SM INVESTMENTS CORPORATION

SPECIAL EDITION

INVESTOR

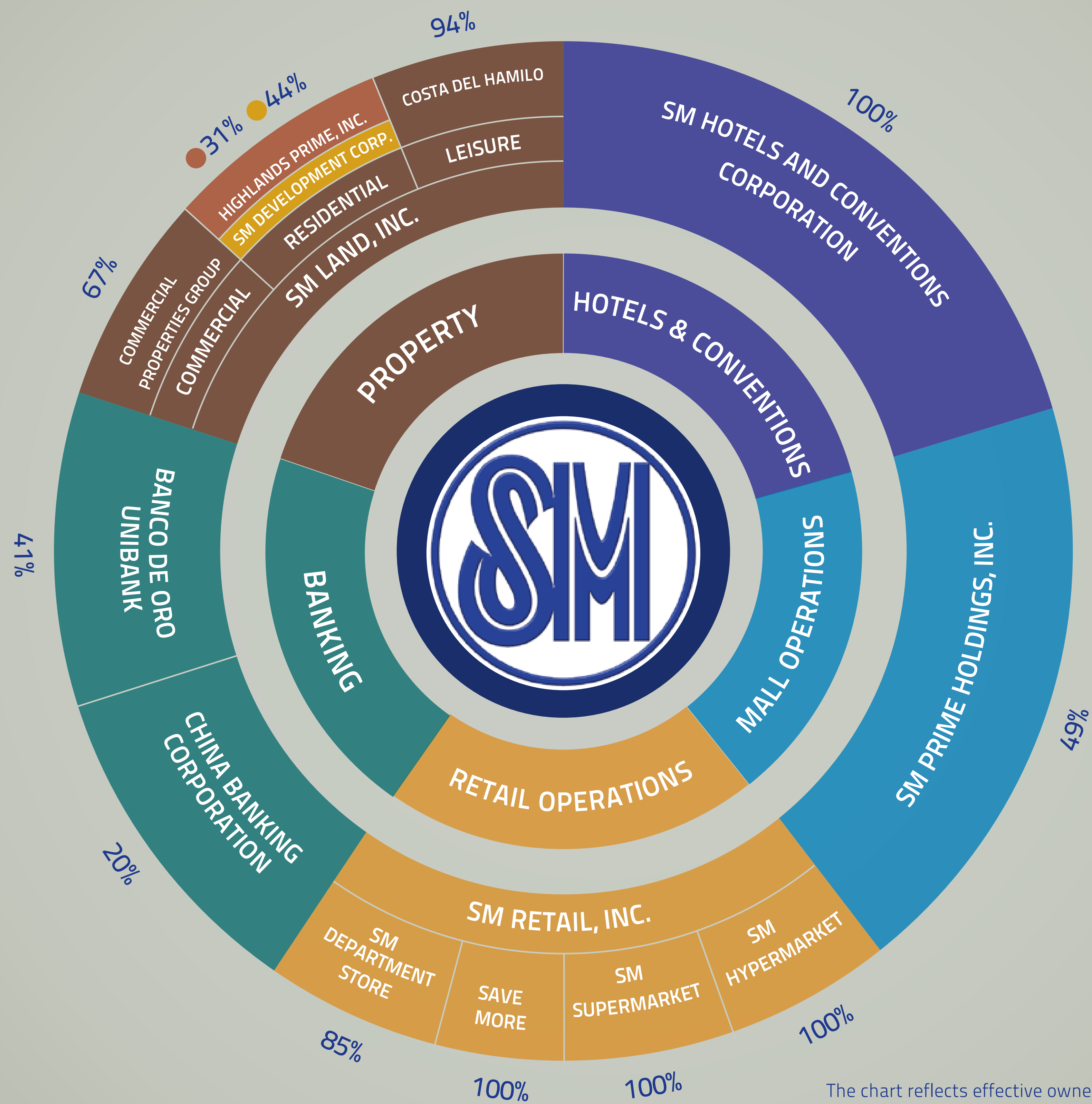
SCALING NEW HEIGHTS

2010 marked the end of a decade of significant transformation within the SM organization. While it was a period of exponential growth across all business sectors, it also presented opportunities to renew SM's core values, to restate its vision and mission amidst the prevailing global and domestic realities. It was a time to fortify the group's foundation based on its strengths, core competencies and the legacy created by SM founder Mr. Henry Sy, Sr. All these were directed towards ensuring healthy returns to investors; further strengthening its financial position; employing the right people that can take the organization to the next level; defining business strategies that can achieve optimal and synergistic growth objectives; and most importantly, develop a holistic approach to doing business which includes deeply embedding and institutionalizing good governance and corporate social responsibility. Defining the heart and soul of SM was also critical in ensuring that it achieves its ultimate goal of Serving Millions.

2010 also marked the start of a new decade, one that presents real and bigger opportunities for further growth in and outside of the Philippines. With newfound strength and its emergence as a global force, Asia entered this new decade on a platform of improved economic fundamentals, stronger financial institutions, increased investor and consumer confidence, and strong aspirations that can unleash market demand, which is both progressive and highly sustainable in the coming years.

With all that as a backdrop, SM is ready to "SCALE NEW HEIGHTS" and to seize greater opportunities ahead. SM is now at the right place at the right time to deploy more resources, and realize a vision that is aligned with a world that craves for innovation, greater sophistication and leadership. The plans are in place and SM can't wait to introduce its brand of Service to Millions more.

SCALING NEW HEIGHTS



The chart reflects effective ownership of SM Investments Corporation in subsidiaries and affiliates.

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

Vision

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

Mission

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

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

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

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

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

SPECIAL EDITION

INVESTOR

CHAIRMAN'S MESSAGE

The underlying reason for the steady and continuous growth of SM, particularly in the last decade, can be attributed to the fact that the group has remained focused on its competitive strengths and continues to build on them.

MESSAGE TO STOCKHOLDERS

I am pleased to report that SM Investments had a remarkable year in 2010. All our core businesses outperformed their full-year targets, leading to a better-than-expected financial performance for your Company. Overall revenues grew 12% while net income increased by 15%. The Philippine economy was particularly strong and set the stage for our retail stores, malls, banks, property projects, and hotels and conventions businesses to benefit from higher consumer spending, increased investments in durable goods and homes, growth in tourism activities and social events.

Our retail operations enjoyed brisk sales by growing 9%. But increased efficiencies, effective merchandising, and economies of scale due to the aggressive expansion of the food group's SaveMore stores gave a boost to overall net income which grew sharply by 25%. Despite being our most mature business, our retail business delivers high growth due to constant innovation, introducing new store formats, and increased market penetration in the informal sector. We also raise the level of service to benefit all sectors of society, and this has become the hallmark of SM stores.

Our mall division under SM Prime Holdings, Inc. also breached its target with revenues growing by 16% and net income by 12%. The continuous expansion of SM Malls further out into the provincial areas is proving beneficial in serving new markets and strengthening the brand franchise of SM in the Philippines. Their expansion into China is also growing in momentum. In due course, we see China as a very bright spot for SM Prime as its mall capacity is projected to more than double by 2013 compared to where it is at the moment.

Our property business, on the other hand, delivered the fastest growth for the group with real estate related revenues increasing by 38% and net income by 39%. Much of this growth came from SM Development Corporation, which has emerged as one of the leading players in the mid-income residential industry. Its business model of providing convenience and five-star luxury at affordable prices has gained strong market acceptance, and has become a benchmark for other residential developers.

Our banks, meanwhile, have defied all expectations and now contribute the biggest share in our net income pie. Aside from increased efficiencies, our banks' core lending activities gained more traction from the healthy economy, which led to sustained business and consumer confidence. Much can still be expected from banking in terms of scale, efficiency and business expansion, particularly in the areas of large-scale and consumer lending, private and investment banking, and asset management.

The hotels and conventions business is likewise building up its momentum. Our dominant position in conventions is being complemented by increased capacity in the hotel business. In September 2010, SM Hotels launched the 400-room Radisson Blu Cebu, carrying the upper upscale brand of the Carlson Group. And by April 2011, Pico Sands in Hamilo's Pico de Loro Resort will open 154 rooms.

The underlying reason for the steady and continuous growth of SM particularly in the last decade can be attributed to the fact that the group has remained focused on its competitive strengths and continues to build on them. And while our core businesses operate independently, they explore and create synergies to achieve their optimal growth potential by working as one team, the SM team.

We continue to have high hopes for the Philippines and in China as our markets for further growth and expansion. With God's help and your steadfast support, dear shareholders, we at SM should be able to materialize our vision of scaling new heights. Sincerely, we thank you.

HENRY SY, SR.
Chairman

HENRY SY, JR.
Vice Chairman

TERESITA SY-COSON
Vice Chairperson

PRESIDENT'S REPORT

Most of our core businesses exceeded their targets as our existing and expanded capacities were matched by a robust domestic market that was propped up by a strong economy.

I am very pleased to report that your company delivered better-than-expected results in 2010. Most of our core businesses exceeded their targets as our existing and expanded capacities were matched by a robust domestic market that was propped up by a strong economy. The Philippine economy displayed sustained growth each quarter last year as remittances from overseas Filipinos regained its momentum to further boost consumption spending, while the investment scene showed signs of improvement amidst a more stable political environment after the elections.

Consequently, SM posted a 15% growth in net income of Php18.4 billion for full year 2010 from Php16.0 billion in 2009. Consolidated revenues, on the other hand, increased by 12% to Php179.3 billion, from Php160.0 billion during the previous year. Due to improved efficiencies and economies of scale, SM's operating income grew 17% from Php28.3 billion in 2009 to Php33.1 billion this year, for an operating margin of 18%. EBITDA for the period grew 15% to Php39.4 billion, for an EBITDA margin of 22%.

Among your company's core businesses, the retail group gave the highest contribution with a 34% share to 2010 profits. The banking group came in second with 30%, followed by shopping malls and real estate, which contributed 23% and 13%, respectively.

Your company's balance sheet remained solid during the year, with its net worth improving by 19% to Php197.8 billion, while net debt to equity remained at a very comfortable level of only 29%. During the year, SM executed a bond exchange program which generated US$400.0 million in seven-year bonds, of which only US$186.3 million is new money, because it exchanged US$213.7 million worth of our bonds maturing in 2013 and 2014. The 7-year bond fetched a coupon rate of only 5.5% per annum compared with 6.75% of the 2013's and the 6.0% of the 2014's.

RETAIL OPERATIONS

In 2010, our retail group went full steam with its expansion program while it reaped the benefits of a more robust consumer spending environment. As such, the group's net income grew sharply by 25.2% to Php5.6 billion from sales growth of only 9.1% to Php135.1 billion. This resulted in a margin expansion to 4.2%, from 3.6% the previous year. Its EBITDA grew 20% to Php9.2 billion, for an EBITDA margin of 6.8%.

Of total retail sales, 43% came from the non-food group, while 57% came from the food group. In terms of net income, the non-food group contributed 26% to the total, while the latter brought in 74%.

We inaugurated 28 new retail stores in 2010, of which four were SM Department Stores, four were SM Supermarkets, 14 were SaveMore stores, and six were SM Hypermarkets. To date, SM Retail has a total of 142 stores nationwide.

The thrust of the group is to continue expanding out into the provinces for our traditional stores, while further expanding our food operations in Metro Manila through the SaveMore format.

MALL OPERATIONS

Our mall operations subsidiary, SM Prime Holdings, Inc. (SM Prime) also reported better-than-expected results with a 12% growth in net income to Php7.9 billion also on the strength of the retail sector. Revenues for the period rose by 16% to Php23.7 billion. EBITDA increased 14% to Php15.9 billion, for an EBITDA margin of 67%. These results include the operations of its three SM malls in China.

Last year, SM Prime's consolidated rental revenues contributed 84% to total revenues, and grew by 13% to Php20.0 billion. The increase came from both same store rental growth and new rental space coming from malls that opened in 2010 namely, SM City Tarlac, SM City San Pablo, SM City Calamba, and SM City Novaliches.

SM Prime plans to open three new malls in the Philippines this year, namely SM City Masinag in Antipolo City, SM City San Fernando in Pampanga and SM City Olongapo in Zambales. Part of the 2011 program is for SM Prime to expand two of its existing malls, SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. The company is also scheduled to open a new mall in China, SM City Suzhou. By the end of 2011, SM Prime will have 43 malls in the Philippines and four in China with an estimated combined gross floor area of 5.9 million square meters.

BANKING

In banking, BDO exceeded its earnings target and ended 2010 with a 46% growth in net income to Php8.8 billion. BDO also reported that its consolidated resources hit the Php1.0 trillion mark at the end of 2010, making it the first Philippine bank to achieve such a milestone. BDO's strong performance stems from a more diversified and sustainable earnings stream from both core lending and service businesses. BDO also continued to strengthen its deposit taking activities, which generates low-cost funding for the bank.

BDO's gross customer loans expanded 15% to Php541.5 billion. Total deposits, meanwhile, rose 13% to Php782.6 billion. The bank also registered a 12% increase in net interest income to Php34.2 billion.

China Bank similarly reported robust gains in 2010. Its income improved by 22% to Php5.0 billion. This performance was driven by the continued loans growth and improved trading gains. Net interest income improved to Php8.6 billion and fee-based income increased by 14% to Php4.7 billion. The latter got a boost from the 47% hike in higher trading gains to Php1.8 billion. China Bank's return on equity increased further to 15% from 14% the previous year and its return on assets was 2.1% from 1.9%.

REAL ESTATE DEVELOPMENT

Your company's revenues from real estate operations for 2010 increased 41% to Php13.0 billion, while net income grew 44% to Php3.7 billion. Consolidated net income, on the other hand, rose 39% to Php3.8 billion.

Contributions to net income were mainly from our residential arm, SM Development Corporation or SMDC, followed by the leasing activities of the commercial properties group, and Costa del Hamilo's Pico de Loro Cove Resort in Nasugbu, Batangas.

It is worth highlighting that 2010 was also a stellar year for SMDC. It realized a hefty 62% increase in consolidated net income to Php3.0 billion from just Php1.9 billion in 2009. Of the total, net profit from real estate operations rose sharply by 66% to Php2.6 billion. SMDC's consolidated revenues reached Php10.0 billion, significantly higher by 74%, year-on-year. In addition, it launched last year a new brand called MPlace, which targets a younger market seeking independent and affordable living. With many of its residential projects nearly sold out, SMDC plans to unveil five new projects this year.

As for Pico de Loro, its Jacana and Myna condominium clusters were completed last year and handed over to unit owners. Its Miranda and Carola clusters, which were launched in 2008, were 62% and 58% complete, respectively. Jacana's units are 92% sold; while Myna units are 94% sold. Those of Miranda and Carola are 69% and 30% pre-sold, respectively. Pico de Loro's beach club and its country club are now both fully completed and operational.

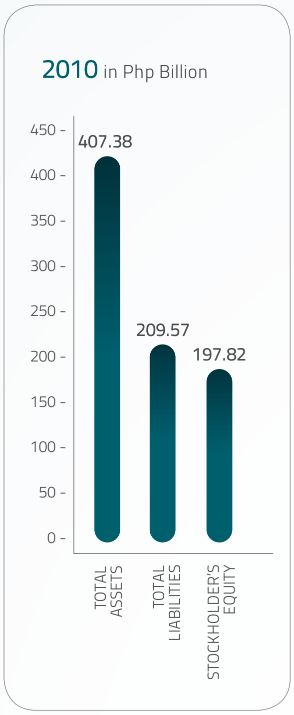
SM's fifth core business, SM Hotels and Conventions, opened in September 2010 the Radisson Blu Hotel Cebu, a 400-room upper upscale hotel in Cebu City situated right beside one of our shopping malls, SM City Cebu. The hotel, classified as deluxe by the Department of Tourism, offers first-rate amenities such as two ballrooms, an 800-meter swimming pool, and an in-house spa, among others. Together with the recently renovated 260-room Taal Vista Hotel in Tagytay City and the upcoming 154-room Pico Sands Hotel in Pico De Loro, SM will have before year end 2011 a total of 814 first rate hotel rooms.

