equitable PCI Bank (EPCIB)	**42**	25	Financial services
Sodexho Pass, Inc. *	**40**	40	Retail merchandising
Asia-Pacific Computer Technology Center, Inc.*	**39**	39	Education
Banco de Oro Universal Bank (BDO)*	**33**	46	Financial services
Pilipinas Makro, Inc. (Makro)	**30**	30	Retail merchandising
Highlands Prime, Inc. (Highlands Prime)	**24**	24	Real estate and tourism
China Banking Corporation (China Bank)	**19**	21	Financial services
BDO Card Corporation (BDO Card)*	**–**	35	Financial services

** The financial statements of these associates were audited by other independent auditors.*

In 2005, SMIC acquired 24.03% interest in EPCIB for a total consideration of ₱9,945.8 million. The acquisition enabled SMIC to have a four member representation in the BOD of EPCIB. The fair values of the net assets acquired were finalized in 2006. The comparative information has been restated to reflect this adjustment. Negative goodwill amounting to ₱904.2 million, which is determined based on the excess of SMIC's interest in the underlying fair values of the identifiable assets and liabilities over the cost of acquisition, was accounted for as a negative goodwill and recognized as income for the nine months ended December 31, 2005.

On August 29, 2006, SMIC and other related companies filed a Tender Offer with the SEC to acquire up to around 322.3 million shares representing 44.32% of the total outstanding common shares of EPCIB at ₱92 a share. The payment terms of the offer are as follows: 10% on October 2, 2006, 10% on June 2, 2007, 10% on February 2, 2008, and the remaining balance to be paid on October 2, 2008. The negotiated sale of 78.8 million shares representing 10.84% was also consummated with EBC Investments Inc. (EBCII) under the same terms and conditions of the Tender Offer.

The Tender Offer and the negotiated sale generated participation from shareholders with total shares of 377.7 million equivalent to 51.96% of EPCIB's total shares outstanding. The sellers included EBCII with 10.84%, Government Service Insurance System (GSIS) with 13.55%, Social Security System (SSS) with 25.84%, and other individual shareholders with 1.73%.

The participation of SSS is conditional on the favorable outcome of its pending case in the Supreme Court as discussed in Note 32d. In accordance with the agreement on such conditional sale, the payment corresponding to the shares owned by SSS is placed in an escrow account. The 10% payment due on October 2, 2006 for the 187.8 million shares for SSS amounting to ₱1,728.2 million was deposited in an escrow account and is included under "Other noncurrent assets" in the consolidated balance sheets. Under the agreement, the succeeding installments are payable as follows:

Year	Amount
2007	₱1,728,216,237
2008	13,825,729,898
	₱15,553,946,135

Excluding the SSS shares, SMIC and MRDC purchased on October 2, 2006 a total of 189.9 million shares for a total consideration of ₱17,469.0 million. With this acquisition, the Group now holds 53.55% direct ownership. SMIC and MRDC paid ₱1,746.9 million. The balance, which is recorded at present value, is payable as follows:

Year	Amount
2007	₱1,746,898,971
2008	12,332,385,033
	₱14,079,284,004

In October 2006, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved in principle the transfer of EPCIB shares consequent to the Tender Offer and negotiated sale. The BSP approval is conditional to the SM Group complying with the provisions of Subsection 1127.1 of the Manual of Regulations for Banks of the BSP (see Note 32a).

In December 2006, MRDC executed a Voting Trust Agreement for its 82,650,351 shares in EPCIB in favor of the following trustees - Ms. Teresita T. Sy, Mr. Henry T. Sy, Jr. and Mr. Harley T. Sy. As of December 31, 2006, the Group has 42.18% voting rights in EPCIB.

The Group's share in the identifiable assets and liabilities of EPCIB as a result of the Tender Offer had been provisionally determined as of acquisition date of the Tender Offer because the fair values to be assigned to the EPCIB's identifiable assets, liabilities or contingent liabilities can be determined only provisionally. The Group accounted for the Tender Offer acquisition using those provisional values and no goodwill was recognized as of acquisition date.

In May 2004, SMIC acquired an additional 13.00% interest in China Bank for ₱2,558.6 million. As a result, the investment in China Bank, which was previously carried at cost, was accounted for under the equity method starting May 2004. Negative goodwill amounting to ₱676.9 million, which is determined based on the excess of the Parent Company's interest in the underlying fair values of the identifiable assets and liabilities over the cost of acquisition, was accounted for as a negative goodwill and recognized as income for the year ended March 31, 2005.

In November 2004, SMIC entered into a "Subscription Agreement with Assignment" with Primebridge whereby the Parent Company assigned its 124.5 million shares in BDO, representing 13.71% ownership, in exchange for Primebridge's common shares of stock.

On November 26, 2004, SMIC and MRDC completed an international secondary offer of 135 million shares of common stock of BDO at an offer price of ₱21.00 a share. This secondary offer included shares held by DBS Bank Hong Kong, Ltd (DBSHK) and sold by SMIC pursuant to tag-along rights to participate in the offer exercised by DBSHK.

On January 31, 2005, SMIC acquired from DBSHK, through a special block sale, DBSHK's remaining common shares in BDO, equivalent to 5.30% of BDO's outstanding common stock, at a price of ₱22.3 a share.

In January 2006, SMIC and other affiliates entered into a Memorandum of Agreement with BDO wherein the latter purchased the investments in BDO Card.

On January 25, 2006, February 14, 2006 and May 15, 2006, Primebridge offered and sold 9,399,700 global depositary receipts (GDRs), each representing 20 shares of BDO's common stock with a par value of ₱10 a share. The proceeds from the issuance of the 9,399,700 GDRs amounted to US$120,012,035.

The GDRs constitute an offering in the United States only to qualified institutional buyers under Rule 144A of the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States under Regulation S of the Securities Act. The average offered price for each GDR is US$12.77. As part of the offering, Primebridge shall, while remaining as the registered holder of BDO shares underlying the GDRs, transfer all rights and interests in BDO shares underlying the GDRs to the depository and the holders of the GDRs are entitled to receive dividends paid on the shares. However, GDR holders will have no voting rights or other direct rights of a shareholder with respect to BDO shares under the GDRs.

In August 2006, SMIC purchased 60 million shares of BDO at ₱32 a share for a total consideration of ₱1,920 million payable in four equal installments maturing on August 31, 2007. The outstanding payable of ₱960 million is shown as part of "Accounts payable and other current liabilities". The Parent Company's share in the identifiable assets and liabilities of BDO had been provisionally determined as of acquisition date because the fair values to be assigned to BDO's identifiable assets and liabilities or contingent liabilities can be determined only provisionally. The Parent Company accounted for the acquisition using provisional values and no goodwill was recognized as of acquisition date.

Investment in Highlands Prime amounting to ₱748.0 million was held in escrow for two years starting April 23, 2002, pending compliance with certain listing requirements. In 2005, such requirements were complied with and consequently, the related common shares of stock were released from escrow.

The detailed carrying values of the Group's investments in associates are as follows:

	2006	2005
EPCIB	**₱29,415,666,796**	₱11,904,726,930
BDO	**9,822,156,685**	9,526,239,301
China Bank	**5,180,773,936**	4,592,620,396
Highlands Prime	**1,516,156,435**	1,535,887,635
Makro	**612,023,347**	1,182,469,247
	₱46,546,777,199	₱28,741,943,509

The condensed financial information of significant associates are shown below:

	2006	2005
	(In Thousands)	
EPCIB:		
Total resource	**₱345,142,515**	₱314,530,092
Total liabilities	**297,661,203**	280,612,988
Interest income	**19,639,118**	19,441,548
Interest expense	**8,676,323**	8,508,932
Net income	**3,265,184**	2,698,385
BDO:		
Total resources	**304,473,488**	233,377,054
Total liabilities	**280,044,704**	213,466,339
Interest income	**19,299,367**	14,541,103
Interest expense	**10,965,047**	7,980,502
Net income	**3,128,294**	2,543,796
China Bank:		
Total resources	**156,244,479**	133,476,370
Total liabilities	**131,262,185**	113,065,473
Interest income	**11,188,586**	10,185,528
Interest expense	**5,069,007**	4,360,276
Net income	**3,529,577**	3,039,927
Highlands Prime:		
Total current assets	**1,330,559**	858,251
Total noncurrent assets	**2,013,855**	1,949,868
Total current liabilities	**294,969**	232,544
Revenue from real estate sales	**345,462**	538,181
Cost of real estate sold	**213,195**	281,812
Net income	**85,275**	172,786
Makro:		
Total current assets	**2,073,867**	2,113,752
Total noncurrent assets	**4,964,556**	4,901,017
Total current liabilities	**3,547,694**	3,065,427
Net sales	**11,499,459**	13,592,272
Cost of sales	**10,370,794**	12,947,655
Net loss	**468,153**	208,085

The fair values of investments in associates which are listed in the stock exchange are as follows:

	2006	2005
EPCIB	**₱32,316,618,135**	₱11,274,109,223
BDO	**14,805,620,214**	14,920,614,706
China Bank	**8,885,984,320**	7,091,577,360
Highlands Prime	**1,346,126,358**	1,249,205,260