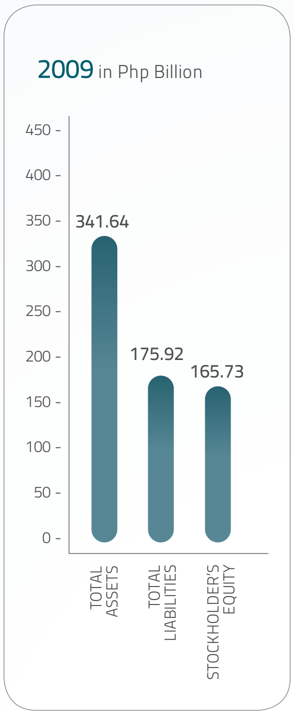
In the conventions business, your company provided various event organizers, exhibitors, and delegates during the year an unequalled 28,000 sqm of total leasable space found in the SMX Convention Center, which is located at the Mall of Asia Complex, and in two other SM trade and convention halls.

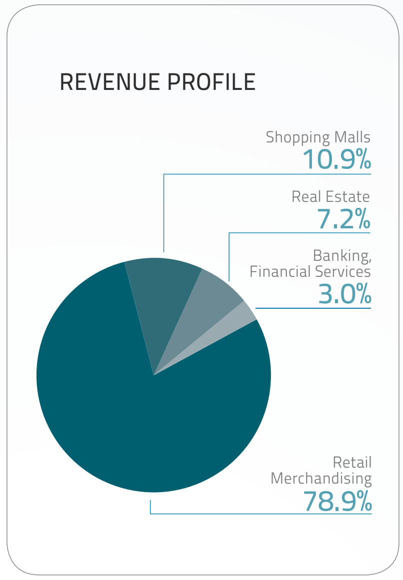
Our hotels and conventions business is in full support of the vision of our founder and chair, Mr. Henry Sy, to make the Philippines a preferred, world-class tourist destination.

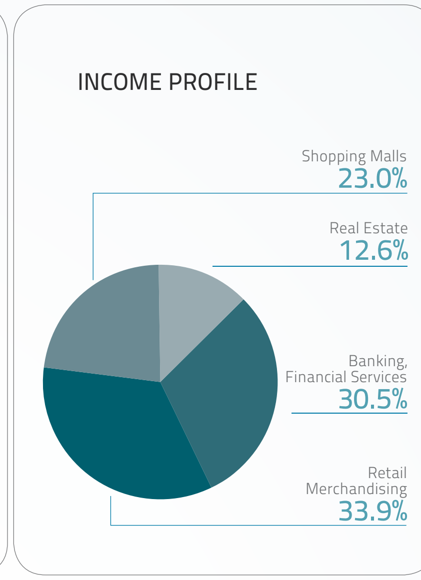
Given the successful run of all our core businesses, 2010 proved to be very fruitful and productive for SM. I therefore thank all of you for enabling us to deliver more than what was expected through your continued support and confidence. That truly spelled the difference. We now look forward to bigger opportunities as we enter this new decade. Your company is ready to further expand into new markets and enhance shareholder value backed by ample resources and an organization that is highly experienced, innovative, and committed to work hard.

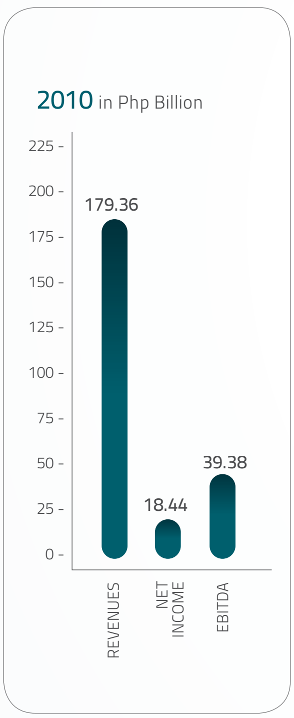
HARLEY T. SY
President

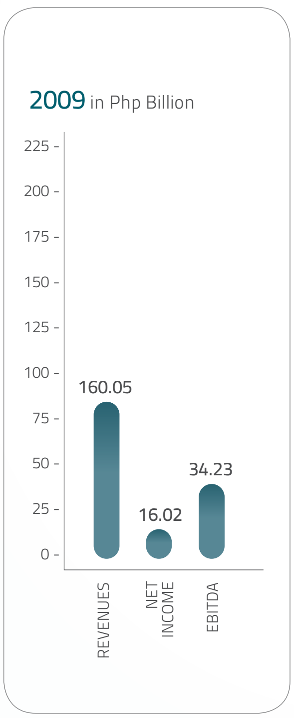


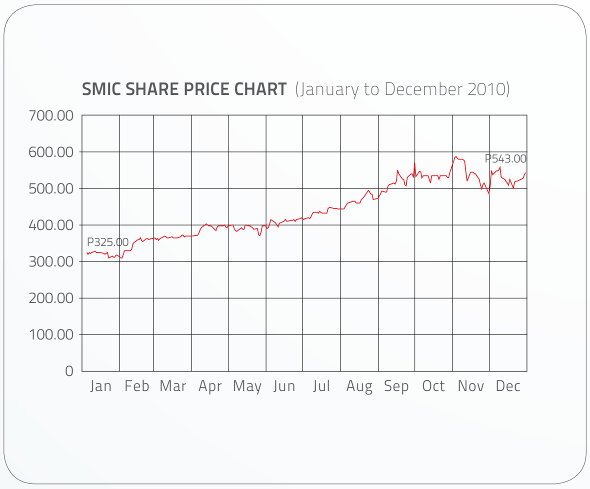












BALANCE SHEET HIGHLIGHTS		
(Php Bn)	Jan-Dec 2010	% Chg
Total Assets	407.38	19%
Current Assets	104.29	18%
Non-current Assets	303.09	20%
Current Liabilities	62.42	53%
Non-current Liabilities	147.14	9%
Total Liabilities	209.57	19%
Stockholder's Equity	197.82	19%
Book Value per share (Php)	231.29	13%

INCOME STATEMENT HIGHLIGHTS		
(Php Bn) except EPS	Jan-Dec 2010	% Chg
Revenues	179.36	12%
Gross Profit	33.11	17%
Other Income /(Expenses)	-2.83	19%
Net Profit Before Tax	30.28	17%
Net Income	18.44	15%
Minority Interest	6.44	27%
Basic EPS (Php)	30.17	15%

FINANCIAL RATIOS	2010	2009
Current Ratio (x)	1.67 : 1	2.17 : 1
Return on Equity (%)	14%	14%
Debt/Equity Ratio (%)	50 : 50	49 : 51
Net Debt (Php Bn)	40.52	33.88
Net Debt/Equity (%)	22 : 78	21 : 79
Revenue Growth (%)	12%	8%
Net Income Growth (%)	15%	14%
Interest Cover (x)	4.74	6.20
EBITDA (Php Bn)	39.39	34.23
EBITDA Margin (%)	22%	21%
Net Margin (%)	10%	10%

REVENUE PROFILE	%
Shopping Malls	10.9%
Real Estate	7.2%
Banking, Financial Services	3.0%
Retail Merchandising	78.9%

INCOME PROFILE	%
Shopping Malls	23.0%
Real Estate	12.6%
Banking, Financial Services	30.5%
Retail Merchandising	33.9%

RETAIL OPERATIONS

SM's retail group continued with its expansion program in 2010 amidst a healthy Philippine economy that was driven by strong consumer spending.

The group therefore realized a full-year 2010 net income of Php5.6 billion, which was 25.2% higher compared to that of 2009. The group's net margin improved to 4.2% from 3.6% the previous year. Total sales for the group grew 9.1% to Php135.1 billion.

In 2010, SM Department Stores introduced more in-house brands and new consignors in all of its stores. This initiative brought new concepts that improved the department stores' fashion image and market acceptance. SM Supermarkets, on the other hand, celebrated its 25th anniversary last year while the food group, to which supermarkets belong, hit the 100-store mark also in 2010.

The retail group inaugurated 28 new stores during the year, for a total of 142 stores by the end of 2010. These were composed of 40 department stores for the non-food group; 102 for the food group, of which there were 30 supermarkets; 40 SaveMore branches; 25 hypermarkets; and seven Makro outlets.

In 2011, the non-food group plans to open four new department stores, while the food group intends to open six supermarkets, 13 SaveMore branches, and five hypermarkets.

TRENDS & EXPECTATIONS

Non-Food Retail Operations

How would you assess your overall performance in 2010? What were your growth drivers?

We had a strong performance in 2010, with an overall revenues growth of 8% to Php66 billion. This was led by our flagship branches in Metro Manila, as well as our expansion initiatives in the emerging markets of North and South Luzon.

2010 was also a very good year for the stores' fashion lines with the shoes, accessories, and wears categories leading the growth.

What were the changes in fashion trends and customers' preferences during the year and how did you adapt to those changes?

We saw the growing sophistication of the Philippine market. Consumers were more aware of the most current trends in fashion and dressed as such. They are also more adventurous with greater influence from the teens, Korean and fashion TV, and the Internet.

With those factors in mind, we set to improve our campaigns with a more holistic approach to "fashion". We set higher standards for product merchandising and our store consignors to develop in-house lines that were both trendy and affordable. Range was widened with the introduction of more brands that carried fashion forward items attuned with those in the US and Europe.

New store openings and renovations continued with improvements in design for every new undertaking. Facilities were upgraded for a more pleasant shopping experience and value added services. Prestige lounges were rolled out into more stores. We complemented these with strong campaigns on print, direct TV ads and innovative digital media applications.

What innovations did you implement in 2010 and how did these improve your performance?

The biggest innovations were done through improvements in the brand and product range, store design, and marketing executions.
In 2010, there was an introduction of more in-house brands and new store consignors in all of our stores. This brought to market new concepts that improved the fashion image of the Department Store. We also made available newer lines into the provincial markets, as well as brands relevant to niche fashion segments.

New fixture and store designs were also introduced. New fixtures greatly improved the presentation of brands as an integrated concept and presented merchandise in a more attractive and customer friendly manner. New layouts in the selling areas also saw the relocation of cash counters. This modernized the look of the stores, improved the sales per square meter yield of the selling area and also improved the speed of cashiering.

Our marketing took a holistic approach, which included aggressive media campaigns, fashion shows and events, product highlights and local store marketing. This ensured that whatever is seen in fashion spreads and ads were translated and felt at the store level by our customers.

We also delved into creative credit card campaigns and promotions that allowed us to grow our credit card business.

Finally, IT developments and processes like the business intelligence and data warehousing greatly improved our business efficiency.

How many new branches did you open during the year? Where are they located?

There were four branches that opened in 2010 in Tarlac, San Pablo, Calamba and in Novaliches with a total gross selling area of 38,593 square meters.

Did you experience a widening of your customer base in 2010? If so, how did you achieve this?

The customer base of the department store widened through the opening of new stores, introduction of new product lines, an increase in the coverage of our bills payment services, and the loyalty program of the SM Advantage Card. Through the opening of our new stores in Tarlac, San Pablo, Calamba, and Novaliches, we were able to service the needs of loyal customers without the need for them to take long trips to shop in existing stores, thereby increasing the frequency of their visits.

The introduction of new product lines also broadened our reach to the teens and the more affluent market.

We set higher standards for product merchandising and our store consignors to develop in-house lines that were both trendy and affordable.

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

The impulse buyers, on the other hand, are drawn by added services such as the bills payment facility in our Customer Service Counters.

Our customer base also gets a boost from SM Advantage Card, the in-house loyalty card of the SM Retail Group, which added another 400,000 to our customer base growth. This was achieved through exclusive "Members Only" promotions such as additional 10% off schemes during sale activities, increase in rewards points during seasonal occasions, or discounted purchases for promotional items.

What do you do to further enhance your relationship with your suppliers?

We engage our suppliers through 'Hi Tech' and 'Hi Touch' points to ensure that we are their preferred customer. We currently employ a web portal that gives our suppliers a comprehensive profile of their accounts with us, including detailed timekeeping of their personnel, and other important announcements. This portal helps streamline the workflows and ensures that the operation is ran as efficiently as possible.

Complementing the Hi-Tech is the Hi-Touch relationship, regular meetings are held to engage our suppliers to ensure that there is an alignment in merchandising and operational objectives. This also ensures that there is firm commitment in the growth plans for existing and new stores.

What new products and services can your clients expect from your group in 2011?

2011 will be a very exciting year for our customers. This will be a year of fresher retail concepts, new value added services, further marketing innovations, and e-commerce. We will continue to employ our foreign designers and look forward to the introduction of more upscale retail concepts. This type of renovation will be implemented in our flagship stores and our upscale provincial branches. We will also be expanding our gift registry to cover all occasions such as weddings, birthdays, baby showers, and the like. The registry will have a strong online component with fulfilment at retail level.

Digital marketing will also be added as a major pillar in our marketing campaigns. Social networking, online PR, and mobile marketing will be integrated with existing tools to ensure deeper customer engagement. We realize that a significant portion of our market is the overseas worker clamouring for a means to purchase items for their families in the Philippines. We also have internet savvy shoppers that want the ease of shopping in their own home free from the inconvenience of traffic. It is due to this clamour that work is being done to set up our first online store for launch in 2011.

How much is your projected capital expenditure for 2011 and where will you be expanding?

In 2011, SM Department Stores will continue to support the expansion program of SM Supermalls. We plan to open stores in Masinag, San Fernando, Pampanga, Olongapo and Consolacion, Cebu. Our estimated capital expenditure is Php2.2 billion.

How do you plan to increase same store sales, particularly for your mature stores?

Same store sales are expected to remain strong in 2011, driven by new product concepts, improved store environment and services, as well as marketing innovations. For product concepts and merchandising, we will introduce new in-house brands and exciting consignors with fresh concepts. On the store front, our mature stores will undergo major renovations to further improve the shopping environment. This will be coupled with the improvement in customer services such as gift wrapping, package delivery, and the introduction of gift registry for all occasions ranging from birthdays to weddings.

Digital marketing through social networking and online PR will be aggressively pursued. Marketing will also have a very strong anchor in the local store initiatives that will engage our communities through participation in local events.

Do you expect margins to come down as you expand more towards the provincial areas?

Despite the increase in distribution cost associated with gasoline prices and toll rate hikes, overall margins have been managed. The increase in cost of freight is balanced off by lower manpower operating costs in the provincial areas.

What are your overall expectations for business in 2011?

We expect business to remain strong in 2011. We look forward to the strong comparative store growth of our flagship stores and the accelerated improvement in sales of the branches that we have opened in the last two years. We are also anxious to expand further into areas that we believe have very strong sales potential and to go head on with strong local players in the provincial areas.

TRENDS & EXPECTATIONS

Food Retail Operations

How would you characterize the group's overall performance in 2010?

With Php86 billion in sales, equivalent to a 10% sales growth, the combined efforts of the whole SM Food Group contributed to our positive performance last year.

What were your milestone achievements in 2010?