13. Property and Equipment

This account consists of:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
Cost										
Balance at March 31, 2005	₱9,830,554	₱1,469,046,489	₱2,020,156,659	₱1,201,600,759	₱357,971,439	₱223,212,588	₱445,328,660	₱263,116,938	₱7,702,306,476	₱13,692,570,562
Additions	–	34,089,569	168,948,061	75,914,114	35,996,535	11,947,250	108,200,461	4,047,232	9,442,631,782	9,881,775,004
Reclassifications	–	(487,958,092)	169,220,558	(2,398,998)	(3,230,640)	7,192	14,751,011	(1,456,414)	(3,296,046,246)	(3,607,111,629)
Disposals/retirements	–	–	(16,202,736)	(3,709,132)	(1,404,009)	(4,031,117)	–	(643,205)	(247,032,098)	(273,022,297)
Balance at December 31, 2005	9,830,554	1,015,177,966	2,342,122,542	1,271,406,743	389,333,325	231,135,913	568,280,132	265,064,551	13,601,859,914	19,694,211,640
Additions	–	109,587,751	327,728,426	296,228,040	168,481,794	144,362,613	140,663,659	310,791,505	7,948,910,819	9,446,754,607
Acquired business - SVI/SSMI	–	426,165,226	74,142,027	1,217,294,769	596,013,582	1,159,520,457	780,893,163	90,246,580	9,353,165	4,353,628,969
Reclassifications	(5,288,213)	(263,082,996)	249,448,671	(272,720,207)	22,729,111	67,524,607	44,289,761	(3,062,208)	(14,670,035,311)	(14,830,196,785)
Disposals/retirements	–	(26,587,166)	(10,873,174)	(7,484,659)	(2,893,301)	(78,633,699)	(5,238)	(134,584,822)	–	(261,062,059)
Balance at December 31, 2006	₱4,542,341	₱1,261,260,781	₱2,982,568,492	₱2,504,724,686	₱1,173,664,511	₱1,523,909,891	₱1,534,121,477	₱528,455,606	₱6,890,088,587	₱18,403,336,372
Accumulated Depreciation and Amortization										
Balance at March 31, 2005	₱–	₱459,270,858	₱766,027,025	₱711,948,270	₱185,499,783	₱127,894,291	₱196,630,984	₱202,085,916	₱–	₱2,649,357,127
Additions	–	86,552,463	278,974,140	129,797,251	29,257,523	15,721,047	71,639,307	7,844,899	–	619,786,630
Reclassifications	–	(193,788,083)	–	31,614,159	(1,039,999)	–	–	(25,993)	–	(163,239,916)
Disposals/retirements	–	–	(7,402,422)	(3,245,167)	(806,383)	(2,515,719)	–	(609,054)	–	(14,578,745)
Balance at December 31, 2005	–	352,035,238	1,037,598,743	870,114,513	212,910,924	141,099,619	268,270,291	209,295,768	–	3,091,325,096
Additions	–	99,503,644	321,657,729	234,921,826	113,624,134	169,042,532	132,867,386	17,056,599	–	1,088,673,850
Acquired business - SVI/SSMI	–	40,774,674	71,262,048	664,948,771	206,300,672	836,927,092	313,405,280	77,684,201	–	2,211,302,738
Reclassifications	50	(97,718,297)	–	(9,318,542)	–	–	–	82,243	–	(106,954,546)
Disposals/retirements	–	(4,302,385)	(8,982,279)	(2,482,171)	(1,300,724)	(30,288,442)	–	(134,584,822)	–	(181,940,823)
Balance at December 31, 2006	₱50	₱390,292,874	₱1,421,536,241	₱1,758,184,397	₱531,535,006	₱1,116,780,801	₱714,542,957	₱169,533,989	₱–	₱6,102,406,315
Net Book Value										
As of December 31, 2006	₱4,542,291	₱870,967,907	₱1,561,032,251	₱746,540,289	₱642,129,505	₱407,129,090	₱819,578,520	₱358,921,617	₱6,890,088,587	₱12,300,930,057
As of December 31, 2005	₱9,830,554	₱663,142,728	₱1,304,523,799	₱401,292,230	₱176,422,401	₱90,036,294	₱300,009,841	₱55,768,783	₱13,601,859,914	₱16,602,886,544
As of March 31, 2005	₱9,830,554	₱1,009,775,631	₱1,254,129,634	₱489,652,489	₱172,471,656	₱95,318,297	₱248,697,676	₱61,031,022	₱7,702,306,476	₱11,043,213,435

The construction in progress account includes shopping mall complex under construction of SM Prime. In 2006, shopping mall complex under construction mainly pertains to costs incurred for the development of the buildings and structures of SM City Bacolod, SM City Cebu Expansion, SM City Marikina, SM City Taytay and SM City Supercenter Muntinlupa.

In 2005, shopping mall complex under construction mainly pertains to costs incurred for the development SM City Sta. Rosa, Mall of Asia, SM City Clark, SM City North Edsa Annex 3 and SM City Lipa, which were completed in 2006.

Contracts with various contractors related to the construction of the above mentioned projects amounted to ₱3,812 million and ₱8,081 million as of December 31, 2006 and 2005, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works.

Outstanding contracts as of December 31, 2006 and 2005 are valued at ₱1,979 million and ₱1,897 million, respectively.

Interest capitalized during construction amounted to ₱1,285.4 million and ₱1,364.9 million for the periods ended December 31, 2006 and 2005, respectively. Capitalization rates used were 10.04% in 2006 and 10.14% in 2005.

14. Investment Properties

This account consists of:

	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at March 31, 2005	₱13,249,832,781	₱27,646,664,805	₱5,522,770,394	₱46,419,267,980
Additions	924,389,031	708,063,795	1,207,590,272	2,840,043,098
Reclassifications	–	3,722,392,224	–	3,722,392,224
Disposals	(6,468,800)	–	–	(6,468,800)
Balance at December 31, 2005	14,167,753,012	32,077,120,824	6,730,360,666	52,975,234,502
Additions	336,061,338	2,244,921	–	338,306,259
Reclassifications	546,356,134	13,421,293,550	2,309,464,268	16,277,113,952
Disposals	(296,997,390)	(1,273,871)	–	(298,271,261)
Balance at December 31, 2006	14,753,173,094	45,499,385,424	9,039,824,934	69,292,383,452
Accumulated Depreciation, Amortization and Impairment Losses				
Balance at March 31, 2005	600,000,000	5,681,444,546	2,378,963,216	8,660,407,762
Additions	–	727,514,062	873,514,427	1,601,028,489
Reclassifications	–	(37,452,506)	(381,734)	(37,834,240)
Balance at December 31, 2005	600,000,000	6,371,506,102	3,252,095,909	10,223,602,011
Impairment loss	351,995,000	–	–	351,995,000
Additions	–	1,416,559,120	758,844,659	2,175,403,779
Reclassifications	–	119,774,382	–	119,774,382
Balance at December 31, 2006	951,995,000	7,907,839,604	4,010,940,568	12,870,775,172
Net Book Value				
As of December 31, 2006	₱13,801,178,094	₱37,591,545,820	₱5,028,884,366	₱56,421,608,280
As of December 31, 2005	₱13,567,753,012	₱25,705,614,722	₱3,478,264,757	₱42,751,632,491
As of March 31, 2005	₱12,649,832,781	₱21,965,220,259	₱3,143,807,178	₱37,758,860,218

Impairment test resulted in impairment charges on certain properties of the Group. Impairment charges of ₱352.0 million and ₱100.0 million were recorded for the year ended December 31, 2006 and period ending March 31, 2005, respectively. Impairment reviews carried out as of December 31, 2005, however, showed that no impairment charge is required.

If the investment properties were measured using the fair value model, the carrying amounts as of December 31, 2006 and 2005 would be as follows:

	2006	2005
Land	**₱109,533,208,853**	₱96,994,415,886
Buildings and improvements	**50,181,286,371**	50,124,357,840
Building equipment, furniture and others	**10,143,961,109**	9,726,028,409
	₱169,858,456,333	₱156,844,802,135

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.

15. Land and Development and Condominium Units for Sale

Land and development, which amounted to ₱1,836.3 million as of December 31, 2006 and ₱1,542.5 million as of December 31, 2005, include land and cost of the condominium projects.

On February 24, 2006, SMDC entered into a joint venture agreement 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 a sharing method of 75% and 25%, among others. As of December 31, 2006, the payable to BDO arising from the sales of condominium units under this agreement amounted to ₱26.0 million.

SMDC started the construction of the Mezza Project in October 2006. As of December 31, 2006, it has a market take up of 4.9%, valued at ₱260.7 million.

In 2003, SMDC and Subsidiary commenced 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 96%, valued at ₱364.4 million as of December 31, 2006. Construction of cluster two started in 2005, with market take-up of 73%, valued at ₱370.4 million as of December 31, 2006. Construction of Clusters one and two were completed as of December 31, 2006. Construction of Cluster three started in 2006, with market take-up of 23%, valued at ₱155.1 million as of December 31, 2006.

Condominium units for sale amounted to ₱90.0 million and ₱60.6 million as of December 31, 2006 and 2005. The amounts were included under "Input taxes and other current assets" account in the consolidated balance sheets.

On June 30, 2004, SMDC entered into a Joint Venture Agreement (JVA) with 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.

16. Other Noncurrent Assets

This account consists of:

	2006	2005
Trademarks and brand names (see Note 5)	**₱6,124,762,000**	₱–
Goodwill	**5,115,418,011**	255,743,567
Escrow fund (see Note 12)	**1,778,216,237**	50,000,000
Deposits and advance rentals	**1,135,098,321**	826,616,217
Derivative assets (see Note 28)	**918,945,584**	–
Deferred tax assets (see Note 25)	**353,764,486**	269,132,258
Defined benefit asset (see Note 24)	**111,123,090**	93,937,559
Others	**323,823,908**	92,168,635
	₱15,861,151,637	₱1,587,598,236

The movements in goodwill are as follows:

	2006	2005
Balance at beginning of year	**₱255,743,567**	₱255,743,567
Additions (see Note 5)	**4,951,294,046**	–
Impairment	**(91,619,602)**	–
Balance at end of year	**₱5,115,418,011**	₱255,743,567

Deposits and advance rentals pertain substantially 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, said deposits and advance rentals are not remeasured at amortized cost.

Based on projections on cash flows arising from the subsidiaries where the goodwill relates, management assessed the impairment loss in the value of goodwill related to such acquisition to be about ₱91.6 million as of December 31, 2006.

Trademarks and brand names acquired in a business combination in 2006 were assessed to have an indefinite useful life. As of December 31, 2006, no impairment loss was identified.

17. Bank Loans

This account consists of:

	2006	2005
Parent Company:		
U.S. dollar-denominated loans	**₱3,473,775,500**	₱1,306,014,000
Peso-denominated loans	**1,500,000,000**	5,200,000,000
Subsidiaries:		
U.S. dollar-denominated loans	**5,787,991,500**	2,654,500,000
Peso-denominated loans	**2,557,809,097**	1,018,500,000
	₱13,319,576,097	₱10,179,014,000

The US dollar-denominated loans amounting to US$188.9 million on December 31, 2006 and US$74.6 million on December 31, 2005 bear annual interest rates ranging from 5.45% to 6.1% and 4.50% to 5.08% for the year ended December 31, 2006 and 2005, respectively. The peso-denominated loans bear annual interest rates ranging from 5.35% to 7.40% and 4.40% to 9.50% for the year ended December 31, 2006 and 2005, respectively.

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.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2006	2005
Trade	**₱10,662,259,415**	₱5,542,172,762
Accrued expenses and others (see Note 21)	**2,409,545,510**	1,465,631,899
Due to related parties (see Note 21)	**1,504,052,187**	1,118,733,177
Nontrade	**1,497,168,075**	817,268,383
Payable to Cambridge	**960,000,000**	1,784,500,000
Accrued interest	**698,297,290**	911,611,808
Liability for purchased land	**313,324,498**	476,848,633
Gift checks redeemable	**195,674,143**	411,347,125
	₱18,240,321,118	₱12,528,113,787

The terms and conditions of the above financial liabilities are as follows:

- Trade payables are noninterest bearing and are normally settled on a 30-day term.
- Gift checks are redeemable at face value.
- On November 26, 2004, Primebridge entered into a Subscription Agreement with Cambridge Pacific Fund, Ltd. (Cambridge) whereby the latter will assign its investment in 83,000,000 common shares representing 9.14% interest in BDO at ₱21.50 a share in exchange for Primebridge's 19,999,999 preferred shares.

In 2004, Primebridge recorded the amounts received arising from this Subscription Agreement as deposit for future stock subscriptions amounting to ₱1,784.5 million.

In 2005, the Subscription Agreement with Cambridge was amended wherein instead of issuing preferred shares, Primebridge will pay in cash and convert the deposit for future stock subscriptions from equity to a liability account. This liability, however, was subsequently assigned by Cambridge to MRDC. A corresponding receivable from Primebridge for the same amount was recognized by MRDC.

During the year, Primebridge reduced its amount payable to MRDC by ₱70.0 million transferring a ₱50.0 million escrow fund originally entered into by Primebridge for Cambridge and by a cash payment of ₱20.0 million.

MRDC's liability to Cambridge amounting to ₱1,784.5 million was paid in full on February 17, 2006.

The terms and conditions relating to related party payables are further discussed in Note 21.

19. Long-term Debt

This account consists of:

	2006			2005		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
Parent Company:						
U.S. dollar-denominated -						
Five-year notes	**₱10,885,542,540**	**(₱63,156,258)**	**₱10,822,386,282**	₱12,493,935,150	(₱132,016,888)	₱12,361,918,262
Peso-denominated:						
Bank loans collateralized						
with time deposits	**5,980,000,000**	**–**	**5,980,000,000**	7,440,000,000	–	7,440,000,000
Other bank loans	**5,990,000,000**	**(37,226,120)**	**5,952,773,880**	5,000,000,000	(44,942,824)	4,955,057,176
Subsidiaries:						
U.S. dollar-denominated -						
Five-year syndicated loan	**7,354,500,000**	**(107,134,794)**	**7,247,365,206**	7,963,500,000	(145,604,634)	7,817,895,366
Peso-denominated:						
Five-year and seven-year						
fixed rate notes	**3,000,000,000**	**(27,457,346)**	**2,972,542,654**	3,000,000,000	(34,356,834)	2,965,643,166
Five-year bilateral loan	**3,000,000,000**	**(24,678,808)**	**2,975,321,192**	–	–	–
Syndicated loan	**1,950,000,000**	**(17,559,221)**	**1,932,440,779**	2,775,000,000	(24,885,344)	2,750,114,656
Other bank loans	**2,734,000,000**	**(16,772,500)**	**2,717,227,500**	1,000,000,000	(3,159,390)	996,840,610
	40,894,042,540	**(293,985,047)**	**40,600,057,493**	39,672,435,150	(384,965,914)	39,287,469,236
Less:						
Current portion	**17,700,542,540**	**(71,142,418)**	**17,629,400,122**	1,301,000,000	(9,054,077)	1,291,945,923
	₱23,193,500,000	**(₱222,842,629)**	**₱22,970,657,371**	₱38,371,435,150	(₱375,911,837)	₱37,995,523,313

Parent Company

Five-Year Notes

The US$300.0 million (₱16,775.7 million) Notes were issued on October 15, 2002 and will mature on October 16, 2007. Interest on the Notes is payable semi-annually in arrears at a fixed rate of 8.00% annually.

The Parent Company retired US$64.7 million (₱3,598.3 million) and US$13.3 million (₱676.4 million) worth of Notes in August 2005 and September 2006, respectively. The unamortized debt issuance cost pertaining to the retired portion of the Notes amounting to US$1.0 million (₱50.0 million) and US$0.1 million (₱4.3 million), respectively, was charged to current operations.

Bank Loans Collateralized with Time Deposits
The peso-denominated loans collateralized with time deposits bear annual interest rates ranging from 7.11% to 12.07% and 7.41% to 12.07% for the periods ended December 31, 2006 and 2005, respectively, and are payable in installments up to October 2007. The loans are collateralized by the Group's time deposits amounting US$139.0 million (₱6,815.2 million) and US$150.0 million (₱7,963.5 million) as of December 31, 2006 and 2005, respectively.

Part of the loan amounting to ₱1,460.0 million was paid in full in 2006, ahead of the October 2007 maturity date.

Other Peso Bank Loans
This account includes the following:

	2006	2005
Series "A" Floating rate notes	**₱500,000,000**	₱500,000,000
Series "B" Fixed rate notes	**4,000,000,000**	4,000,000,000
Series "C" Fixed rate notes	**490,000,000**	500,000,000
Five-year term loan	**1,000,000,000**	–
	₱5,990,000,000	₱5,000,000,000

The five-year Series A and B notes bear interest at the three-month Treasury Bill rate plus a spread of 1.00% per annum, payable quarterly in arrears and 9.95% per annum, payable semi-annually in arrears, respectively. Both series will mature on October 28, 2010 and will be redeemed at par value on that date. The seven-year Series C notes bear interest at 10.39% per annum, payable semi-annually in arrears. The Series C notes will be subject to the periodic payment of amortization starting October 28, 2006 up to October 28, 2012.

On October 11, 2006 and November 8, 2006, SMIC obtained a five-year term loan amounting to ₱600 million and ₱400 million, respectively, which bear fixed interest rate of 7.59% and 6.65%, respectively.

Subsidiaries

US dollar-denominated Five-Year Syndicated Loan
The US$150.0 million (₱7,963.5 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 a certain percentage plus LIBOR (see Note 28).

Philippine Peso-denominated Five-Year and Seven-Year Fixed Rate Notes
This represents a five-year and seven-year fixed rate notes obtained by SM Prime on July 8, 2005 amounting to ₱1,500.0 million each. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively.