The Food Group hit the 100-store mark in 2010 and ended the year with a total of 102 stores. It was indeed a momentous event to have achieved Formula 100 on SM Supermarket's 25th year.

From its modest beginning in Makati in 1985, SM Supermarket has become the anchor of the food retail business of the SM Group of Companies. It has also expanded to other retail formats and to-date has 30 SM Supermarkets, 25 SM Hypermarkets, 40 SaveMore outlets, and seven Makro stores within its portfolio – serving more Filipinos nationwide.

And as our way of giving back to our loyal shoppers throughout the years, we donated 25 houses to the Gawad Kalinga Foundation to help deserving families start anew and live a better life.

Another achievement we are truly proud of is our successful implementation of the My Own Bag or MOB Day – a campaign that encourages the use of the SM Greenbag and other recyclable bags when shopping. Since it was launched in May 2009, the program has helped reduce the use of plastic bags by nine million.

In doing our part to encourage shoppers to help save the world with us, our hope was to trigger a chain reaction and make the SM Greenbag our first step towards a sustainable future. And it warms our heart to see this gradually unfolding. Late last year, the Department of Environment and Natural Resources (DENR) and other supermarkets entered into an agreement to observe "Reusable Bag Day" every Wednesday – the very same MOB campaign we started a couple of years back.

How many new branches did you open for each food retail format in 2010? What areas did you focus on?

We opened a total of 24 stores of which four are SM Supermarkets, six are SM Hypermarkets and 14 are SaveMore branches. We ended the year with a total of 102 stores with a gross selling area of 701,328.62 sqm.

What innovations did you put in place during the year? What was their impact on your operations?

It has always been our commitment to deliver excellent customer service, shopping convenience, value for money, and provide incentives to our loyal shoppers. As such, we have taken initiatives to beef up our services, product offerings, and loyalty programs.

True to the saying "customer is king", we have deployed specially trained and customer-oriented store personnel to ensure that the needs of every shopper are immediately attended to.

ROBERT KWEE
Executive Vice President
SM Hypermarkets

Our stores have become the best place not only for groceries but also for the much-needed household errands. We offer many value added services such as ATM, banking, bills payment, remittance, pharmacy, money exchange, and even laundry and lotto services in select outlets. Customers will find it convenient and cost saving to settle their electricity, water, and telephone bills, or get, send, and change money, all under one roof.

We have also ensured that we offer a good mix of merchandise that will cater to all types of markets – consumer and food service – and have constantly introduced food products that make our customers keep coming back for more. Lastly, true to the saying "customer is king", we have deployed specially trained and customer-oriented store personnel to ensure that the needs of every shopper are immediately attended to. We have also created exciting promotions to make every visit rewarding to our shoppers including numerous members-only privileges such as exclusive sales, discounts, and freebies.

What are your business expectations for 2011? How do those affect your expansion plans for the year?

We are optimistic about 2011. With a Php2.5 billion CAPEX for our expansion, we will be on the same aggressive expansion mode as last year to bring the SM experience closer to more customers.

Do you expect tougher competition in 2011? How are you addressing a more competitive environment?

We don't let complacency set in despite our leading position in the industry. Competition keeps us alert and it challenges us to do better every year. As we strive to be better, customer service will always be our priority.

As competitive as the retail industry is, good customer service is simply not good enough. With this in mind, the SM Food Group treats excellent customer service as the rule, not the exception. In turn, this makes the high level of service we provide not only a necessity but also a strategic tool. We have put in place systems to make sure our customers are satisfied with their shopping experience.

You celebrated your 25th year in business in 2010. Where do you see your group going in the next 25 years?

SM's key strength is its keen eye for shopping trends and quick turn around to meet the changing shoppers' mindscape.

That said, we will further retrofit evolving technologies and consumption trends into our stores, all with customer convenience in mind.

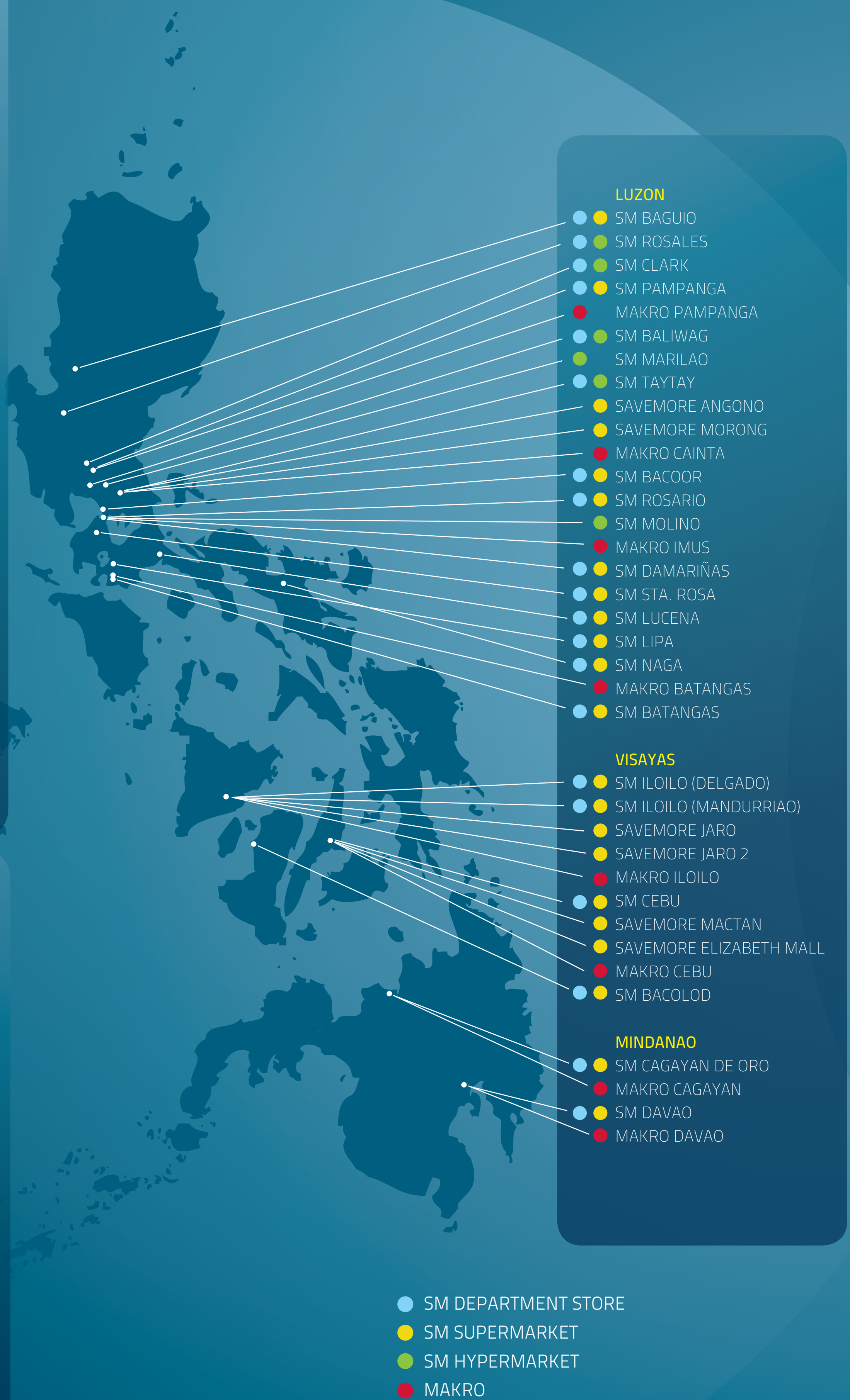
We will continue to evolve into something better, complementing the lifestyle of our customers and responding to their everyday shopping needs. As always, we will be "at-your-service".

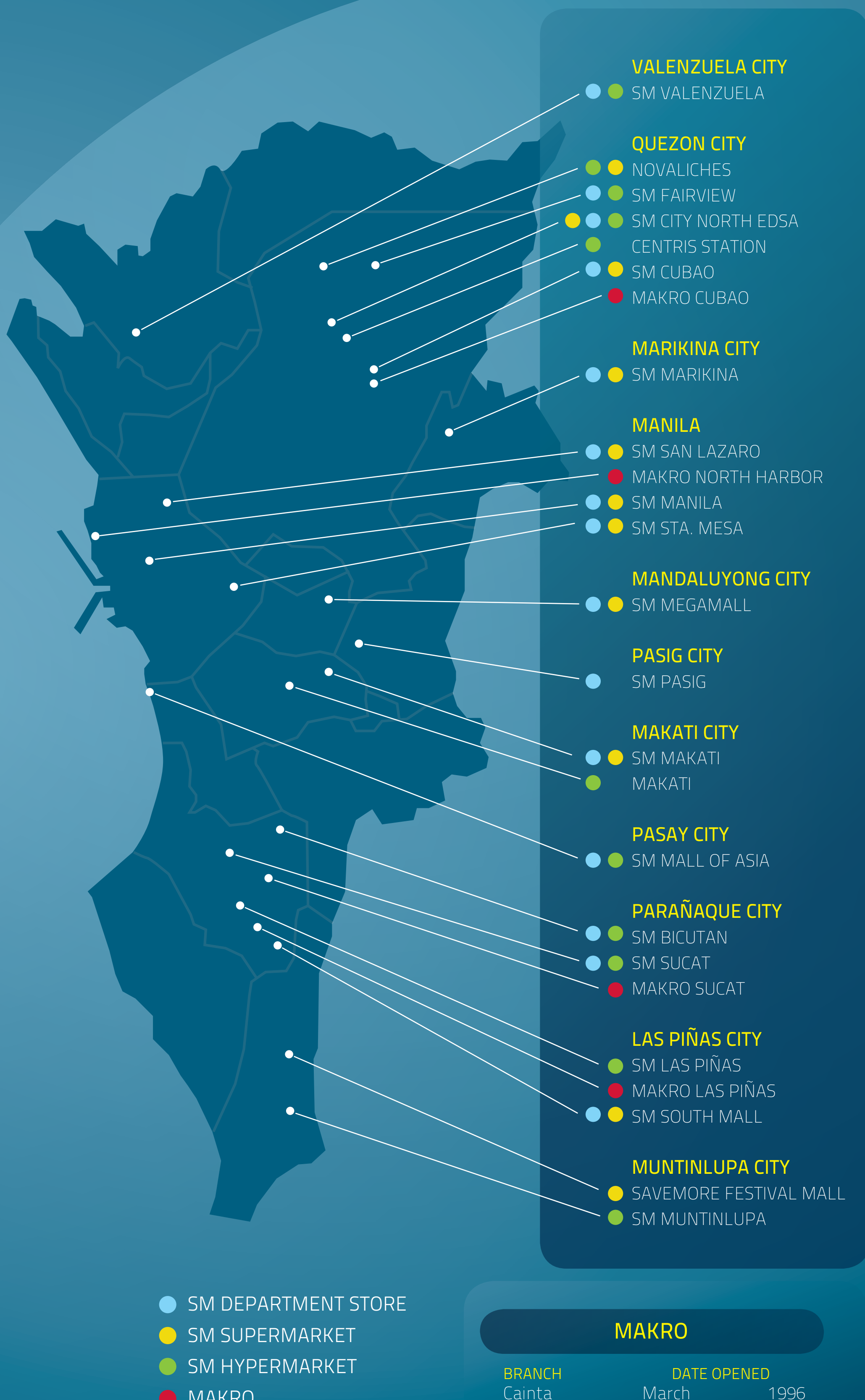
SM DEPARTMENT STORES

BRANCH	DATE OPENED	
Quiapo	November	1972
Makati	September	1975
Cubao	October	1980
Harrison	October	1984
North Edsa	November	1985
Sta. Mesa	September	1990
Ortigas	June	1991
Cebu	November	1993
Las Piñas	April	1995
Bacoor	July	1997
Fairview	October	1997
Mandurriao	June	1999
Manila	April	2000
Pampanga	November	2000
Davao	November	2001
Cagayan De Oro	November	2002
Bicutan	November	2002
Lucena	October	2003
Baguio	November	2003
Marilao	November	2003
Dasmariñas	May	2004
Batangas	November	2004
Delgado	December	2004
San Lazaro	July	2005
Sucat	November	2005
Sta. Rosa	February	2006
Clark	May	2006
Mall of Asia	May	2006
Lipa	September	2006
Bacolod	March	2007
Taytay	November	2007
Marikina	September	2008
Baliwag	December	2008
Naga	May	2009
Rosales	May	2009
Rosario	November	2009
Tarlac	April	2010
San Pablo	October	2010
Calamba	October	2010
Novaliches	October	2010

SM HYPERMARKETS

BRANCH	DATE OPENED	
Sucat	May	2001
Bicutan	November	2002
Marilao	November	2003
Valenzuela	October	2005
Molino	November	2005
Clark	May	2006
Mall of Asia	May	2006
North Edsa	June	2006
Pasig	August	2006
Taytay	November	2007
Muntinlupa	November	2007
Rosales	November	2008
Baliwag	December	2008
Mandaluyong	May	2009
Fairview	June	2009
Makati	September	2009
Las Piñas	October	2009
Novaliches	November	2009
Centris Station	December	2009
North Harbor	May	2010
Adriatico	July	2010
Cubao	September	2010
Iloilo	October	2010
Batangas	December	2010
Pampanga	December	2010





MAKRO

BRANCH	DATE OPENED	
Cainta	March	1996
Imus	November	1996
Sucat	May	1999
Cebu	November	2000
Davao	November	2000
Cagayan De Oro	November	2003
Las Piñas	April	2005

SM SUPERMARKETS

BRANCH	DATE OPENED	
North Edsa	December	1985
Sta. Mesa	September	1990
Megamall	July	1991
Southmall	April	1995
Bacoor	April	1995
Fairview	October	1997
Manila	April	2000
North Reclamation	August	1998
Mandurriao	June	1999
San Fernando	November	2000
Davao	November	2001
Cagayan De Oro	November	2002
Lucena	October	2003
Baguio	November	2003
San Lorenzo	February	2004
Dasmariñas	May	2004
Batangas	November	2004
Delgado	December	2004
San Lazaro	July	2005
Sta. Rosa	February	2006
Lipa	September	2006
Bacolod	March	2007
Marikina	September	2008
Cubao	December	2008
Naga	April	2009
Rosario	November	2009
Tarlac	April	2010
San Pablo	October	2010
Calamba	October	2010
Novaliches	October	2010

SAVEMORE

BRANCH	DATE OPENED	
Jaro	October	1998
Marikina	April	1999
Mactan	June	2002
Elizabeth Mall	December	2003
Festival Mall	February	2004
Jaro 2	August	2006
Angono	November	2006
Morong	December	2007
SQC	February	2008
Parkmall	May	2008
Nagtahan	August	2008
Tanay	October	2008
North Edsa	December	2008
Mezza	March	2009
Laon Laan	April	2009
P. Tuazon	May	2009
Del Monte	May	2009
Super Amigo	July	2009
Megacenter	July	2009
Taft	October	2009
Broadway	October	2009
Anonas	November	2009
Bacolod	November	2009
Novaliches	December	2009
Visayas	December	2009
Solano	December	2009
Edsa West Kamias	February	2010
Mendez Tagaytay	March	2010
Legaspi	May	2010
Baliwag	June	2010
Pasong Tamo	June	2010
Amang Rodriguez	July	2010
Malabon	September	2010
Bacolod East	September	2010
Agora Cagayan	October	2010
Zapote	October	2010
Berkeley	October	2010
Cartimar	October	2010
Ilagan	November	2010
Angeles	December	2010

SPECIAL FEATURE

25 Years Later
SM Supermarket is Still "Happy To Serve"

In 2010, SM Supermarkets celebrated an important milestone: its 25th year in the business of providing millions of shoppers with the best service and widest choice of food products and other consumer goods at affordable prices. From its first branch in Makati in 1985, it has evolved into the Philippines' largest supermarket chain with 70 branches nationwide.

From top to bottom:
SM Supermarket Novaliches;
SM Supermarket Sta. Mesa in 1990

From top to bottom:
SM Supermarket Makati;
SM Supermarket Fairview;
Mr. Henry Sy, Sr.'s vision gave rise to the SM Supermarkets

"The supermarket group was put up in 1985 to expand the food retail business of SM and provide Filipinos with a complete shopping experience," explains Mr. Herbert Sy, president of SM Supermarkets.

In the same year that its maiden Makati branch started operating, a second branch opened at SM City North EDSA in Quezon City. The timing was among the most challenging. The Philippines back then was reeling from a political and economic crisis. Yet, time proved the skeptics wrong.

"Coinciding with the development of the first SM Supermall, SM City North Edsa in 1985, the supermarket business was part of SM founder and chairman Mr. Henry Sy's vision to revolutionize shopping, dining, and entertainment for Filipinos," Mr. Herbert Sy continues. From that time a quarter of a century ago, SM Supermarkets sustained its growth and expansion since the late nineties.

Through the years, SM Supermarkets constantly innovated and improved its offerings. Consequently, the stores attract countless loyal shoppers from all over the Philippines through air-conditioned and appealing interiors, well laid out merchandise displays, state-of-the-art retail technology, spacious aisles, ample parking, and attentive staff.

The width and depth of product choices made available by SM Supermarkets to its shoppers are unparalleled. The supermarket chain typically places on its shelves anywhere from 40,000 to 60,000 quality products. In addition, in-house brand SM Bonus carries over a thousand products. It is the country's first, and now also the leading, house brand.

Shoppers at SM Supermarkets also enjoy other conveniences like access to bills payment, money transfer, and laundry services, which have counters within the supermarket premises. Customers may also avail of specialized goods and services offered by shops such as personal healthcare products retailer Watsons and by the different food tenants.

SM Supermarket Novaliches

"The food retail industry will continue to be competitive and evolve as shoppers' needs and wants change over time. As such, we will always be on our toes and make customer satisfaction our number one priority."

- Mr. Herbert Sy,
President,
SM Supermarkets

SaveMore Nagtahan

Mike Villanueva, a marketing executive in a distribution company, says, "I appreciate the convenience of buying at SM Supermarkets. Not only could I purchase my grocery needs, I could also accomplish various chores such as paying my household bills. SM Supermarkets are really first-rate, one-stop shops."

True to SM's character and manner of doing business, the supermarkets refused to rest on their laurels. Thus in 1998, SM Supermarkets launched a sub-format by opening to the public its very first SaveMore branch in Jaro, Iloilo. SaveMore stores are the downsized, stand-alone version of SM Supermarkets that are located closer to residential or densely populated areas where space is limited. The format serves the requirements of those who need to shop daily, or on impulse, and who seek proximity as an added convenience.

"SaveMore was introduced to expand our reach especially in locations where people live and work. It is a service for those who cannot go to our malls everyday just to buy food items. With this format, we offer proximity, convenience, and greater affordability," Mr. Herbert Sy further explains.

The SaveMore concept proved to be highly successful that 40 of the 70 supermarket branches mentioned earlier fall under this sub-format. Since it does not need to wait for a new SM mall to open for its expansion, its growth has been quite breathtaking, opening on the average 10 to 12 branches a year.

Today, SM Supermarkets and SaveMore are two of the three formats that compose the SM Food Retail Group. The other is SM Hypermarkets, a much larger format that offers an even mix of both food and non-food items.

Last year, SM Supermarkets' total sales reached almost Php36.0 billion resulting in a net income of Php2.1 billion, which was 25% higher than that in 2009. SaveMore sold Php11.8 billion worth of merchandise during the same period, for a net income of Php752 million, a staggering 120% increase from the Php342 million net income realized in 2009. SM Hypermarkets, on the other hand, reported sales of Php23.8 billion in 2010, 18% higher than the previous year. Its net income reached Php1.0 billion, a 21% rise from the Php842.0 million profit realized in 2009.

SM Supermarkets recognize their top-performing suppliers at the annual Golden Cart Awards.

SM and Uniliver Executives, celebrities and beauty queens grace the launch of SM Supermarkets' "My Own Bag" campaign.

The latest numbers clearly show how SM Supermarkets continues to grow at a very healthy pace and has excellent growth potential for SaveMore stores. It was therefore fitting to celebrate under the theme, "We are 25 Years Because of You!".

Apart from thanking its customers, SM also honored its top-performing suppliers in a recognition ceremony at the SMX Convention Center entitled "The 25th Golden Cart Awards Night". The supermarkets now deal with a myriad of suppliers, many of which expanded their operations through SM. Among those that SM honored during the event were Unilever, JS Unitrade, Royal Breadhaus, Foodsphere, Nestle, Wyeth, and Choice Harvest Marketing Corporation.

All throughout the year, the SM Food Group held various events such as the launch of its green campaign. Fittingly named My Own Bag (MOB) Day, the initiative encourages the use of the SM Greenbag and other recyclable bags while shopping. As part also of the celebration during the year, the SM Food Council was launched. It is a team composed of 25 young and talented individuals including several celebrities, who represent and personify the SM brand and vision. Aside from being loyal SM Supermarket shoppers, they were chosen for their excellence and achievements in their respective fields. As ambassadors of goodwill, they aim to positively influence the brand choices of their peers. Another celebration highlight was the unveiling of SM Supermarkets' silver anniversary logo. Anniversary sales and other in-store promotional activities were also held.

After 25 fruitful years, SM Supermarkets enter a new decade full of opportunities to scale greater heights. This year alone, four new SM Supermarkets and 13 SaveMore branches are scheduled to open. Expectedly, it will gear up for that pace of heightened growth and expansion, ever aware of the varying requirements of its millions of loyal customers.

"The food retail industry will continue to be competitive and evolve as shoppers' needs and wants change over time. As such, we will always be on our toes and make customer satisfaction our number one priority," Mr. Herbert Sy aptly concludes.

MALL OPERATIONS

SM Prime performed better than expected in 2010, the 25th anniversary year of its very first mall, SM City North EDSA.

SM Prime's consolidated net income grew 12% to Php7.9 billion in 2010, compared to Php7.0 billion in 2009. Its revenues meanwhile increased 16% to Php23.7 billion. These results include the operations of the three SM malls in China, which are located in the cities of Xiamen and Jinjiang in Southern China, and Chengdu in Central China.

SM Prime's performance was aided by the strong economic environment and increased personal consumption expenditure, driven mainly by income from Filipinos abroad. SM Prime's China operations, on the other hand, posted a robust 36% growth in combined gross revenues on the strength of China's economy and the expansion of SM City Xiamen through its high-end Lifestyle Center.

In 2010, SM Prime opened four new malls namely, SM City Tarlac, SM City San Pablo, SM City Calamba, and SM City Novaliches. This year, the company plans to open three new malls, and these are SM City Masinag in Antipolo City, SM City San Fernando in Pampanga and SM City Olongapo in Zambales. It is also set to expand two of its existing malls, SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. Another mall in China, SM City Suzhou is also scheduled to open this year. Thus, by the end of 2011, SM Prime will have 43 malls in the Philippines and four in China.

TRENDS & EXPECTATIONS

What is your assessment of SM Prime's overall performance in 2010? What were your growth drivers?

Our performance for full-year 2010 was better than we expected, given a more robust consumer environment. Retail spending got a boost from the improved domestic economy which, in turn, was fueled by strong flows from OFW remittances, increased investments, and the upbeat market sentiment. As a result, income growth was higher than last year with 12% to Php7.9 billion on revenue growth of 16% to Php23.7 billion. Our mall expansion was complemented by a 6% increase in same rental revenues.

You seem to have expanded in provincial areas. Is this the trend you will be pursuing in the medium term?

Yes, our expansion program is geared toward areas outside Metro Manila. Since these are emerging markets, we have adopted the supercenter concept, which is initially small and carries the hypermarket as its main anchor. This format allows us to penetrate new markets that we can eventually grow with and expand as their incomes rise over time. It's an approach that works for both our markets and for SM because we can calibrate our capex spending in tune with their current lifestyles, aspirations, and level of disposable income. For now, we will mainly cater to the daily household needs of residential communities in these areas.

In very mature markets in Metro Manila, SM has been adding new space and constantly upscaling its tenant mix by introducing more global brands and exciting concepts that carry more premium products and services.

Next year, SM Prime will be testing a new business model that will transform an existing public market to a different kind of mall. The first of this type will be at Dasmarinas, Cavite. The 30,000 sqm. mall will have an open market with both fresh and dry goods at the basement where tenants will be charged a fixed rent. The floors above will have the usual tenant arrangement which is the higher of fixed or variable rental proceeds. The ground floor will be leased to anchor tenant SM Hypermarket and some food shops while the second floor will be leased to other third-party tenants. The third floor will be for parking. The potential success of this pilot project could lead SM to roll this model out to more areas with a similar market dimension.

All these underscore SM Prime's flexibility and ability to innovate to meet our market's needs and expectations.

Is Metro Manila already saturated?

Contrary to what many think, Metro Manila still has a lot of potential. It is an ever growing market with areas and communities that are emerging due to the recent spike in residential development and the opening of new roads and mass transport systems. Interestingly, almost 50% of Metro Manila's population is below 25 years of age. As they generate their own incomes and build their own families, they are likely to continue to patronize SM as long as we continue to cater to their needs.

How many new malls will you open in 2011? How much is your capital expenditure for the Philippines in 2011 and how do you plan to raise the funds?

In 2011, we are targeting to open three new malls in the Philippines and expand two existing malls. These will be in Masinag, Antipolo; in San Fernando, Pampanga; and in Olongapo City. These new malls and expansions will add a total of 224,212 sqm to our existing GFA. By the end of 2011, SM Prime will have 43 malls in the country, with a total GFA of 5.2 million square meters. Estimated capital expenditure in 2011 for the Philippines is at Php9.0 billion, including land banking. This will be funded from internally generated cash and long-term debt.

What areas are the most promising and what drives that optimism?

The Philippines as a whole is very promising on the back of sustained domestic growth. This is buoyed by positive market sentiment and growing remittances from overseas Filipino workers, increased investments in real property, and public infrastructure. We also have a vibrant business process outsourcing sector that is providing higher paying jobs to fresh graduates. There is so much left to cover in emerging provincial areas, backed by large populations

The Philippines as a whole is very promising on the back of sustained domestic growth. This is buoyed by positive market sentiment and growing remittances from overseas Filipino workers, increased investments in real property, and public infrastructure.

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

with increasing purchasing power. As a matter of fact, we have a few provinces already with two to three malls such as Cavite, Laguna, Batangas and Pampanga. We will be developing more aggressively in Cebu and Davao.

How are your malls in China performing?

The three operating malls in China are extremely doing well. Revenues is up to 36% in 2010 compared to 2009, while occupancy levels have increased to over 90% in all malls. We also expanded our Xiamen mall and opened the Xiamen Lifestyle Center attracting a lot of international brand tenants like Zara, Muji, Starbucks, Toys R Us and Brooks Brothers. We expect these malls to generate double digit growth over the next 2-3 years.

What is driving consumption growth in the areas where your malls are in China?

The rising disposable income in China due to the rapid pace of urbanization will be the main factor in driving consumption growth in the areas where we have shopping malls and where we plan to expand.

Isn't there a lot of competition in China?

The SM malls in China are located in the second and third tier cities and competition is not as intense yet as those in first tier cities like Shanghai or Beijing. Although we expect that competition will intensify in the long term, we should have the first mover advantage and the SM brand should be well-established by the time other developers consider these locations. Our management expertise and experience in retail operations should enable us to be the leaders in shopping center developments.

Do you expect further disposable income growth in China? Why?

Yes, definitely. China's economy has been expanding and is projected to grow on a sustainable basis and with this, disposable income per capita will also rise. In fact, the Chinese National Bureau of Statistics reported that annual per capita disposable income of urban residents increased by 11.3% in 2010 compared to 2009, while rural residents' disposable income grew by almost 15%.

Are you planning to put up malls in other countries aside from China and the Philippines?

No plans at this time but we will consider opportunities in other countries. We remain focused on the Philippines, being our main market, and continue to strengthen our presence in China for our long term growth path.

What are your expansion plans in that country and what areas will you cover?

We intend to open one mall per year in China but the size of the malls will be growing, particularly by 2013. We will open SM Suzhou with a GFA of 70,000 sqm in the third quarter of 2011, SM Chongqing with 140,000 sqm in 2012 and SM Zibo with 120,000 sqm in 2013. But as early as now, we are already laying the groundwork for SM Prime's largest mall development in Tianjin with a GFA of 530,000 sqm. While it is still considered a second-tier city, Tianjin is an important industrial area on account of its proximity and accessibility to Beijing and its fast growing consumer market. While we will be opening SM Tianjin in phases starting 2013, SM Prime is committed to complete the whole project by 2018.

How much is your capital expenditure in China for 2011 and how do you plan to finance this expansion?

We are spending Php9.0 billion in 2011. Of this amount, Php4.5 billion (US$100.0 million) will be from the proceeds of the equity placement done by SM Prime last October 2010, and the balance will be from long-term debt.

It's been 25 years since you opened your first mall in North EDSA. Do you have plans to further expand it despite being your largest mall to date?

Yes, SM North Edsa is now our biggest mall with the opening of The Annex and the SkyGarden last 2009. It now has a GFA of 482,878 square meters, close to four times its opening GFA of 125,000 square meters in 1985. But we will not stop there. There are still areas available where we can further expand and enhance. We are now looking at fresh concepts that will definitely add more lustre and luxury to our very first mall, which are only meant to give our customers a mall experience that they have never before encountered in other malls.