Philippine Peso-denominated Five-Year Bilateral Loan
This represents a five-year bullet term loan amounting to ₱3,000.0 million obtained on June 19, 2006 and will mature on June 19, 2011. The loan carries an interest rate based on MART-1 plus an agreed margin.

Philippine Peso-denominated Five-Year Syndicated Loan
This account include 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. The outstanding balance of the loan as of December 31, 2006 and 2005 amounted to ₱850.0 million and ₱1,275.0 million, respectively.

In 2004, Consolidated Prime Development 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 in October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. The loan is guaranteed by SM Prime. The outstanding balance of the loan as of December 31, 2006 and 2005 amounted to ₱1,100.0 million and ₱1,500.0 million, respectively.

As of December 31, 2006, investments held for trading and temporary investments amounting to ₱1,749 million are 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 21).

Other Bank Loans
On August 16, 2006, SM Prime obtained a ten-year bullet loan amounting to ₱1,200.0 million. The loan, which will mature on August 16, 2016, carries a fixed interest rate of 9.75%.

On October 2, 2006, SM Prime obtained a five-year bullet loan amounting to ₱1,000.0 million which will mature on October 2, 2011. The loan carries an interest rate based on Mart-1 plus an agreed margin.

Other bank loans also include a two-year and five-year unsecured loans obtained by SM Prime on December 1, 2004 amounting to ₱466.0 million and ₱534.0 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The ₱466.0 million matured on December 1, 2006 and the ₱534.0 million will mature on December 1, 2009.

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

	Gross Loan	Debt Issuance	Net
2007	₱17,700,542,540	(₱71,142,418)	₱17,629,400,122
2008	835,000,000	(7,815,336)	827,184,664
2009	8,198,500,000	(112,430,133)	8,086,069,867
2010	6,010,000,000	(52,489,406)	5,957,510,594
2011	5,010,000,000	(30,176,346)	4,979,823,654
2012	1,940,000,000	(9,553,908)	1,930,446,092
2016	1,200,000,000	(10,377,500)	1,189,622,500
Total	₱40,894,042,540	(₱293,985,047)	₱40,600,057,493

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, 2006 and 2005, the Group is in compliance with the terms of its loan covenants.

Time deposits amounting to ₱6,815.2 million as of December 31, 2006 (see Note 8) which will mature in October 2007 are intended to be used for payment of long-term debt maturing in 2007.

20. Stockholders' Equity

Capital Stock
The details and movements of SMIC's capital stock are as follows:

	Number of Shares			
	Authorized		Issued and Subscribed	
	2006	2005	**2006**	2005
Common stock - ₱10 par value				
Balance at beginning of the period	**600,000,000**	600,000,000	**530,000,000**	530,000,000
Subscriptions during the period	**–**	–	**56,000,000**	–
Balance at end of the period	**600,000,000**	600,000,000	**586,000,000**	530,000,000

On January 11, 2005, the BOD approved the following:

- Increase in the authorized capital stock from ₱5,000.0 million to ₱6,000.0 million. 25% of the increase, equivalent to ₱250.0 million, was subscribed and fully paid-up. On January 24, 2005, the application for the increase in authorized capital stock was approved by the SEC.

- Change in the par value of common stock from ₱100 a share to ₱10 a share, the conversion of the 19 million issued, subscribed and outstanding preferred shares into shares of common stock and the reclassification of the 10 million unissued preferred shares into shares of common stock. On February 11, 2005, the SEC approved the amended Articles of Incorporation reflecting the changes in par value and the reclassification of preferred shares.

On December 12, 2006, the BOD in its special meeting approved an amendment to the Articles of Incorporation of SMIC to reclassify 10 million of its unissued shares into preferred shares. Subsequently, on January 16, 2007, the amendment was approved via written assent of the stockholders representing at least two-thirds of the outstanding capital stock of SMIC. SMIC filed an application for the amendment of the Articles of Incorporation to the SEC. Such preference shares would be issued subject to SMIC's funding requirements and market conditions.

As discussed in Note 5, on June 28, 2006, the PSE approved the listing of 56,000,000 new shares in connection with the share-for-share swap transaction with SVI and SSMI. On November 6, 2006, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from registration requirements. Pursuant to agreements entered into among SMIC, SVI and SSMI, the 56,000,000 shares were exchanged for 2,000,000 common shares (100%) of SVI and 810,000 common shares (81%) of SSMI at a total swap price of ₱13,104 million. The listing of the shares was completed on November 17, 2006.

IPO
The BOD of the PSE, in its regular meeting on February 9, 2005, approved the Parent Company's application to list its common shares with the PSE. On March 11, 2005, the SEC declared the Parent Company's Registration Statement in respect of the IPO effective and issued the "Certificate of Permit to Offer Securities for Sale" in respect of the offer shares.

On March 22, 2005, the Parent Company completed its IPO of 115,000,000 common shares, consisting of 105,000,000 new shares offered by the Parent Company and 10,000,000 shares offered by the existing stockholders, at an offer price of ₱250 a share for total gross proceeds of ₱28,750.0 million.

The net proceeds of the offering were intended to be used for projects related to property development, tourism and leisure, and general investments and payment of a portion of existing loans and liabilities. Direct costs incurred relative to the IPO amounting to ₱1,817.3 million were charged against the corresponding additional paid-in capital arising therefrom.

Deposits for Future Stock Subscriptions
In 2004, the stockholders remitted ₱54.9 million as deposits for future stock subscriptions. The amount was applied against subscribed capital stock in 2005.

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 shown in the consolidated balance sheets and consolidated statements of changes in stockholders' equity.

Movements are as follows:

	No. of Shares	Cost a Share	Total Cost
Balance as of December 31, 2005	2,000,000	250	₱500,000,000
Acquisition in 2006	113,820	303	34,518,502
Disposal in 2006	(1,917,220)	250	(479,305,000)
Balance as of December 31, 2006	196,600	281	₱55,213,502

Retained Earnings
On May 30, 2005, the BOD approved the reversal of ₱5,000.0 million previously appropriated for long-term expansion and improvement projects to unappropriated retained earnings. In addition, the BOD also approved the declaration of cash dividends of 35% of the par value or ₱3.50 a share for a total amount of ₱1,855.0 million in favor of the stockholders of record as of June 14, 2005. The dividends were paid on June 20, 2005.

On April 27, 2006, the BOD approved the declaration of cash dividends of 47% of the par value or ₱4.70 a share for a total amount of ₱2,491.0 million in favor of the stockholders of record as of May 26, 2006. This was paid on June 22, 2006.

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries and associates amounting to ₱36,947.6 million and ₱28,144.9 million as of December 31, 2006 and December 31, 2005, 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.

21. Related Party Transactions

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at normal market prices. For the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, the Group did not make any provision for doubtful debts relating to amounts owed by related parties. An assessment is undertaken 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 space with related companies. Total rent revenues amounted to ₱1,929.1 million, ₱1,968.5 million and ₱1,860.6 million for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, 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 ₱409.7 million, ₱328.6 million and ₱306.3 million for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, respectively.

The Parent Company and a subsidiary also receive management fees from related companies for providing management and consultancy services. As consideration for the services provided, the Parent Company receives annual management fees based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱290.8 million, ₱268.5 million and ₱310.8 million for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005, respectively.

Cash Placements and Loans
The Group has certain bank accounts and cash placements that are maintained with BDO, China Bank and EPCIB, and earn interest based on prevailing market interest rates.

SM Prime has investments in preferred shares of BDO (see Note 11).

The Group also availed of bank loans and long-term debt from BDO, China Bank and EPCIB and pays interest based on prevailing market interest rates (see Notes 17 and 19).

Others
a. BDO Card issued a short-term promissory note amounting to ₱500.0 million to SMIC on December 20, 2005. The note bears interest based on three-month MART1 plus 2% spread and with maturity date on February 1, 2006. This was collected in full in February 2006.

b. BDO Capital & Investment Corp. (BDO Capital), a subsidiary of BDO, was appointed as Domestic Issue Manager and Lead Underwriter in connection with the Parent Company's IPO (see Note 20). Total underwriting fees paid to BDO Capital amounted to ₱113.5 million.

c. The Group, in the normal course of business, has outstanding advances to related companies.