PHILIPPINE MALLS

	GFA (sqm)	% of Total GFA
NCR		55%
SM CITY NORTH EDSA	482,878	
SM CITY STA. MESA	133,327	
SM MEGAMALL	348,056	
SM SOUTHMALL	205,120	
SM CITY FAIRVIEW	188,681	
SM CITY MANILA	167,812	
SM CITY SUCAT	96,560	
SM CITY BICUTAN	113,667	
SM CITY SAN LAZARO	181,593	
SM CENTER VALENZUELA	70,681	
SM MALL OF ASIA	406,962	
SM CENTER PASIG	29,602	
SM CENTER MUNTINLUPA	54,292	
SM CITY MARIKINA	178,485	
SM CITY LAS PIÑAS	39,788	
SM CITY NOVALICHES	60,560	
Total GFA for NCR	**2,758,064**	
CAVITE		7%
SM CITY BACOOR	120,202	
SM CITY DASMARIÑAS	94,285	
SM CENTER MOLINO	52,061	
SM CITY ROSARIO	59,326	
Total GFA for CAVITE	**325,874**	
CEBU		5%
SM CITY CEBU	**273,804**	
PAMPANGA		5%
SM CITY PAMPANGA	132,484	
SM CITY CLARK	101,840	
Total GFA for PAMPANGA	**234,324**	
LAGUNA		4%
SM CITY STA. ROSA	86,463	
SM CITY SAN PABLO	59,643	
SM CITY CALAMBA	67,384	
Total GFA for LAGUNA	**213,490**	
BATANGAS		3%
SM CITY BATANGAS	80,350	
SM CITY LIPA	77,261	
Total GFA for BATANGAS	**157,611**	
BULACAN		3%
SM CITY MARILAO	93,910	
SM CITY BALIWAG	61,262	
Total GFA for BULACAN	**155,172**	
BAGUIO		2%
SM CITY BAGUIO	**107,841**	
ILOILO		2%
SM CITY ILOILO	**105,954**	
TARLAC		2%
SM CITY TARLAC	**101,629**	
RIZAL		2%
SM CITY TAYTAY	**98,928**	
CAGAYAN DE ORO		2%
SM CITY CAGAYAN DE ORO	**87,837**	
DAVAO		2%
SM CITY DAVAO	**78,735**	
QUEZON		2%
SM CITY LUCENA	**78,685**	
NAGA		2%
SM CITY NAGA	**75,652**	
NEGROS OCCIDENTAL		1%
SM CITY BACOLOD	**71,760**	
PANGASINAN		1%
SM CITY ROSALES	**63,330**	
TOTAL GFA	**4,988,690**	

MALL	ADDRESS	YEAR/MONTH OPENED	
SM CITY NORTH EDSA	Edsa cor., North Ave., Quezon City.	1985	November
STA. MESA	Magsaysay Ave. corner Araneta Ave., Sta. Mesa, Manila	1990	September
MEGAMALL	Edsa corner Julia Vargas Ave., Ortigas Center, Mandaluyong City	1991	June
CEBU	North Reclamation Area, Cebu City	1993	November
SOUTHMALL	Alabang Zapote Road, Las Piñas City	1995	April
BACOOR	Tirona Highway cor. Aguinaldo Highway, Bacoor, Cavite	1997	July
FAIRVIEW	Quirino Highway cor. Regalado Ave., Greater Lagro, Fairview, Quezon City	1997	October
ILOILO	Benigno Aquino Ave., Diversion Road, Manduriao, Iloilo City	1999	June
MANILA	Concepcion Ave. cor. Arroceros and San Marcelino Sts., Manila	2000	April
PAMPANGA	Brgy. San Jose, City of San Fernando, Pampanga	2000	November
SUCAT	Sucat Road, Parañaque City	2001	July
DAVAO	Quimpo Blvd. cor. Tulip Drive, Ecoland, Matina, Davao City	2001	November
CAGAYAN DE ORO	Masterson Ave., cor.Coranvia, Carmen, Cagayan de Oro	2002	November
BICUTAN	Doña Soledad Ave. cor. West Service Road, Parañaque City.	2002	November
LUCENA	Dalahican Road cor. Maharlika Highway, Lucena City.	2003	October
BAGUIO	Luneta Hill, Upper Session Road, Baguio City.	2003	November
MARILAO	McArthur Highway, Brgy. Lias, Marilao, Bulacan.	2003	November
DASMARIÑAS	Barrio Pala-pala, Dasmariñas, Cavite	2004	May
BATANGAS	Pallocan West, Batangas City	2004	November
SAN LAZARO	Cor. Felix Huertas St. & A. H. Lacson Ext., Sta. Cruz, Manila	2005	July
VALENZUELA	Mc Arthur Highway, Brgy. Karuhatan, Valenzuela City.	2005	October
MOLINO	Molino Road, Molino 4, Bacoor, Cavite	2005	November
STA. ROSA	Barrio Tagapo, Sta. Rosa, Laguna	2006	February
CLARK	M.A. Roxas Highway, Clark Special Economic Zone, Angeles City, Pampanga	2006	May
MALL OF ASIA	SM Central Business Park, J.W. Diokno Blvd., Pasay City	2006	May
PASIG	Frontera Verde, Ortigas, Pasig City	2006	August
LIPA	Ayala Highway, Lipa City, Batangas	2006	September
BACOLOD	Rizal St., Bacolod City, Negros Occidental	2007	March
TAYTAY	Manila East Road, Brgy. Dolores,Taytay, Rizal	2007	November
MUNTINLUPA	Manila South Road, Brgy. Tunasan, Muntinlupa City	2007	November
MARIKINA	Marcos Highway, Brgy. Calumpang, Marikina City	2008	September
ROSALES	Brgy. Carmen East, Rosales Pangasinan	2008	November
BALIWAG	Brgy. Pagala, Baliuag, Bulacan	2008	December
NAGA	CBD II, Brgy. Triangulo, Naga City	2009	May
LAS PIÑAS	Brgy. Talon, Pamplona, Las Piñas	2009	October
ROSARIO	Brgy. Tejero, Rosario, Cavite	2009	November
TARLAC	Mc Arthur Highway, Brgy. San Roque, Tarlac City	2010	April
SAN PABLO	Brgy. San Rafael, San Pablo City, Laguna	2010	October
CALAMBA	National Road, Calamba City Triangle, Brgy. Real, Calamba City, Laguna	2010	October
NOVALICHES	Quirino Highway, Brgy. San Bartolome, Novaliches, Quezon City	2010	October

PHILIPPINE MALLS TRIVIA

11,848
Mall tenants

5.0
million sqm
Total Gross Floor Area

1,688
Food Tenants

40
Malls Nationwide

24,802
Food Court Seats

224
Movie Screens

136,996
Cinema Seats

3.0
million Average Daily Pedestrian Count

104
Bowling Lanes

55,699
Parking Slots

CHINA MALLS

China Map

Existing Malls	Address	Year/Month Opened		Gross Floor Area (in sqm.)
SM Xiamen	Xiamen City, Fujian Province	2001	December	128,203
Lifestyle Center		2009	October	109,947
SM Fupu (Jinjiang)	Quanzhou City, Fujian Province	2005	November	167,830
SM Chengdu	Chengdu City, Sichuan Province	2006	October	166,665

Upcoming Malls	Address	Target Opening	Gross Floor Area (in sqm.)
SM Suzhou	Wuzhong District, Suzhou, Jiangsu Province	2011	70,000
SM Chongqing	Yubei District, Chongqing City	2012	140,000
SM Zibo	Zichuan District, Zibo, Shandong Province	2013	120,000
SM Tianjin	Tianjin Binhai New Area	2013	530,000

SPECIAL FEATURE

SM Prime Celebrates Two and a Half Decades of Philippine Malling

Flashback twenty-five years ago: Filipinos in Metro Manila went at great lengths to do their groceries, shop for clothes and shoes, catch the latest movie, transact with their bank, or eat in a favorite restaurant. It was quite a chore. Choices were scarce. Hygiene wasn't much of a concern in the market place. Freshness was an option for early risers only, who also had to haggle with their "suki's" when paying for fish, meat, veggies, or pretty much anything.

Now, all these can be done in just one destination with all the conveniences of modern retail, design, and technology. "Malling" is a concept that revolutionized shopping and entertainment in the Philippines. Thanks in large part to SM Malls, which can be found nearly everywhere in Metro Manila and in key cities outside the metropolis. Malling has become a byword and has radically changed the lifestyles of millions. The malls' absence in their communities are now unimaginable, their presence highly reassuring. It is a sense of pride for many, most especially when they are in SM Malls.

Squarely behind this hugely successful malling phenomenon in the Philippines is SM Prime Holdings, Inc. (SM Prime). With its 40 innovative, world-class, and booming SM Malls, the company is, by far, the nation's leading mall developer.

SM Prime has brought malling to a much higher level in the Philippines, from when it opened its first SM Mall back in 1985. Its pole position was garnered through its commitment to growth and constant innovation, one that is grounded on a deep understanding of how its customers' needs and aspirations evolve over time.

Those momentous years have led up to a new era in which SM Prime is ready and well equipped to scale greater heights both in the Philippines and in China.

Brief History

SM Prime's dramatic reinvention of the Philippine mall development began two years prior to the 1985 opening of its very first mall, SM City North EDSA. Back then, no other structure dedicated to shopping and retail came even close to its size, with a mere 125,000 square meter (sqm) in gross floor area (GFA). It seemed mind boggling especially knowing that it was being built in a swampy area at a time when political and economic uncertainty was at the forefront of people's minds.

Mr. Henry Sy, Sr., SM Prime Chairman and founder, explains, "In 1983, when we started building SM City North EDSA, many people thought I was going crazy. There was a political crisis and interest rates were as high as 45%. The location of the mall was in the middle of nowhere. They said that SM City North EDSA would not succeed, but it was an instant success."

Not only was SM City North EDSA an instant success, it also raised the ante among mall developers. Prior to its unveiling, malls in the country were significantly smaller in scale. They lacked innovation and excitement, despite their ideal locations in highly commercial areas. In contrast, SM North EDSA emerged like a huge monument amidst empty and undeveloped grassland. Yet inside, it offered pleasurable, one-stop shopping convenience with a growing mix of stores for shopping, dining, and entertainment, including the most number of cinemas in a single destination. It didn't take long after that for real estate prices to skyrocket in surrounding areas. Residential villages and commercial establishments mushroomed all around the mall and it is now one of the busiest districts in Metro Manila.

Herman Felipe, now married and a father of two, was then a college freshman residing in a nearby village. "Upon first setting foot on SM City North EDSA shortly after it opened, I was immediately awed and impressed by its sheer size and by the numerous shops that I could visit. I never saw and experienced anything like it," he clearly recalls. Indeed, the mall's unique concept and excellent offerings triggered a mall revolution of sorts, from which there was no turning back for SM Prime, as well as the country's malling culture.

In 1990, SM Prime opened SM Centerpoint, replacing an old shopping center in the heart of old Manila. This is now known as SM City Sta. Mesa. The success of the two malls led to an even bigger development in Mandaluyong. Just as controversial as SM North EDSA, SM Megamall rose during challenging times, looming large with its Buildings A and B, amidst a growing commercial center in the Ortigas Complex. Again, SM Megamall proved to be a hit among shoppers with its new offerings, most notably, the country's very first ice skating rink. Today, SM Megamall is SM Prime's most profitable mall.

Far from resting on its laurels, SM Prime extended its reach outside Metro Manila with the opening of SM City Cebu in 1993. This was a time when Cebuano's were still known for their thrift and little desire to explore new ways of dining. Now, SM City Cebu has undergone a series of expansions and has become the country's fourth largest mall.

As more malls rose during the 90's, SM gained more traction in the industry. The company ended the decade with a total of eight profitable malls, which included SM City Southmall in Alabang Zapote Road, Las Piñas; SM City Bacoor in Cavite; SM City Fairview in Quezon City; and SM City Iloilo, the second mall in the Visayas region. SM Prime had made its name in Philippine business with its highly successful and distinct business model, which the market had grown to accept. It became a publicly listed company in 1994.

But it wasn't until the next decade that SM Prime showed


SM North EDSA in 1985

its might, leaving the market and even its competitors in awe and in wonder as to how it managed to expand at such speed and flair. In the last ten years, SM Prime opened 32 malls, including the huge and iconic Mall of Asia in Pasay City, with a GFA of 407,000 sqm.

By the end of 2010, SM Prime had a total of 40 malls in the Philippines with a combined GFA of 5.0 million sqm, by far the largest in the industry, attracting an average of three million shoppers daily.

SM Prime further stood out in the industry because of its nurturing culture. Beyond mall openings, it took a long-term commitment to grow and evolve with its markets. Such commitment required keeping its existing malls current with the times through constant maintenance work, redesign, refurbishment, new mall concepts, and added capacity, particularly in the country's key cities. From box-type structures, SM malls have become showcases of innovative architectural designs that incorporate environmentally friendly and customer-sensitive features.

SM Cares

SM Prime also raised the standards of customer relationship and caring for the environment a few notches higher. Through SM Cares, SM Prime developed programs founded on sustainable and equitable socio-economic development, protection of the environment, cultural resilience, and good governance. SM Cares has initiatives ranging from environmental conservation, assistance to persons with disabilities and special needs, senior citizens and nursing mothers, as well as care for children, women, OFWs and tourists in general.

Ms. Annie S. Garcia, President of Shopping Center Management Corporation said, "Through SM Cares, we continue to uphold our commitment not only to improve the lives of our customers. We also work hand in hand with others to uplift the lives of people who live and work outside of our malls. This is SM's way of giving back to people who, and communities which, have made us what we are today."

SM North EDSA: The City That Never Stops Growing

Testament to SM Prime's long-term commitment to growth and innovation is SM's first mall, SM City North EDSA, which has grown in size from a GFA of only 125,000 sqm to 482,878 sqm. It is, to date, the Philippines largest mall after having undergone six expansion projects from the time it opened in 1985:

1988	Carpark Building
1989	The Annex
2006	The Block
2008	New Annex
2009	Sky Garden and Interior Zone
2010	North Link

In 2009, SM City North EDSA unveiled its most interesting features: the Sky Garden, the Sky Dome, and the IMAX Theater, following the opening of The Annex, which added another 92,830 sqm of GFA.

During their launch, SM Prime President Mr. Hans Sy said, "Our new facilities in SM City North EDSA made use of cutting-edge technology and are meant to give our valued customers a mall experience that they have never before encountered in other malls."

The Sky Garden is a 400-meter long elevated walkway that connects the four buildings of the mall complex. It allows mall goers to take a leisurely walk from one building to another in a relaxing ambiance amidst tropical trees, flowering plants, and shrubs. And within the Sky Garden is the Sky Dome, which is a multi-purpose amphitheater that seats up to 1,500 persons. The Sky Dome is now busy with concerts and other musical events, but it also comes in handy for conventions and corporate activities.

As such, SM City North EDSA and other malls namely Mall of Asia, SM Megamall, and SM City Cebu have evolved into some of the world's largest malls putting both the Philippines and SM in the map of global retail development.

Stepping Into China

It was also during the past decade when new avenues were explored, an exercise that led them to the lucrative and much larger emerging cities in China. Three SM malls now stand profitable in Xiamen, Jinjiang, and Chengdu with a total GFA of 572,645 sqm and an average occupancy rate of 92%. Encouraged by their healthy performance and proven ability to generate heavy foot traffic and high occupancy levels, a number of cities have invited SM Prime to bring with it its own quality of mall development and management. As such, the company now has a pipeline of mall projects to complete from this year to 2013, with other opportunities yet under consideration.

Scaling New Heights

As it enters a new decade, SM Prime aims to outdo its performance in the last 25 years. Armed with the heart to serve and the corporate skills it had gained from invaluable hands-on experience, SM Prime will scale greater heights. It is ready to tap new markets in the provincial areas where there remains a scarcity of quality malls. These localities now experience rising incomes and more vigorous consumer spending which is largely fueled by incomes earned abroad. Such growth will be supported by a management with forward-looking people who possess that same zest and vigor of decades past, underpinned by an improved economic and business environment foreseen for the Philippines and the rest of Asia.

In the meantime, China is a new frontier for SM Prime to grow on a wider scale. Its malls are highly competitive in second- and third-tier cities where quality malls are still few and far between. These are areas where SM Prime can unleash its pioneering spirit and raise the standards for mall development, one that is reminiscent of the kind of trail that it blazed in the Philippines.

Mr. Henry Sy, Sr. once said, "While I was travelling in the US during the 50s and the 60s, I saw how shopping centers developed from the East to the West Coast. I knew that this would also happen in the Philippines."

Indeed, it has happened; and in China too. It happened because of a man's vision, focused leadership, innovation, hard work, integrity, and prudence.

2010 NEW MALLS

SM Prime successfully implemented its growth and expansion program in 2010 by opening four new SM shopping malls, namely SM City Tarlac, SM City San Pablo, SM City Calamba, and SM City Novaliches. Combined, the four malls added 289,216 square meters (sqm) to the company's total gross floor area (GFA), which as of the end of last year, reached five million sqm.