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

	2006	2005
	(In Thousands)	
Cash and cash equivalents (see Note 7)	**₱17,113,237**	₱9,779,572
Time deposits (see Note 8)	**7,825,188**	12,774,491
Available-for-sale investments (see Note 11)	**7,009,174**	6,119,101
Current portion of long-term debt (see Note 19)	**6,280,000**	776,000
Long-term debt (see Note 19)	**5,824,000**	13,801,500
Investments held for trading (see Note 9)	**2,480,684**	3,484,156
Due from related companies (see Note 10)	**2,110,359**	914,498
Bank loans (see Note 17)	**2,141,399**	1,168,500
Rent receivable (see Note 10)	**1,692,862**	1,462,503
Due to related companies (see Note 18)	**1,504,052**	1,118,733
Accrued interest receivable (see Note 10)	**519,248**	380,436
Management fees:		
Receivable (see Note 10)	**201,733**	273,633
Payable (see Note 18)	**19,279**	19,759
Accrued interest payable (see Notes 17 and 19)	**181,520**	81,241
Notes receivable (see Note 10)	**–**	500,000

Compensation of Key Management Personnel of the Group

The aggregate compensation and benefits to key management personnel of the Group for the periods ended December 31, 2006, December 31, 2005 and March 31, 2005 are as follows:

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months)	March 31, 2005 (One Year)
Short-term employee benefits	**₱158,491,960**	₱76,203,123	₱63,488,385
Pension benefits	**5,429,048**	3,672,382	3,572,772
	₱163,921,008	₱79,875,505	₱67,061,157

22. Cost of Sales - Merchandise

This account consists of:

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months, see Note 29)	March 31, 2005 (One Year)
Merchandise inventories at beginning of period	**₱1,357,734,162**	₱1,638,258,531	₱1,363,792,808
Add purchases	**57,815,795,239**	30,279,568,673	28,617,304,220
Total goods available for sale	**59,173,529,401**	31,917,827,204	29,981,097,028
Less merchandise inventories at end of period	**4,488,187,321**	1,357,734,162	1,638,258,531
	₱54,685,342,080	₱30,560,093,042	₱28,342,838,497

23. Operating Expenses

This account consists of:

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months, see Note 29)	March 31, 2005 (One Year)
Personnel cost	**₱4,060,696,837**	₱2,760,727,016	₱2,406,124,824
Depreciation and amortization	**3,355,058,496**	2,283,024,304	2,054,307,522
Light and water	**2,106,954,775**	1,715,000,276	1,519,249,566
Rent (see Note 26)	**1,493,726,132**	1,068,944,091	1,124,543,903
Taxes and licenses	**1,472,372,281**	858,071,806	991,876,757
Provision for impairment losses and others (see Notes 12, 14, 15 and 16)	**1,596,489,245**	–	100,000,000
Outside services	**721,517,987**	505,946,306	445,452,613
Professional fees (see Note 21)	**764,946,150**	469,544,961	521,124,513
Repairs and maintenance	**456,310,863**	272,940,521	254,011,199
Advertising and promotions	**380,338,666**	178,175,167	227,004,196
Supplies	**316,196,579**	172,025,499	162,078,515
Insurance	**126,214,054**	95,610,023	110,763,279
Pension expense (see Note 24)	**145,132,125**	55,084,618	72,448,946
Miscellaneous	**598,725,765**	369,946,185	358,860,240
	₱17,594,679,955	₱10,805,040,773	₱10,347,846,073

24. 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 Prime, SMDC, Meridien Business Leader, Inc. (a subsidiary of Henfels), Multi-Stores Corp. (a subsidiary of Marketwatch), Mandurriao Star, Inc. (a subsidiary of MH Holdings), SM Mart, Inc., MRDC, SVI and Metro Main Star Asia Inc. (also a subsidiary of Henfels) 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 "Operating Expenses")

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months, see Note 29)	March 31, 2005 (One Year)
Current service cost	**₱52,677,485**	₱21,879,161	₱30,495,964
Interest cost on benefit obligation	**84,008,875**	53,062,008	53,499,834
Expected return on plan assets	**(25,526,079)**	(22,774,233)	(7,890,276)
Recognized actuarial gain	**(54,953)**	(6,138,762)	–
Net benefit expense	**₱111,105,328**	₱46,028,174	₱76,105,522

Defined Benefit Liability

	2006	2005
Present value of obligation	**₱927,399,534**	₱544,375,691
Fair value of plan assets	**398,380,497**	257,867,951
Unfunded status	**529,019,037**	286,507,740
Unrecognized actuarial gain (loss)	**(50,441,520)**	25,310,745
Defined benefit liability	**₱478,577,517**	₱311,818,485

Changes in the Present Value of the Defined Benefit Obligation

	December 31, 2006	December 31, 2005	March 31, 2005
Defined benefit obligation at beginning of year	**₱544,375,691**	₱379,014,334	₱445,831,945
Reclassifications to Defined Benefit Assets	**(88,095,530)**	–	–
Defined benefit obligation of SVI	**243,793,790**	–	–
Interest cost	**84,008,875**	53,062,008	53,499,834
Current service cost	**52,677,485**	21,879,161	30,495,964
Actuarial loss (gain) on obligations	**111,783,915**	71,427,359	(99,428,952)
Transfer from related parties	**(2,503,645)**	95,995,421	(2,011,833)
Benefits paid	**(18,641,047)**	(77,002,592)	(49,372,624)
Defined benefit obligation at end of year	**₱927,399,534**	₱544,375,691	₱379,014,334

Changes in the Fair Value of Plan Assets

	December 31, 2006	December 31, 2005	March 31, 2005
Fair value of plan assets at beginning of year	**₱257,867,951**	₱189,785,275	₱65,752,298
Reclassifications to Defined Benefit Assets	**(87,807,051)**	–	–
Fair value of plan assets of SVI	**46,524,171**	–	–
Expected return on plan assets	**25,526,079**	22,774,233	7,890,276
Actual contributions	**127,991,041**	120,063,694	70,331,163
Transfer from related parties	**(2,503,645)**	95,995,421	93,020,660
Benefits paid	**(18,641,047)**	(77,002,592)	(49,372,624)
Actuarial gain (loss) on plan assets	**49,422,998**	(93,748,080)	2,163,502
Fair value of plan assets at end of year	**₱398,380,497**	₱257,867,951	₱189,785,275

Unrecognized Actuarial Gain (Loss)

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months, see Note 29)	March 31, 2005 (One Year)
Net cumulative unrecognized actuarial gain at beginning of period	**₱25,310,745**	₱196,624,946	₱–
Reclassifications to Defined Benefit Assets	**(13,336,395)**	–	–
Actuarial gain (loss) on obligations	**(111,783,915)**	(71,427,359)	194,461,444
Actuarial gain (loss) on plan assets	**49,422,998**	(93,748,080)	2,163,502
Actuarial gain recognized	**(54,953)**	(6,138,762)	–
Net cumulative unrecognized actuarial gain (loss) at end of period	**(₱50,441,520)**	₱25,310,745	₱196,624,946

Certain subsidiaries have defined benefit asset as of December 31, 2006 and 2005. The following tables summarize the components of net benefit expense recognized by Shoemart, SSMI, Mainstream Business, Inc. and Market Strategic Firm, Inc. (subsidiaries of HMS), Major Shopping Management Corp. (a subsidiary of Henfels), Madison Shopping Plaza, Inc. (a subsidiary of Marketwatch) and Metro Manila Shopping Mecca, Inc. (a subsidiary of MH Holdings), Mercantile Stores Group, Inc. and Mindanao Shopping Destination Corp. (subsidiaries of Romer), and Manila Southern Associates, Inc. (a subsidiary of Sanford) 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 "Operating Expenses")

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months)	March 31, 2005 (One Year)
Current service cost	**₱17,645,046**	₱2,552,051	₱3,591,318
Interest cost on benefit obligation	**17,805,332**	4,441,128	5,185,307
Expected return on plan assets	**(16,848,984)**	(2,736,690)	(12,433,201)
Effect of asset limit	**10,565,295**	–	–
Recognized actuarial loss	**4,860,108**	4,799,955	–
Net benefit expense (pension income)	**₱34,026,797**	₱9,056,444	(₱3,656,576)

Defined Benefit Asset (recorded as part of "Other Noncurrent Assets")

	2006	2005
Present value of obligation	**₱270,382,911**	₱53,785,187
Fair value of plan assets	**216,263,138**	39,845,811
Unfunded status	**54,119,773**	13,939,376
Amount not recognized due to asset limit	**10,565,293**	–
Unrecognized actuarial loss	**(175,808,156)**	(107,876,935)
Defined benefit asset	**(₱111,123,090)**	(₱93,937,559)

Changes in the Present Value of the Defined Benefit Obligation

	December 31, 2006	December 31, 2005	March 31, 2005
Defined benefit obligation at beginning of year	**₱53,785,187**	₱42,774,674	₱40,438,824
Reclassifications from defined benefit obligation	**88,095,530**	–	–
Defined benefit obligation of SSMI	**2,398,064**	–	–
Interest cost	**17,805,332**	4,441,128	5,185,307
Current service cost	**17,645,046**	2,552,051	3,591,318
Actuarial loss on obligations	**103,688,858**	106,541,063	107,653,802
Transfer to related parties	**(400,435)**	(100,184,910)	(110,577,169)
Benefits paid	**(12,634,671)**	(2,338,819)	(3,517,408)
Defined benefit obligation at end of year	**₱270,382,911**	₱53,785,187	₱42,774,674