SM City Tarlac opened on April 30, 2010. It is the very first SM mall in the province of Tarlac. The mall boasts of a GFA of 101,629 sqm and occupies 34,385 sqm of land. The mall has a leasable area of 40,509 sqm. As of end-2010, SM City Tarlac has an occupancy rate of 97% with a total of 194 tenants. The mall's anchor tenants are SM Supermarket, SM Department Store, Ace Hardware, SM Appliance, and personal care products distributor Watsons. SM City Tarlac was the first SM mall to be opened in 2010.

SM Prime increased its presence in the highly progressive province of Laguna as it opened SM City San Pablo on October 01, 2010. The mall offers a GFA of 59,643 sqm on 69,000 sqm of land. Its leasable area, on the other hand, is 33,951 sqm with an SM Department Store and an SM Supermarket among its anchor tenants, occupying 15,619 sqm and 6,202 sqm of floor space, respectively. SM City San Pablo is located along the Maharlika Highway, one of San Pablo's major thoroughfares. As of end of last year, SM City San Pablo's occupancy rate was 98% with 121 tenants.

SM Prime next opened SM City Calamba on October 15, 2010, its third SM mall in the province of Laguna, after SM City Sta. Rosa and SM City San Pablo. SM City Calamba provides a GFA of 67,384 sqm and occupies 55,102 sqm of land. With a leasable area of 43,478 sqm, its anchor tenants include SM Supermarket, SM Department Store, and Ace Hardware, among others. SM City Calamba ended 2010 with an occupancy rate of 92% resulting from over 169 tenants.

The fourth and last mall to be opened by SM Prime in 2010 was SM City Novaliches in Quezon City. Inaugurated on October 22, 2010, the new mall is the company's third in the city, after SM City North EDSA and SM City Fairview. With a GFA of 60,560 sqm, it stands on a prime 71,665-sqm property along Quirino Highway. Similar to the three other new SM malls, the anchor tenants of SM City Novaliches are SM Supermarket, SM Department Store, SM Appliance Center, Ace Hardware, BDO, and Watsons. As of end 2010, SM City Novaliches' occupancy rate is at 87% with 153 tenants.

SM PRIME'S 2011 PHILIPPINE AND CHINA MALL EXPANSION PROGRAM

With exciting new malls and expansion projects in its portfolio, SM Prime readies itself to enter the new decade with more and better capacity to ably serve its millions of customers.

SM City Suzhou

SM City Dasmariñas

SM Prime widens its reach in 2011 by opening three new malls and expanding two existing malls in the Philippines, and launching one new mall in China. Thus, by the end of 2011, the company will have 43 malls in the Philippines and four in China with an estimated combined gross floor area (GFA) of 5.7 million square meters (sqm).

The SM malls to be unveiled and expanded in 2011 are as follows:

	LOCATION	GFA IN SQM
NEW MALLS	SM City Masinag in Antipolo	82,804
	SM City San Fernando in Pampanga	40,000
	SM City Olongapo in Zambales	30,000
	SM City Suzhou in China	72,000
EXPANSION	SM City Davao in Southern Mindanao	44,408
	SM City Dasmariñas in Cavite	27,000

SM City Masinag in Antipolo City will be a three-storey grand mall that connects a wide variety of shops, restaurants, and entertainment facilities. It will feature colorful floors and ample natural daylight. Another highlight will be the array of hanging, decorative lighting fixtures, illuminating the sculptured ceiling and the patterned floor.

SM City San Fernando in Pampanga, on the other hand, will be a shopping center in an urban setting that boasts of a large, well planned SM Department Store and SM Supermarket. A three-level parking building directly connects to the shopping mall and three cinemas will serve as the focal point of the indoor entertainment area.

The third mall to be opened in the Philippines this year, SM City Olongapo, will display a more upscale design. It will have an SM Supermarket and an SM Department Store as its anchor tenants. The mall will have four levels, complimented by three levels of parking, and will house three SM Cinemas.

Meanwhile, the upcoming SM mall in China occupies approximately 30,000 sqm of land in the Wuzhong District of the City of Suzhou, which is a part of Jiangsu Province in Eastern China. Construction of the two-building, four-level SM City Suzhou started in 2008, and once completed this year, the shopping mall will have a GFA of about 72,000 sqm. Among its anchor tenants will be restaurant chain KFC, personal care products retailer Watsons, and department store Laiya, among others. The mall will have a cinema operated by Wanda.

As for the malls to be expanded, the new design of the SM City Davao will create an identity that revitalizes that of the original mall. A random pattern of colored rectangles will decorate the expansion's exterior, while incorporating wide windows to provide sufficient light to the spaces allotted for BPO (business process outsourcing) firms located at the upper levels.

The primary feature of SM City Dasmariñas' expansion will be the five-level new structure that will rise at the northwest end of the existing mall. The expansion will offer not only three levels of innovative and exciting retail spaces, but also two levels of flexible, quality space for BPO offices.

With these exciting new malls and expansion projects in its portfolio, SM Prime readies itself to enter the new decade with more and better capacity to ably serve its millions of customers.

BANKING

SM's two banking subsidiaries, Banco de Oro Unibank, Inc. (BDO) and China Banking Corporation (China Bank) both posted robust results for full-year 2010.

BDO ended 2010 with a net income of Php8.8 billion, up 46% from the Php6.0 billion it earned a year before, thus exceeding its initial earnings target. The bank also reported that its total resources reached the Php1.0 trillion mark, making it the first Philippine bank to do so. BDO's strong performance came from a more diversified and sustainable earnings stream. Its gross customer loans grew 15%, reaching Php541.5 billion with growth across all business segments. Total deposits, on the other hand, increased by 13% to Php782.6 billion. A larger earning asset base together with lower funding costs resulted in a 12% increase in net interest income to Php34.2 billion. The bank's fee-based service income likewise grew to Php10.4 billion on strong contributions from trust, private banking, remittance, transaction banking, insurance, investment banking, and credit cards.

Similarly, China Bank reported significant gains for the year. Its net income improved by 22% to Php5.0 billion. This strong income performance was driven by revenues from continued loans growth and improved trading gains. Fee-based businesses such as bancassurance, private banking, cash management, and remittances also contributed to the earnings growth. The bank's total revenues grew to Php17.9 billion. Net interest income improved by 5% to Php8.6 billion as interest expense decreased by 12% due to lower borrowing rates. Fee-based income increased by 14% to Php4.7 billion, boosted by higher trading gains, which grew 47% to Php1.8 billion.

TRENDS & EXPECTATIONS

BDO performed very well in 2010. What were your growth drivers?

Despite the continuing challenges in 2010, BDO turned in a solid performance as our net income grew to Php8.8 billion. It not only surpassed the Php6.0 billion level in 2009 by 46%, but also exceeded our income guidance of Php8.1 billion for the year. Following the crisis of 2008, the Bank solidified its gains from 2009 and sustained its growth momentum in 2010.

BDO's performance reflects our success in creating a more diversified and sustainable earnings stream as our core lending, deposit-taking and service businesses drove our profit performance last year. The sustained expansion in our loan portfolio combined with lower funding costs on the robust growth in our low-cost deposits resulted in higher net interest income. Meanwhile, our fee-based service income continued to grow on strong contributions from trust, remittance, investment banking, private banking, transaction banking, insurance, and credit cards.

How did you manage to grow your customer loans by 15%?

Our gross customer loan portfolio grew 15% by putting greater focus on the business development efforts geared toward our core client segments.

As a result, growth firmed up across all business segments. We note the healthy rise in project financing for corporates, augmented by an upturn in trade finance. Such focus earned us the Award for "The Philippines' Best Trade Finance Bank" in 2010 from Global Finance Magazine.

We expanded our share in the middle market and consumer segments as well by focusing on emerging growth areas in tandem with our strategic branch expansion.

What loan segment grew the fastest? Why?

Our retail lending posted the fastest loan expansion rate. We were able to take advantage of the strong overall industry growth in consumer loans given the effect of election spending and recovery from the Pepeng and Ondoy typhoons. We also saw the resurgence of consumer confidence from a buoyant economic outlook.

How did lending rates perform in 2010? What kept them at these levels?

Average lending rates in 2010 generally headed lower given the subdued inflation rate, high system liquidity, and the BSP's unchanged stance to keep its key policy rates steady. Such an environment allowed the growth in system-wide loans.

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

Banks in general last year faced tough competition from rising disintermediation as traditional borrowers directly accessed the capital markets as an alternative source of financing. On the other hand, banks that did lend experienced some pressure on their margins as interest rates continued to decline. Meanwhile, the erosion of the manufacturing base and the emergence of non-traditional markets like OFWs forced banks to adjust their marketing strategies.

To address these challenges, we leveraged on our strong business franchise to maintain our market leadership. Our wholly-owned subsidiary, BDO Capital's active participation in the equity and debt capital markets allowed us to maintain our share of the customers' wallets despite rising disintermediation. Meanwhile, our extensive domestic and international network provided us a strong foothold in the retail business that allowed us to grow much faster than the industry.

How many new branches did you open in 2010 and what is your average cost to open a branch?

We opened 38 new branches and converted six GE Money Bank branches for a total of 44 branches opened in 2010. The cost of opening a new branch depends on the size, location, renovation, and equipment costs.

How many branches do you plan to open in 2011?

We plan to open 50 new branches in 2011.

While we have completed major investments in IT and productive capacity, we continue to make additional investments to upgrade the Bank's capabilities and to accommodate future growth.

NESTOR V. TAN
President
BDO Unibank, Inc.

What can clients expect from BDO in 2011? What direction will your expansion program take during the year?

There won't be much change from our strategy in the past. Clients can continue to expect further innovations in our products and services. We will remain solutions-driven and true to our tagline "We Find Ways".

What opportunities for growth do you see and how do you plan to take advantage of them?

We expect pockets of opportunities from our key markets. Large corporate lending will be driven by the expected rise in infrastructure spending while consumer and middle market activity will be driven by the overall optimism in the local economy.

Our strong origination and structuring capabilities give us the edge in large corporate lending opportunities. The middle-market and consumer segments will be driven by the coverage of our branch network (totalling 726 to date).

How do you plan to further grow your consumer business?

Our consumer business will continue to be anchored on our branch expansion and our business tie-ups with property developers, auto dealers and brokers. We need to consolidate our position in the provincial areas where we have already established our presence.

Do you expect interest rates to grow in 2011? How will that impact your lending operations?

We expect a slight upward adjustment in interest rates. However, we do not think that these will have an adverse effect on industry loan demand. Bank lending is seen continuing to grow this year on an upbeat business sentiment and high consumer confidence.

We still expect a moderate growth in our loan portfolio.

What would you consider as factors that contribute to BDO's competitiveness?

To my mind, our strong business franchise and our association with the SM Group are two key factors for BDO's competitiveness. Our organization is structured such that our businesses operate as vertically integrated units that are nimble and focused. The success of the individual business units has allowed us to establish a leadership position in a number of business lines.

As part of the SM Group, we are able to benefit from the synergies from SM's large customer network, SM's expertise in retail and property markets, and a strong presence in SM Malls throughout the country. We also cannot ignore the tremendous amount of goodwill we get by being part of the SM Group.

What will your core business strategies be?

Our core business strategies remain focused on three things: first, to build a strong, diversified, and sustainable earnings stream, to make the Bank less vulnerable to economic cycles. We are proud to say that we have gained much success in this regard, as our recurring income now accounts for close to 90% of our operating income, the highest in the industry, with fee-based income contributing over 20%.

Second is to create operating leverage for the businesses to achieve scale. For instance, our strong branding campaign creates top-of-mind awareness and market visibility for all of our business units. You may have noticed this in all of our branch premises that now sport a consistent look, in line with the Bank's service philosophy. While we have completed major investments in IT and productive capacity, we continue to make additional investments to upgrade the Bank's capabilities and to accommodate future growth.

The third element of our strategy is to have prudent balance sheet management to protect the Bank's assets through economic cycles. While we expect provisioning levels to normalize, we continue to adopt a conservative stance in providing a strong buffer for the next down cycle. We have also steadily reduced our non-performing assets and continue to actively manage these via various modes. Our capital base likewise remains sound, with a Capital Adequacy Ratio (CAR) over 14%, well above the regulatory minimum of 10%.

Successfully implementing these will help us achieve our business objective of having superior returns over the long term.

TRENDS & EXPECTATIONS

CHINABANK
www.chinabank.ph Since 1920

How did China Bank perform in 2010? Were your goals and objectives achieved?

As China Bank celebrated its 90th anniversary, it had the good fortune of once again reporting a record performance that exceeded our expectations, with profits rising by 22% year-on-year to Php5.0 billion. As a result, profitability ratios improved further, with return on equity (ROE) of 15.4% from 14.5% of the previous year, and return on assets (ROA) of 2.1% from 1.9%.

With the bank's profitability continuing to be among the best in the industry, CHIB declared cash dividends of Php12.0 per share plus 10% stock dividends, which when combined with the appreciation in share price, gave our stockholders one of the best yields in the banking industry.

China Bank's financial position remains solid with total capital funds of Php35.5 billion which translates to a total capital adequacy ratio of 16.6%, improving from the previous year's 12.8%. China Bank continues to be unique among the major banks in being able to deliver shareholder value and still improve its capital adequacy ratios, among the strongest in the industry, despite not having resorted to capital raising in recent years.

On top of highly adequate capital, balance sheet strength was bolstered by the improvement in the ratio of loan loss reserves to non-performing loans to 126.7% from 119.5%. As a result, our credit rating in terms of overall financial strength was again affirmed by rating agencies Fitch (individual rating of C/D) and Capital Intelligence (Financial Strength BBB-). Our National rating of "AA-" is among the highest bank ratings in the country.

Our aggressive expansion of the distribution network proceeded as programmed, with total branches growing by 22 branches for a total of 269 by yearend, 253 in the universal bank and 16 in the savings bank subsidiary.

Total assets grew by 10.1% to Php257.4 billion as gross loan portfolio expanded by 10.5% to Php113.7 billion from higher corporate, commercial, and branch-based borrowings. Low cost funding improved by 22.5% as checking and savings accounts (CASA) deposits continued to build up in 2010, reaching an unprecedented level of Php71.8 billion.

The bank was again recognized by the Bureau of Treasury as one of the "Top Ten Best Performing Government Securities Eligible dealers (GSED) in the Primary Market for 2010". CHIB shares were included in the 30-stock Philippine Stock Exchange Index last May 2010, after meeting their criteria on free market float, daily share turnover, and period of trading.

What were your major growth drivers last year?

Loans portfolio expanded by the 10.5% across all market segments of corporate, commercial, and branch-based accounts.

There was much progress in our drive to diversify core revenue streams, led by the bancassurance joint venture with Manulife, which exceeded a critical milestone of Php100 million in fee income. Other fee-based businesses such as private banking, cash management, and remittances also contributed to the earnings growth.

A window of opportunity arose in the fourth quarter that allowed for trading gains on securities to be realized, as interest rates declined sharply during that period. Defying earlier expectations, 2010 turned out to be a very good year for our treasury dealership operations, as gains from government securities trading grew 4,736% to Php1.8 billion.

The expansion in the branch network resulted in the continued growth in low-cost CASA deposits, which somehow offset the considerable drop in asset yields engendered by record-low interest rates.

Did you have to contend with challenges and difficulties in 2010?

The year 2010 was a particularly challenging year for the banking industry as the combination of low policy rates, mild inflation and a massive overhang in liquidity brought interest rates down to their historic lows. This was a consequence of the liquidity and confidence-building measures by central banks all over the world to prevent a recession arising from the 2008 financial crisis and the series of country-specific challenges in the Euro zone.