Changes in the Fair Value of Plan Assets

	December 31, 2006	December 31, 2005	March 31, 2005
Fair value of plan assets at beginning of the period	**₱39,845,811**	₱28,053,053	₱103,610,012
Reclassifications from defined benefit obligation	**87,807,051**	–	–
Fair value of plan assets of SSMI	**12,755,325**	–	–
Expected return on plan assets	**16,848,984**	2,736,690	12,433,201
Actual contributions	**56,107,496**	9,828,889	26,337,350
Transfer to related parties	**(400,435)**	(100,184,910)	(110,577,169)
Benefits paid	**(12,634,671)**	(2,338,819)	(3,517,408)
Actuarial gain (loss) on plan assets	**15,933,577**	101,750,908	(232,933)
Fair value of plan assets at end of period	**₱216,263,138**	₱39,845,811	₱28,053,053

Unrecognized Actuarial Loss

	December 31, 2006	December 31, 2005	March 31, 2005
Net cumulative unrecognized actuarial loss at beginning of the period	**₱107,876,935**	₱107,886,735	₱–
Reclassifications from defined benefit obligation	**(13,336,395)**	–	–
Unrecognized actuarial loss of SSMI	**(1,627,557)**	–	–
Actuarial loss on obligations	**103,688,858**	106,541,063	107,653,802
Actuarial loss (gain) on plan assets	**(15,933,577)**	(101,750,908)	232,933
Actuarial loss recognized	**(4,860,108)**	(4,799,955)	–
Net cumulative unrecognized actuarial loss at end of period	**₱175,808,156**	₱107,876,935	₱107,886,735

The principal assumptions used in determining pension benefit obligations for the Group's plan are shown below:

	2006	2005
Discount rate	**8%-12%**	14%
Expected rate of return on assets	**12%**	12%
Future salary increases	**10%**	10%

The Group expects to contribute about ₱97.8 million to its defined benefit pension plan in 2007.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2006	2005
Investments in:		
Government securities	**42%**	51%
Other securities and debt instruments	**40%**	41%
Common trust fund	**13%**	0%
Loans	**4%**	6%
Others	**1%**	2%
	100%	100%

25. Income Tax

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

	2006	2005
Deferred tax assets (included under "Other noncurrent assets" account in the consolidated balance sheets):		
Defined benefit liability	**₱234,309,716**	₱104,416,555
Mark-to-market loss on investments	**28,100,074**	28,100,074
Unrealized gross profit on sale of real estate	**25,747,329**	–
Unrealized foreign exchange losses	**3,972,849**	37,645,236
Unamortized past service cost	**–**	51,425,244
Others	**61,634,518**	47,545,149
	₱353,764,486	₱269,132,258
Deferred tax liabilities:		
Trademarks and brand names	**₱1,785,347,642**	₱–
Capitalized interest	**558,122,284**	359,759,848
Unrealized marked-to-market gain on investments	**138,502,864**	–
Unrealized gross profit on sale of real estate	**60,878,726**	19,411,701
Unrealized foreign exchange gain	**26,232,766**	43,409,425
Unamortized past service cost and defined benefit asset	**16,295,113**	32,677,119
Others	**42,504,065**	10,216,876
	₱2,627,883,460	₱465,474,969

The Group's consolidated deferred income tax assets as of December 31, 2006 and 2005 have been reduced to the extent that part or all of the deferred tax assets are no longer probable to be utilized. There are no deferred tax assets recognized on the temporary deductible differences of the Parent Company and a certain subsidiary as it is not probable that sufficient taxable profit will be available when these deductible temporary differences will reverse.

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:

	2006	2005
NOLCO	**₱5,040,145,065**	₱6,099,214,846
Allowance for doubtful accounts	**1,312,268,984**	67,774,739
Allowance for probable losses	**951,995,000**	600,000,000
Net unrealized foreign exchange loss (gain)	**(613,550,654)**	369,930,412
Accretion on notes payable	**264,127,324**	–
Derivative assets	**(153,005,532)**	–
MCIT	**124,497,302**	76,302,054
Defined benefit liability	**44,621,749**	11,718,071
	₱6,971,099,238	₱7,224,940,122

As of December 31, 2006, the Group's MCIT and NOLCO are as follows:

Date Incurred	Carryforward Benefit Up To	MCIT	NOLCO
March 31, 2004	March 31, 2007	**₱20,260,694**	₱1,080,613,119
December 31, 2004	December 31, 2007	**208,615**	14,672,694
March 31, 2005	March 31, 2008	**21,897,366**	3,236,443,155
December 31, 2005	December 31, 2008	**19,264,154**	538,872,750
December 31, 2006	December 31, 2009	**62,866,473**	169,543,347
		₱124,497,302	₱5,040,145,065

MCIT amounting to ₱14,664,574 and ₱6,651 expired on March 31, 2006 and December 31, 2006, respectively.

NOLCO amounting to ₱1,213,097,740 and ₱15,515,388 expired on March 31, 2006 and December 31, 2006, respectively.

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

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months) see note 29	March 31, 2005 (One Year)
Statutory income tax rates	**35%**	33%	32%
Add (deduct) income tax effects of reconciling items:			
Gain on sale of shares of stock	**(6)**	–	(4)
Equity in net earnings of associates	**(5)**	(5)	(4)
Interest income subjected to final tax	**(4)**	(7)	(6)
Provisions	**3**	–	–
Dividend income exempt from tax	**(2)**	(3)	(2)
Nondeductible interest expense	**2**	3	2
Net unrealized mark-to-market gain on investments held for trading	**(2)**	(1)	–
Negative goodwill	**–**	(2)	(2)
Others	**(4)**	(4)	–
Change in unrecognized deferred tax assets	**2**	3	4
Effective income tax rates	**19%**	17%	20%

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 and 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.

26. 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, who are granted initial lease terms of five years, renewable on an annual basis thereafter. Tenants pay either a fixed monthly rent, which is calculated by reference to 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.

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 a period ranging from 25 to 50 years, renewable for the same period under the same terms and conditions. Rental payments generally are computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans, available-for-sale 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 various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps and cross currency swaps. 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 cash flow interest rate risk, foreign currency risk, liquidity risk, and credit 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 as of December 31, 2006.

	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total In Dollars	Total In Pesos	Total (Net of Debt Insurance Costs) In Dollars	Total (Net of Debt Insurance Costs) In Pesos	Fair Value In Dollars	Fair Value In Pesos
					(In Millions)						
Liabilities:											
Long-term Debt											
Fixed Rate:											
US$ five-year Notes	222.0	–	–	–	–	222.0	10,885.5	220.7	10,822.4	220.7	10,885.5
Interest rate	8.00%	–	–	–	–						
Peso Loans:											
Series "B" fixed rate note	–	–	–	4,000.0	–	81.6	4,000.0	81.0	3,970.2	91.5	4,484.2
Interest rate	–	–	–	9.95%	–						
Series "C" fixed rate note	10.0	10.0	10.0	20.0	440.0	10.0	490.0	9.9	486.3	11.7	575.6
Interest rate	10.39%	10.39%	10.39%	10.39%	10.39%						
Fixed rate Notes				1,500.0	1,500.0	61.2	3,000.0	60.6	2,972.5	74.0	3,627.1
Interest rate				10.54%	11.56%						
Syndicated Loans	825.0	825.0	300.0	–	–	39.8	1,950.0	39.4	1,932.4	41.4	2,030.9
Interest rate	8.0% to 9.66%	8.0% to 9.66%	8.0% to 9.66%	–	–						
Other Bank Loans	–	–	534.0	1,000.0	1,200.0	55.8	2,734.0	55.5	2,722.0	63.0	3,089.7
Interest rate	–	–	12.54%	6.65% to 7.58%	9.75%						
Variable Rate:											
US$ five-year Syndicated Loan	–	–	150.0	–	–	150.0	7,354.5	147.8	7,247.4	152.2	7,460.7
Interest rate	–	–	5.31% to 12.75%	–	–						
Series "A" floating rate note	–	–	–	500.0	–	10.2	500.0	10.1	496.3	10.4	510.6
Interest rate	–	–	–	1% over 3-month T-bill rate	–						
Loan with pledged time deposits	5,980.0	–	–	–	–	122.0	5,980.0	122.0	5,980.0	122.0	5,980.0
Interest rate	7.41% to 12.07%	–	–	–	–						
Five-year Bilateral Loan	–	–	–	3,000.0	–	61.2	3,000.0	60.7	2,975.3	61.2	3,000.0
Interest rate	–	–	–	Mart 1 + agreed margin	–						
Other loans	–	–	–	1,000.0	–	20.4	1,000.0	20.3	995.2	20.4	1,000.0
Interest rate	–	–	–	Mart 1 + agreed margin	–						

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of December 31, 2005.

	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total In Dollars	Total In Pesos	Total (Net of Debt Insurance Costs) In Dollars	Total (Net of Debt Insurance Costs) In Pesos	Fair Value In Dollars	Fair Value In Pesos
					(In Millions)						
Liabilities:											
Long-term Debt											
Fixed Rate:											
US$ five-year Notes	–	235.3	–	–	–	235.3	12,493.9	232.8	12,361.9	239.5	12,714.2
Interest rate	–	8.00%	–	–	–						
Peso Loans:											
Series "B" fixed rate note	–	–	–	–	4,000.0	75.3	4,000.0	75.3	3,995.5	80.8	4,292.2
Interest rate	–	–	–	–	9.95%						
Series "C" fixed rate note	10.0	10.0	10.0	10.0	460.0	9.4	500.0	9.3	495.5	10.6	560.0
Interest rate	10.39%	10.39%	10.39%	10.39%	10.39%						
Fixed rate Notes					3,000.0	56.5	3,000.0	55.9	2,965.6	57.4	3,046.6
Interest rate					11.56%						
Syndicated Loans	825.0	825.0	825.0	300.0	–	52.3	2,775.0	51.8	2,750.1	54.7	2,905.1
Interest rate	8.0% to 9.66%	8.0% to 9.66%	8.0% to 9.66%	8.0% to 9.66%	–						
Other Bank Loans	466.0	–	–	534.0	–	18.8	1,000.0	18.8	996.8	24.3	1,289.9
Interest rate	10.87%	–	–	12.54%	–						
Variable Rate:											
US$ five-year Syndicated Loan	–	–	–	150.0	–	150.0	7,963.5	147.3	7,817.9	147.3	7,817.9
Interest rate	–	–	–	5.31% to 12.75%	–						
Series "A" floating rate note	–	–	–	–	500.0	9.4	500.0	9.3	495.5	9.3	495.5
Interest rate	–	–	–	–	1% over 3-month T-bill rate						
Loan with pledged time deposits	–	7,440.0	–	–	–	140.1	7,440.0	140.1	7,440.0	140.1	7,440.0
Interest rate	–	7.41% to 12.07%	–	–	–						

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. Interest on fixed rate financial instruments is fixed until maturity of the instrument. Financial instruments that are not subject to interest rate risk were not included in the above tables.

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 underlying debt obligations. As of December 31, 2006 and 2005, after taking into account the effect of interest rate swaps, approximately 56% and 65%, respectively, of the Group's borrowings are kept at a fixed rate of interest.

Foreign Currency Risk
The Group has recognized in its consolidated statements of income foreign exchange gain of ₱462.8 million on its net foreign-currency denominated assets and liabilities for the year ended December 31, 2006 as compared with a ₱103.7 million revaluation foreign exchange gain for the period ended December 31, 2005. This resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
March 31, 2003	₱53.53
March 31, 2004	56.14
March 31, 2005	54.94
December 31, 2005	53.09
December 31, 2006	49.03

As of December 31, 2006, approximately 50.7%, (49.0% on December 31, 2005 and 64.1% on March 31, 2005) 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.

To manage its foreign exchange risks, 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 operating results and cash flows.

Liquidity Risk
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.

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.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, investments held for trading, available-for-sale financial assets, time deposits and 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.

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

Commodity Price Risk
The Group's exposure to price risk is minimal.

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, investments in bonds held for trading and time deposits. The Group's policy is to keep the gearing ratio at 50:50. As of December 31, 2006 and 2005, the Group's ratio of interest-bearing debt to total capital were 34:66 and 39:61, respectively, and the ratio of net interest-bearing debt to total capital were 15:85 and 20:80, respectively.

As of December 31, 2006 and 2005, 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

	2006	2005
Bank loans	**₱13,319,576,097**	₱10,179,014,000
Current portion of long-term debt	**17,629,400,122**	1,291,945,923
Long-term debt - net of current portion	**22,970,657,371**	37,995,523,313
Total interest-bearing debt (a)	**53,919,633,590**	49,466,483,236
Total equity attributable to parent equity holders	**103,303,928,520**	78,347,043,098
Total interest-bearing debt and equity attributable to parent equity holders (b)	**₱157,223,562,110**	₱127,813,526,334
Gearing ratio (a/b)	**34%**	39%

Net interest-bearing debt to total capital

	2006	2005
Bank loans	**₱13,319,576,097**	₱10,179,014,000
Current portion of long-term debt	**17,629,400,122**	1,291,945,923
Long-term debt - net of current portion	**22,970,657,371**	37,995,523,313
Less cash and cash equivalents, time deposits and investments in bonds held for trading	**(36,263,844,994)**	(30,450,950,745)
Total net interest-bearing debt (a)	**17,655,788,596**	19,015,532,491
Total equity attributable to parent equity holders	**103,303,928,520**	78,347,043,098
Total net interest-bearing debt and equity attributable to parent equity holders (b)	**₱120,959,717,116**	₱97,362,575,589
Gearing ratio (a/b)	**15%**	20%

28. 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 recognized as of December 31, 2006 and 2005. There are no material unrecognized financial assets and liabilities as of December 31, 2006.

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	**₱21,037,492,714**	**₱21,037,492,714**	₱11,174,935,676	₱11,174,935,676
Time deposits	**7,825,188,000**	**7,825,188,000**	12,744,490,601	12,572,743,910
Investments held for trading and sale	**16,959,734,059**	**16,959,734,059**	8,806,359,001	8,806,359,001
Receivables	**7,287,814,474**	**7,287,814,474**	5,553,669,974	5,553,669,974
Available-for-sale investments	**34,526,871,725**	**34,526,871,725**	37,615,868,061	37,615,868,061
Derivative assets (included under "Other noncurrent assets" account in the balance sheets)	**918,945,584**	**918,945,584**	–	–
	₱88,556,046,556	**₱88,556,046,556**	₱75,895,323,313	₱75,723,576,622
Financial Liabilities:				
Bank loans	**₱13,319,576,097**	**₱13,319,576,097**	₱10,179,014,000	₱10,179,014,000
Accounts payable and other current liabilities	**18,240,321,118**	**18,240,321,118**	12,528,113,787	12,528,113,787
Long-term debt (including current portion and net of unamortized debt issuance cost)	**40,600,057,493**	**42,644,271,716**	39,287,469,236	40,263,564,659
Notes payable (including current portion)	**14,079,284,004**	**14,684,442,077**	–	–
Dividends payable	**556,008,628**	**556,008,628**	1,086,764,312	1,086,764,312
Derivative liability (included in "Tenants' deposits and others" account in the balance sheets)	**1,042,500,665**	**1,042,500,665**	–	–
Tenants' deposits (included in "Tenants' deposits and others" account in the consolidated balance sheets)	**4,389,520,295**	**4,340,216,653**	3,474,432,032	3,309,992,083
	₱92,227,268,300	**₱94,827,336,954**	₱66,555,793,367	₱67,367,448,841

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:

Cash and Cash Equivalents and Time Deposits: The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

Investments Held for Trading: The fair values are the quoted market prices of the instruments at balance sheet date.

Receivables: The net carrying value represents the fair value due to the short-term maturities of these receivables.

Available-for-Sale 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 on the balance sheet date. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, fair value is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 6.97% to 7.98%. For unquoted equity securities, the carrying amounts (cost less allowance for impairment) approximate fair value due to the unpredictable nature of future cash flows and lack of suitable methods of 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 and Notes Payable: 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 5.94% to 7.35%.
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 6.99%.

Tenant's Deposits: 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 6.60% to 6.69%.

Derivative Instruments: The fair values of the interest rate swaps, cross currency swaps and currency options are based on quotes obtained from counterparties.

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 interest rate swaps, cross and foreign currency swaps and currency options. These derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

The table below shows information on the Company's cross currency and interest rate swaps presented by maturity profile.

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years
Subsidiary						
Cross-Currency Swaps:						
Floating-Fixed:						
Notional amount	$70,000,000	$70,000,000	$70,000,000			
Receive-floating rate	6 month Libor plus margin	6 month Libor plus margin	6 month Libor plus margin			
Pay-fixed rate	12.58% - 12.75%	12.58% - 12.75%	12.58% - 12.75%			
Weighted swap rate	56.31	56.31	56.31			
Interest Rate Swap:						
Floating-Fixed						
Notional amount	$ 80,000,000	$ 80,000,000	$ 80,000,000			
Receive-floating rate	6 month Libor plus margin	6 month Libor plus margin	6 month Libor plus margin			
Pay-fixed rate	5.34%	5.34%	5.34%			
Fixed - Floating						
Notional amount	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱1,500,000,000	₱1,500,000,000
Receive-fixed rate	10.535% - 11.562%	10.535% - 11.562%	10.535% - 11.562%	11.562%	11.562%	11.562%
Pay-floating rate	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin
Parent						
Interest Rate Swap:						
Fixed - Floating:						
Notional amount	₱1,500,000,000	₱1,500,000,000	₱1,500,000,000	₱1,500,000,000		
Receive-fixed rate	9.951%	9.951%	9.951%	9.951%		
Pay-floating	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin	3 month Mart 1 plus margin		

Cross Currency Swaps. In 2004, SM Prime entered into cross currency swap agreements with 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, 2006 and 2005, the cross currency swaps have negative fair values of ₱1,042.5 million.

Interest Rate Swaps. Also in 2004, SM Prime entered into US dollar interest rate swap agreements with aggregate notional amount of US$80.0 million. Under these agreements, SM Prime effectively swaps these floating rate US dollar-denominated five-year syndicated loan at an average interest rate of 5.34% into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2006, the floating to fixed interest rate swaps have positive fair values of ₱149.2 million.