A key challenge for the year was finding asset deployment options that generate reasonable yields with acceptable risks. With the dearth of investment options, overall fund placements with the BSP climbed to Php1.5 trillion, further driving yields downward.

China Bank's core strategies are to continue to expand and diversify its revenue sources, broaden its distribution channels, maximize total customer relationship, and strengthen the organization for better competitiveness.

PETER S. DEE
President
China Bank

This low-interest environment was highly favorable to all borrowers which borrowed at lower rates and paying off existing loans with higher interest rates. A double whammy effect of disintermediation further occurred when big corporates accessed the capital markets with equity and bond issues at favorable rates and used part of the proceeds to pay off loans with the banks. This exerted pressure on loan margins.

The global banking industry prepared for the tighter capital standards outlined in the initial versions of Basel 3 rules, in response to the lessons of the 2008 financial crisis. The local banking industry not only maintained capital levels in excess of the Basel 2 requirement but built up their Pillar II equity buffer in anticipation of the January 31, 2011 deadline for implementing the internal capital adequacy assessment (ICAAP) as prescribed in BSP Circular 639.

What are your expansion plans for 2011? How many new branches will be opened during the year?

The bank remains on track to meet its target of having a total of 400 branches by 2014 for both the universal bank and the thrift bank subsidiary China Bank Savings. It will open another 58 branches in 2011, of which 18 are from the Parent and 40 from its thrift banking arm. Our ATM network will expand to 490 with 319 in-branch and 171 off-branch, and 455 for the universal bank and 35 for the savings bank.

While the branches still serve as our primary platform for interacting with clients, servicing their needs and cross-selling products and services, our electronic and alternative channels continue to expand and improve as well, with off-site and off-hour transactions handled by our online, mobile and ATM banking channels. Regional lending centers will continue to be expanded to better meet the financing needs of branch customers.

What new products, services and other innovations will you roll out in 2011?

China Bank will continue to offer products and services that will meet customers' needs and expectations.

At the corporate level, a robust financial supply chain platform will be rolled out. The bank will continue with its extensive technological upgrade involving not just its core banking platform but the implementation of business intelligence and customer relationship management, asset-liability management, manpower planning and capital adequacy and management solutions, among others. Our goal is not simply to automate and rationalize business processes but also to ensure that decisions involving our customers are driven from the perspective of total relationship management. In the pipeline for new products include savings accounts catering to overseas workers.

Are you considering more mergers and acquisitions?

The bank will pursue its branch expansion program for 400 combined branches by 2014. Given the size of the expansion, it is logical that organic growth will achieve that goal only partially. Hence, we are actively looking at acquisition opportunities to supplement this growth, hopefully at reasonable cost levels.

What will be your core business strategies for the new decade?

China Bank's core strategies are to continue to expand and diversify its revenue sources, broaden its distribution channels, maximize total customer relationship, and strengthen the organization for better competitiveness.

The role of fee-based business in revenue diversification has become more critical, as contributions from bancassurance, private banking, remittances, trade finance, cash management and foreign exchange transactions are expected to grow. New products & services will be introduced to high-end network clients by the private banking unit. The remittance business will be further enhanced through new products for the OFWs and new foreign and domestic tie-ups.

The bank plans to focus on total customer relationship management for each major market segment, corporate, middle market, and retail/consumer, to acquire larger "share of wallet" towards becoming the primary banker for its customers. The bank's objective is to offer clients a highly personalized and professional banking experience, raise client retention rates and deepen the scope and scale of account relationships.

PROPERTY

SM's property business continued to perform well beyond expectations in 2010. Revenues from real estate operations for full-year 2010 jumped 41% to Php13.0 billion, while net income expanded 44% to Php3.7 billion. Consolidated net income increased by 39% to Php3.8 billion.

SM's residential arm, SM Development Corporation (SMDC), contributed the most to the group's net income. This was followed by the commercial properties group's leasing ventures, and Costa del Hamilo's leisure and tourism activities in Pico de Loro Cove in Nasugbu, Batangas.

SMDC posted a 62% growth in its 2010 consolidated net income to Php3.0 billion from Php1.9 billion in 2009. Net profit from real estate operations alone reached Php2.6 billion, increasing 66%. The company's consolidated revenues reached Php10.0 billion in 2010. For 2011, SMDC intends to launch five new residential projects.

Meanwhile, the commercial property group's OneE-Com Center at the Mall of Asia Complex was fully leased as of end 2010. The group is now constructing TwoE-Com Center right beside its predecessor. Both buildings attract tenants from the country's burgeoning BPO (business process outsourcing) industry. Aside from its projects in the Mall of Asia Complex, SM's commercial property group also owns BPO buildings in Makati's central business district and in Baguio City.

As of the end of last year, Pico de Loro's Jacana and Myna condominium clusters have been fully completed and its condominium units were substantially handed over to unit owners. Its two other condominium clusters, Miranda and Carola, which were launched in 2008, were 62% and 58% complete, respectively. Jacana's units are 92% sold; while Myna units are 94% sold. Those of Miranda and Carola are 69% and 30% pre-sold, respectively. The beach club and the country club are now both fully completed and operational.

TRENDS & EXPECTATIONS

Residential

How do you assess your performance in 2010?

We have done exceptionally well in 2010. We have exceeded our sales targets and expanded our market penetration. And in terms of financial standing and operating results, the Company's performance was remarkable.

You launched a new brand last year now known as MPlace. How does this differ from SM Residences?

This product is primarily intended to cater to the needs of those who are just starting out in their career and those who wish to be different, as this will allow for the pursuit of artistic inclinations as regards their own individuality. Whereas SM Residences is more straightforward and utilitarian.

How did the market respond to MPlace?

We have been relatively happy with the market acceptance of the product. We are very optimistic that as the market fully appreciates its value proposition, a strong pick up will occur given its distinct advantage of being located in the city.

Aside from MPlace, what other new projects did SMDC launch in 2010? What areas did you cover?

Due to some technical and administrative challenges brought about by the national and local elections, we only launched two projects in 2010. These are MPlace at South Triangle and Blue Residences in Quezon City.

Did prices of your units increase in 2010? If so, by how much?

Unit prices of SMDC products normally rise because they are priced-engineered for investments and market reasons. The increase is being dictated more by the location and the market condition in the area.

How many new projects will you launch in 2011 and how many units are those equivalent to?

We plan to launch 4-5 projects this year. The equivalent total number of units will be in the vicinity of between 8,000-10,000 units.

Of the total projects in 2011, how many are SM Residences and how many are MPlace?

SM Residences will dominate the launches and MPlace could be about two. However, the market condition will continue to be the primary indicator on the product mix.

What is your estimated cost for these new projects and what will be your source of funds?

Our capex budget is about Php17 billion and a huge portion of the same will be funded by existing available funds.

We are very optimistic that as the market fully appreciates the value proposition of MPlace, a strong pick up will occur given its distinct advantage of being located in the city.

ROSALINE Y. QUA
Senior Vice President/COO
SM Development Corporation

Is SMDC planning to expand outside of Metro Manila? If so, where?

Yes but we are very selective. Maybe it will be in areas where we strongly believe our products will have a general fit and will have demand such as the cities of Baguio, Cebu and Davao.

Will you pursue your plans to go into China? What opportunities do you see in that market?

Housing opportunities in China are huge but the business environment needs to be studied and carefully approached with a lot of pragmatism. We shall continue to have an open mind on this prospect.

How do you plan to address the growing competition in the residential development business, particularly in Metro Manila?

We shall remain to be active in searching for the right properties and will seize and lock-in the ones in the city that fit our requirements. We will continue to provide innovative products that are affordable yet with five-star amenities. We will also remain cost efficient and effective.

PROJECTS UPDATE

On Time All The Time

Updates on SMDC's Projects

All of SMDC's various residential projects proceeded on schedule during the year. We were able to meet most of our construction targets. In addition, we attained our sales goals and delivered completed units at a faster rate.

Since 2003, when its first residential development project was started, SM Development Corporation (SMDC) has always made sure that it hews closely to its construction schedules. In 2010 the situation was no different, inasmuch as SMDC's on-going endeavors were on-track, with several projects already fully completed and turned over to unit owners.

"All of SMDC's various residential projects proceeded on schedule during the year. We were able to meet most of our construction targets. In addition, we attained our sales goals and delivered completed units at a faster rate allowing the company to book and realize more revenues," SMDC vice chairman and chief executive officer Henry T. Sy, Jr. explained.

As of end December 2010, the company's initial foray into residential development, Chateau Elysee, has fully completed five of its six mid-rise "condoville" clusters in Parañaque City, near SM City Bicutan. Started in 2003, the project was, as of the same period, 84% complete with its last cluster. In terms of sales, Chateau Elysee has sold 73% of its 2,737 total inventory. The whole project has a gross floor area (GFA) of approximately 104, 404 square meters (sqm).

As for SMDC's second project, Mezza Residences, which was started in 2006 and is right across SM City Sta. Mesa, it has already been fully completed and turned over to unit owners. With a total GFA of 130,779, Mezza Residences has sold 97% of its 2,332 total units.

Another fully completed SMDC project is Berkeley Residences, which is along Katipunan Avenue in Quezon City. The project was launched in 2008 and has a GFA of 56,733 sqm. As of the end of last year, 1,250 units of Berkeley Residences have been sold and transferred to the owners. This is equivalent to 98% of the total number of units for sale.

The next SMDC project is Grass Residences, which is right behind the largest SM mall, SM City North EDSA in Quezon City. Started in 2008, it was as of the same period, 96% complete with the construction of its Tower 1, and 21% and 2% complete with

its Tower 3 and Tower 2, respectively. It has a GFA of 246,027 sqm and has sold 71% of its 5,997 total units for sale.

Sea Residences, on the other hand, has a GFA of 140,031 sqm and is located very near the Mall of Asia Complex in Pasay City. Started in 2008, its buildings A and B are 91% completed, followed by its buildings C and E, which are 37% completed, and buildings D and F, at 13% completion. Out of 2,899 Sea Residences units available for sale, 2,486 units have already been sold.

Started in 2008, Field Residences in Parañaque City has sold 1,008 units of its 3,248 total. Of its ten towers, its Tower 1 is fully completed, while its Towers 2 and 8 are 90% and 32% completed. The whole project has a GFA of 178,051 sqm.

SMDC's eighth project, Princeton Residences, was started just last year. It is a single tower residential condominium project located along Aurora Boulevard in Quezon City. It was as of the period 32% completed and has sold half of its 1,095 total units. Princeton Residences has a GFA of 51,624 sqm.

Another project, the construction of which was also started last year, is Sun Residences. The project is located beside the Mabuhay Rotunda at the Quezon Avenue-España boundary of Manila and Quezon City.

As of the end of last year, Sun Residences was 13% completed. 1,333 or 33% of its total units were already sold. Sun Residences is estimated to have a GFA of roughly 170,000 sqm.

Jazz Residences is SMDC's residential condominium project in Makati City's central business district. Started also in 2009, it has a GFA of 286,797 sqm and has completed 13% of its Towers A, C, and D. Out of its total units for sale, 1,678 units or 32% have already been sold.

Along the northbound side of EDSA in Mandaluyong City is SMDC's Light Residences. Likewise launched last year, it has a GFA of 213,419 sqm. 22% of its Tower 1 is completed. It has a total of 4,227 units, of which 1,341 units have been sold.

SMDC's only residential project outside Metro Manila is Wind Residences in Tagaytay City. Similarly, its construction of phase one commenced last year. As of the end of December 2010, its Tower 2 was 11% completed, followed by its Tower 1 at 6% completion. On full completion, Wind Residences will have ten towers with a total of 7,959 units. During the same period, it has already sold 848 units, or about 11% of total. The project's GFA stands at 309,192 sqm.

TRENDS & EXPECTATIONS

Leisure

How did SM's Hamilo Coast perform in 2010?

For 2010, Hamilo Coast posted a net income of Php122 million with gross revenues of Php1.32 billion from sales of condominium units and club shares. During the year, the Jacana and Myna condominium clusters were completed and the Country Club opened in May.

What is the status of the condominium projects within Pico de Loro?

The Jacana and Myna clusters of four buildings are 93% sold. Remaining units are comprised of leased units managed by the club, model units, and inventory earmarked for product upgrade. Sold units in these clusters are being turned over and occupied progressively. On the other hand, the Miranda and Carola clusters of four buildings are due for completion and turnover in May and December 2011, respectively. Yearend unit take-up for Miranda is 70% and 30% for Carola.

Did prices increase during the year?

There were no price increases in 2010 but price adjustments for both condos and club shares in 2011 are being considered. There will be model upgrades and enhancement for the condos, as the units become ready for occupancy this year. For club shares, with the completion of the country club last May 2010, a price adjustment may take place in the first half of 2011.

What is the profile of your buyers and club members?

Condo unit owners are generally full-nesters in their 40s and 50s. Most are married with children and are either small business owners, entrepreneurs, or senior executives of multinational or financial institutions. They are typically residents of upscale villages or condominiums in the greater Manila area who are looking for vacation properties for rest and recreation purposes. Club share owners are between ages 30 and 50, with younger children and prevalently businessmen. The common thread among buyers is their preference for a place by the sea and access to water and sports amenities.

How have the beach club and country club been performing?

The club has been drawing an increasing number of members and guests particularly during the peak periods of Holy Week, Christmas, New Year, and special long weekend holidays. The past year was dedicated to putting together the management systems and procedures necessary for club operations. The aim is for the club to offer a full range of leisure activities and a unique blend of F&B (food and beverage) experience that will set it apart from the others.

What do you do to ensure a constant flow of visitors to the resort?

The main driver of visits will be the year-round calendar of leisure activities that the club will offer. As condos are turned over each week, unit owners have started staying at Pico de Loro for family bonding and recreation both during weekdays and weekends. Individual and corporate club members who normally visit just for the day can now spend more time in the resort, as Pico Sands Hotel opens its doors in the summer of 2011.

The improved economic and political climate encourages tourism travel and spending, more so in emerging markets where most economies have managed to relatively insulate themselves from the great recession.

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

What do you have in store for your clients in 2011?

The clients of Pico de Loro will have a complete experience in leisure living with the club, condos, and the hotel defining a unique beachfront lifestyle. With the product upgrades, higher level of club service for members and guests, opening of the Pico Sands Hotel and launching of the ferry service, a full array of facilities that go with the privilege of owning a condo and club share in Pico de Loro will be available. By yearend all on-going condo construction, site development and landscaping, lake promenade works, and estate projects in Pico will be completed to showcase a fully liveable resort community.

When will you launch Pico Sands and how many rooms will that hotel have?

Pico Sands Hotel will open in the first quarter of 2011, in time for the summer break, with 154 rooms. It is located beside the country club and has excellent views of Pico cove, central lagoons and surrounding mountains. With the availability of room accommodations for club guests, we expect that Pico will become a preferred seaside venue for events and functions given the banquet facilities of the club.

When will the ferry service to and from Pico de Loro be operational?

The ferry service should be operational by mid-2011 and frequency of runs from the Mall of Asia Complex to Hamilo will be scheduled according to demand until it is regularized. The schedules will be announced prior to launch of service although a separate charter run for special summer events may be introduced to accommodate more passengers and visitors during peak periods of the year.

What other projects do you plan to launch in Hamilo Coast?