In 2005, SM Prime also entered into Philippine peso interest swap agreements with 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.

Foreign Currency Call Option. To manage the hedging costs of the cross currency swap mentioned above, SM Prime, in August 2006, entered into a cost reduction trade. In this trade, SM Prime took a view that the USD/PHP exchange rate will not trade above ₱54 (US$1.00) on April 28, 2007 and October 28, 2007. In return, SM Prime will receive a premium equivalent to 1.6% savings per annum on the notional amount of ₱3,942.0 million. 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, 2006, the positive fair value of the currency option is ₱39.7 million.

In 2005, SMIC also entered into short-term foreign currency swaps from three days up to three months with banks to hedge against foreign exchange rate risks. The mark-to-market gain of the outstanding foreign currency swaps with a notional amount of ₱106.1 million as of December 31, 2005 amounted to ₱0.1 million. As of December 31, 2006, SMIC has no outstanding short-term foreign currency swaps.

In 2005, SMIC had an interest rate swap agreement with BDO for a notional amount of ₱795.1 million. Under this agreement, SMIC will pay BDO a floating rate based on three-month MART plus 25 basis points on a quarterly basis. In return, SMIC will receive a fixed interest of 10% every quarter. The agreement was terminated in May and June 2006.

In 2006, SMIC entered into interest rate swap agreements with an aggregate notional amount of ₱1,500.0 million. Under these agreements, SMIC effectively swaps the fixed rate Philippine peso-denominated loans into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to October 2010. Also in 2006, SMIC entered into structured swap agreement with notional amount of ₱990.0 million and maturing in October 2007. Under the swap agreement, SMIC receives a fixed rate of 3.38% every quarter starting January 2007. SMIC, on the other hand, pays an amount based on the agreed terms if the spot rate on interest payment date is above the strike price of ₱54/$1, or pays nothing if the spot rate on payment date is equal to or below the strike price. The structured swap will mature in October 2007. As of December 31, 2006, the fixed to floating interest rate swaps have a positive fair value of ₱153.0 million.

The loss on derivative transactions, included 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, amounted to ₱123.6 million.

Derivative Assets	Amounts
Parent	
Fixed to floating interest rate swaps	₱153,005,532
Subsidiary	
Fixed to floating interest rate swaps	577,017,706
Cross currency swap	39,722,488
Floating to fixed interest rate swaps	149,199,858
	₱918,945,584

Derivative Liability	Amounts
Subsidiary	
Cross currency swap	₱1,042,500,665

29. Change in Accounting Period

On August 13, 2005 and September 6, 2005, the SEC and the Bureau of Internal Revenue, respectively, approved the change in the Parent Company's accounting period from a fiscal year ending March 31 to December 31. The amounts presented in the December 31, 2005 consolidated statements of income, changes in stockholders' equity and cash flows, and related notes are for nine months and, accordingly, are not comparable with those in the previous fiscal years, including the year ended December 31, 2006.

30. Earnings Per Common Share (EPS) Computation

	December 31, 2006 (One Year)	December 31, 2005 (Nine Months, see Note 29)	March 31, 2005 (One Year)
Net income attributable to equity holders of the Parent	**₱10,571,856,399**	₱8,029,241,507	₱5,764,086,098
Divided by weighted average number of common shares outstanding for the period	**561,266,667**	530,000,000	408,111,111
Earnings per common share	**₱18.84**	₱15.15	₱14.12*

** The EPS would have been ₱11.29 had the 105,000,000 IPO shares been given retroactive effect at the beginning of the year ended March 31, 2005.*

The weighted average number of shares for the year ended March 31, 2005 was retrospectively adjusted to account for the effect of the change in par value of common stock from ₱100 a share to ₱10 a share and the conversion of preferred stock to common stock (see Note 20).

31. Subsequent Events

On February 8, 2007, SMIC launched and priced its 5-year convertible bonds of US$300 million (including the greenshoe option). The yield to maturity of the bonds is 3.5% per annum, based on zero coupon and a conversion premium of 22%. SMIC will use the proceeds of the offering to refinance a portion of its maturing obligations and for general corporate purposes.

32. Other Matters

a. On November 6, 2006, the respective BOD of BDO and EPCIB approved and endorsed to their respective shareholders a Plan of Merger of BDO and EPCIB with BDO as the surviving entity. The merger shall be effected through a swap of shares whereby BDO shall issue 1.8 of its shares for each EPCIB share.

   The Plan of Merger was subsequently approved by BDO's and EPCIB's shareholders in separate meetings on December 27, 2006. Thereafter, the Plan of Merger was submitted to the SEC and BSP for approval. The Bank expects the legal merger to be effected within the first quarter of 2007.

b. In August 2005, BDO, jointly with SMIC, acquired shares of EPCIB and Equitable Card Network, Inc. (ECNI) totaling of 24.4% interest in EPCIB and a 10% interest in ECNI. BDO's acquisition cost of the shares of stock of EPCIB amounted to ₱1,400.0 million representing 3.4% of EPCIB's total outstanding shares while the acquisition cost for the shares of stock of ECNI amounted to ₱600.0 million representing 10% of ECNI's total outstanding shares.

c. On May 6, 2005, BDO and United Overseas Bank Philippines (UOBP) and United Overseas Bank Limited (UOBL) signed a Memorandum of Agreement (MOA) whereby BDO acquired the 66 branches of UOBP for a total consideration of ₱600.0 million. As part of the MOA, BDO assumed the deposit liabilities of UOBP in consideration of an equivalent amount of related assets of UOBP, including cash payment in case the assets would be lower than the assumed liabilities. Also under the MOA, the ₱600.0 million payment of BDO will be used by UOBL to subscribe to BDO's shares of common stock valued at ₱26.75 a share, or equivalent to 22,429,906 shares. On December 19, 2005, the transfer of the assets including cash payment made by UOBP to fully offset the assumed liabilities by the BDO was carried out.

   The UOBP acquisition was approved by the BSP on September 8, 2005 while the shares to be subscribed by UOBL were subsequently issued in February 2006.

d. BDO signed a letter agreement dated December 30, 2003 with SSS regarding the sale of the latter's investment of approximately 25.8% in EPCIB.

   BDO and SSS committed to execute a final Purchase Agreement on or before September 30, 2004. SSS failed to execute the Share Purchase Agreement within the prescribed period and BDO filed an action for specific performance with the Regional Trial Court of Mandaluyong to compel SSS to comply with its obligations under the letter agreement with BDO dated December 30, 2003.

   SSS announced that the EPCIB shares would be subjected to a public auction scheduled on October 30, 2004 under the terms of a Swiss Challenge whereby BDO will be given the right to match the highest bid price. The auction has been put on hold by the Supreme Court. As of December 31, 2006, no consideration has been tendered by BDO under the said letter agreement.

e. On June 27, 2002, BDO entered into a US$20.0 million convertible loan agreement with the International Finance Corporation (IFC). IFC has the option to convert a portion of the loan into common shares of BDO commencing two years after the date of the agreement for ₱16.70 a share.

   On February 11, 2005, BDO's Board of Directors approved the conversion of US$10.0 million convertible loan from IFC into 31,403,592 common shares of BDO based on the conversion price of ₱16.70 a share and a foreign exchange rate of ₱52.44 to a US dollar. The PSE subsequently approved the listing of the converted shares.

f. In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a public bidding 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 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.

   The DBP and the Parent Company have appealed the RTC's decision with the Court of Appeals. The appeal is still pending. 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. Management also believes that it had no notice of any infirmity that would void its title to the properties.

BLAST FROM THE PAST

This photo, which is immortalized in a mural at the Taal Vista Hotel, shows a dreamy Henry Sy, Sr. amid the breathtaking landscape of the Taal Lake and Volcano. Back then, he must have been toying with the idea of one day owning a property in this area. Now, SM Investments owns the landmark Taal Vista Hotel, one of SM's early ventures into tourism and hotel development. SM also holds shares in Highlands Prime, Inc., a residential condominium developer in Tagaytay Highlands.


shop
for equipment and gear
learn
in sports clinics and events
play
in sporting tournaments
SUMMER SPORTS AT
SM
SUPERMALLS
SM CITY NORTH EDSA - SM CITY FAIRVIEW - SM CITY MANILA
SM CITY SAN LAZARO - SM MEGAMALL - SM CITY STA. MESA
SM CITY BICUTAN - SM CITY SUCAT - SM CITY BACOOR
SM SOUTHMALL - SM CITY DASMARIÑAS - SM CITY BATANGAS
SM CITY MARILAO - SM CITY PAMPANGA - SM CITY BAGUIO
SM CITY LUCENA - SM CITY CEBU - SM CITY ILOILO - SM CITY DAVAO
SM CITY CAGAYAN DE ORO - SM SUPERCENTER VALENZUELA
SM SUPERCENTER MOLINO - SM CITY STA. ROSA - SM CITY LIPA
SM CITY CLARK - SM SUPERCENTER PASIG - SM CITY BACOLOD