Within Pico de Loro cove, we are looking at launching the most premium condominium project nearest the beachfront area the following year. The last of ten buildings in Pico cove, it will offer 180-degree unobstructed views of the cove and the China Sea. Seaview and ridgeview lots are planned in the future to address the high-end, single-detached resort homes market. Over the medium term, new areas outside of Pico cove will be developed with new product concepts.

Do you see a more rapid growth for Philippine tourism in this new decade?

There are good reasons to expect that tourism in the country will continue to grow at a much faster pace. The improved economic and political climate encourages tourism travel and spending, more so in emerging markets where most economies have managed to relatively insulate themselves from the great recession. The continuing growth of the local real estate market supports the demand for leisure property and the increasing number of new tourism destinations in various sites of the country has stimulated investments in roads and infrastructure. And should the proposed pocket open skies policy happen, a definite boost for tourism will occur.

TRENDS & EXPECTATIONS

Commercial

Please describe to us the performance of SM's commercial properties group in 2010 versus your goals at the start of the year.

Revenues grew 21% to Php2.0 billion in 2010. Despite the significant growth of our portfolio, we were able to contain the increase in our operating expenses so that income from operations grew 7% to Php716 million. Operating margins were better this year at 54% versus that of 2009's 50%.

The main driver of our growth is still office building development, which accounts for more than 50% of our income. This is followed by our retail buildings at 29%, warehousing, and the Mall of Asia Complex (MOAC) at 17% and 1.2%, respectively.

What is the progress of your existing projects, particularly TwoE-Com Center?

Our second E-Com Center project in MOAC is fast becoming top of mind among industry players, brokers, and our target tenants, particularly the business process outsourcing (BPO), shipping, logistics, and manning companies that require being located near ports and airport terminals.

TwoE-Com Center is a two-tower, 15-storey commercial building covering over 100,000 square meters (sqm) of floor area, with a leasable area of 60,000 sqm. The two towers are connected at the 13th and 14th floors, making its iconic design a first in the Philippines. The building features commercial and retail spaces at the ground floor, spacious indoor parking at the second and third floors, and a landscaped garden at the fourth level to complement casual dining restaurants. The leasable office spaces start from the fifth level up to the 15th. We project our iconic building to be completed in October 2011 and be fully operational by February 2012.

Are you more optimistic about the prospects for commercial development in 2011?

Definitely. With the positive economic and political environment our country is experiencing, bolstered by the strong growth of the BPO industry and complemented by our organization's strengths as one of the country's top conglomerates, we are confident in going through another banner year.

In Metro Manila for instance, occupancy rates for prime grade spaces will likely rise above 90% in 2011, putting pressure on the plateauing supply, thus resulting in upward pressure on rental rates. With concerns on supply in the metropolis, BPO companies are considering putting up locations in key cities outside Metro Manila or in those identified by the Business Processing Association of the Philippines (BPAP) as the "next wave" cities. This compelled us to build the TwoE-Com Center. We are also set to break ground for our Cyber Clark BPO building in Pampanga, located beside SM City Clark.

Another planned initiative for 2011 is to be part of a massive redevelopment of a cultural landmark in Manila. This year, we will also plan to enhance our product lines from merely office and commercial buildings to "themed" commercial centers in strategic areas, as well as "mini commercial centers" within our residential developments.

Where will demand for new office space be coming from?

BPO companies continue to be our primary market for office space as they seek out even larger space requirements for their flourishing industry. In fact, the Philippines has already surpassed India in terms of the number of contact center employees and in total revenues. The country still has strong potential to improve in other segments of the outsourcing sector.

Another growth area is the continued demand for our local seafarers. This has encouraged international shipping and manning companies to expand their operations, especially in our E-Com Centers, where companies can generate higher traffic in a more accessible location while enjoying the amenities of MOAC.

What are the trends in rental rates?

Office rental rates in the Philippines are still among the second lowest in the world. This is a major reason why our country is still the premier site for most offshore and outsourcing (O&O) companies.

The rental rates of our projects in MOAC are mid range as they are 18% to 25% lower than rates in the major business districts of Makati and in Bonifacio Global City but higher than those of Ortigas, Eastwood, and Alabang by about 7% to 10%, simply because of the ideal location, and the new facilities we now offer.

As a developer, our group is committed to providing ideal workplaces for bringing out the best, while maintaining cost-efficiency, in strategic locations.

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

Analysts foresee that the upward trend of rental rates will continue through 2012 by about 6% to 7%, as positive O&O growth, coupled with the tapering off of new supply, is projected to result in a supply deficit of about 91,000 sqm by the third quarter of 2013.

What do you plan to introduce to the market in 2011?

We are now in a good position to address the market's needs. Up for completion in 2011 are TwoE-Com Center in MOAC; Cyber Clark BPO building next to SM City Clark; and SaveMore Supermarket in Pedro Gil, Manila. In addition, we are looking into built-to-suit projects in Metro Manila within some of our underutilized properties, and lastly, this year will mark our foray into mixed-use developments to enhance the market, especially in MOAC.

What areas do you plan to cover and why?

For several years now, our group has focused mainly on acting as the SM Group's custodian of its non-mall real estate assets. Slowly, we are evolving into an operating unit with the construction of office and commercial developments mostly in Metro Manila. For MOAC in particular, one of our major thrusts for this year is to launch commercial projects intended to, among others, increase the density of land use, bring in additional markets to benefit our mall and other retail establishments, and to establish the complex as the premier business district of Pasay City.

Given the success of the Mall of Asia Complex, does your group have plans of replicating the complex in other parts of the country?

Our group plans to enter into "specialised mixed-use developments" featuring a specialty retail or service zone with office spaces. These planned developments will be customized to cater to the needs and wants of the local market while still maintaining the distinct SM brand.

How large is the impact of BPO companies on your operations? Do you think that the country's BPO industry will remain strong and resilient in the medium term?

Our office buildings contribute about 42% of our total revenues and about 52% of our income from operations, as compared to our retail buildings, which contribute about 38% and 29% of our revenues and operating income, respectively.

As for the BPO industry in general, the BPO market comprises about 80% to 90% of our office space take-up. With its robust demand, we foresee this to be the case within the next few years.

While demand for our country's contact centers remains strong, we can further improve in other segments like knowledge process outsourcing (KPO), which requires higher skills sets such as software development, engineering design, and financial analysis, among others. As such, the Philippines will need to focus on workforce training and development to gain competitive advantage over emerging BPO destinations such as China, Egypt, and Chile. We believe this is possible through the collaboration of the public and private sectors.

As a developer, our group is committed to providing ideal workplaces for bringing out the best, while maintaining cost-efficiency, in strategic locations.

What other industries are you targeting as potential clients?

We believe that professional service industries would want to take advantage of our offerings. These services include legal, financial, architectural, engineering and design, and recruitment, which are currently located in neighbouring cities and would like to set up offices in a more prominent location.

What is your overall prognosis for the country's commercial property sector over the medium term? Are we anywhere near saturation?

Although rentals in the prime commercial property sector may have stabilized in 2010, data still points to robust take-up of the remaining stock in 2010 thru 2011. However, as additional supply is foreseen to be tapering off after 2011 and barely any additional supply coming in 2012, all signs point to an undersupply by the third quarter of 2013.

The message we can see here is that we have surpassed the oversupply cycle of the 2008 – 2009 period and our projects are in a perfect position to address the supply requirements in the medium term and maintain good rental rates.

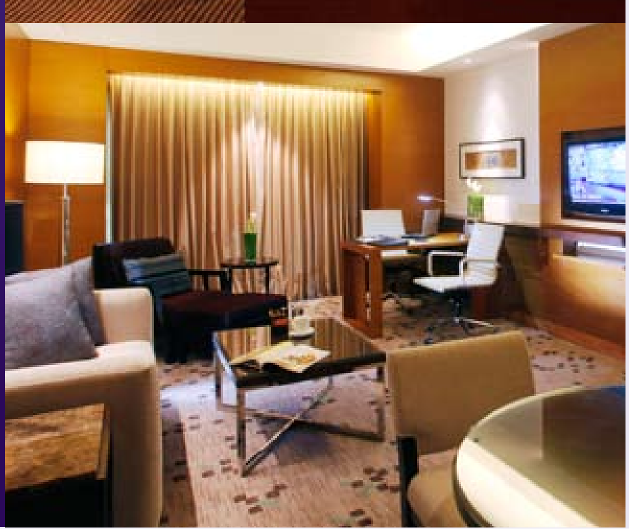
HOTELS & CONVENTIONS

SM Hotels and Conventions Corporation forged ahead with its growth and expansion in 2010 by inaugurating the 400-room Radisson Blu Hotel Cebu in Cebu City.

The hotel is located very near an SM shopping mall, SM City Cebu, and is a deluxe tourist destination offering world-class facilities and amenities such as two ballrooms, a large swimming pool, and an in-house spa. Another project in the company's portfolio is the recently renovated 260-room Taal Vista Hotel in Tagaytay City. It is a landmark hotel in Tagaytay, which in turn is a highly popular, scenic resort city known for its breathtaking views and cool climate. The hotel continues to attract a large number of tourists. By the first half of this year, SM Hotels and Conventions Corporation is set to open the 154-room Pico Sands Hotel in Pico De Loro Cove in Nasugbu, Batangas. Thus, the company will have 814 first rate hotel rooms by yearend.

Meanwhile, SM's conventions business provided during the year 28,000 square meters of leasable space at the SMX Convention Center, which is located at the Mall of Asia Complex, and in two other SM trade and convention halls. The leasable space was utilized for large-scale events, which include trade exhibits, conventions, and corporate functions, among others.

TRENDS & EXPECTATIONS



How did the hotel and conventions group perform in 2010 compared with its targets at the start of the year?

With the exception of Radisson Blu Hotel, combined revenue of other properties was slightly below target. Radisson Blu's performance was greatly affected by its late opening towards the last quarter. It was originally planned to soft open around mid-year of 2010.

How is the market's response thus far for Radisson Blu Hotel Cebu?

As with any brand new property, Radisson Blu is slowly making its mark in the Cebu market. Occupancy is improving on a monthly basis with the second highest average room rate in the city. Food and beverage operation, though, was quick to establish its foothold in a very competitive market and is at par with other hotels.

What is the total cost of the hotel and how does that compare with hotels of the same standard and quality?

The hotel cost around Php2.6 billion to complete. With its world-class facilities, it became the first hotel in the Asia-Pacific region to be classified by Carlson International under its upscale "Blu" brand of hotels. The property was recently certified by the Department of Tourism as a Deluxe Class or 5-Star hotel.

How would you describe your partnership with the Carlson Group? Are there plans to do other projects with them?

SM Hotels and Conventions Corporation has a strong partnership with the Carlson Group based on business trust and professionalism. This is quite evident with SMHCC's plan for expansion of more Carlson Group hotels in Manila and in other major cities in the country.

How did Taal Vista Hotel perform in 2010?

Taal Vista's revenue increased by 14% in 2010 as compared to 2009. It's net income increased by 58%.

What were the drivers for its growth?

The expansion of Taal Vista, with the addition of the newly constructed East Wing, provided our guests with more facilities such as guest rooms and a bigger ballroom. The hotel, being an established destination in Tagaytay, has been getting repeat business from the various market segments. It also has a strong reputation for food and beverage offerings and service. It is a favourite venue for weddings, conventions, and corporate meetings.

With its world-class facilities, the Radisson Blu Hotel Cebu became the first hotel in the Asia-Pacific region to be classified by Carlson International under its upscale "Blu" brand of hotels.

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

Will you be launching new hotel projects in 2011?

Pico Sands Hotel, a 154-room resort-type hotel located in Hamilo Coast, Nasugbu, Batangas, has soft-opened in time for summer. No other property is due to open this year.

How did the convention business perform in 2010?

SMX had a strong turnover in 2010 with its revenue increasing by 16% in 2010 versus 2009.

Did rental rates increase?

Rental rates for its different function rooms increased by 10% as occupancy and demand for space improved in 2010.

Do you see further growth in both volume and rates in 2011? Why?

The company is expected to have growth in both occupancy and rates with the improving business conditions in the Philippines. International markets continue to grow as a source of business for SMX.

How much is your estimated 2011 capital expenditure and how will this be funded?

Capital expenditure projection is Php1.2 billion for the entire group and will be internally funded within the SM group of companies.

Radisson BLU HOTELS & RESORTS CEBU

Opens for Business

"We exerted our utmost efforts to ensure the highest quality in the hotel's design, functionality, detail and artwork."

- Ms. Elizabeth T. Sy,
President,
SM Hotels and Conventions Corp.

President Benigno Aquino III cut the ribbon during the grand opening of the Radisson Blu Hotel Cebu. Also shown in the photo are (L-R) DTI Sec. Cesar Purisima, SM Hotels President Elizabeth Sy, SM Supermarkets President Herbert Sy, SM Chairman Henry Sy, Sr., SM Prime President Hans Sy and Mrs. Felicidad Sy.

President Benigno Aquino III was welcomed by the officers and staff of Radisson Blu Hotel Cebu led by General Manager Grant Gaskin.

SM executives and honored guests led a toast as the Radisson Blu Hotel Cebu formally opened its doors to the public.

SM Investments Corporation achieved another milestone in 2010 as its subsidiary, SM Hotels and Conventions Corporation formally opened its premier project in the Visayas—the 400-room Radisson Blu Hotel Cebu. This is the very first Radisson Blu Hotel in the Asia-Pacific region and is managed by the Carlson Group, a global hospitality and travel company.

During the hotel's inauguration Ms. Elizabeth T. Sy, president of SM Hotels and Conventions Corporation said, "The Radisson Blu Hotel Cebu is a fulfillment of the dream long held by my father and SM chairman, Henry Sy, Sr., to open a premier hotel in Cebu. In light of our optimism about the prospects of Philippine tourism and the resurgence of the economy, we exerted out utmost efforts to ensure the highest quality in the hotel's design, functionality, detail and artwork."

Ms. Sy added, "Thus, we are confident that the Radisson Blu Hotel Cebu will be the tourist destination of choice and the leading events venue in Cebu City and nearby regions. It is SM's further contribution to Philippine tourism which embodies our Chairman's enthusiasm on the industry's bright prospects."

The upper-upscale Radisson Blu Hotel Cebu is ideally situated right beside SM City Cebu, which is the largest and leading shopping mall complex in the region. Strong business synergy is expected to be created by and between the two SM establishments, inasmuch as SM City Cebu is also considered as a tourist destination in the area that attracts close to 120,000 customers daily.

Aside from its grand and expansive lobby, Radisson Blu Hotel Cebu has two spacious and contemporary ballrooms—the Santa Maria Grand Ballroom and the Niña Ballroom. The pillar-free Santa Maria Grand Ballroom measures 1,200 sqm and has an eight-meter high ceiling. It comes with its own dedicated top-of-the-range audiovisual equipment room and can accommodate up to 1,200 guests. The Niña Ballroom, on the other hand, measures 780 sqm, with a five-meter high ceiling. It can seat up to 650 persons. Both ballrooms come equipped with ceiling-mounted LCD projectors and drop down screens, among others.

In addition, the hotel has 10 function rooms, named after Spanish galleons, with seating capacity ranging from 10 to 80 persons. All of the meeting rooms open up to a central meeting plaza for morning and afternoon service of refreshments.

Radisson Blu Hotel Cebu has 400 rooms, all of which are equipped with 37-inch flat screen televisions and iPod docking stations. Hotel guests are provided with complimentary high-speed Internet access throughout all public areas and guest rooms.

For dining, the hotel's main restaurant, Feria, serves breakfast, lunch and dinner buffets featuring Asian, Japanese, Mediterranean, cold seafood, and dessert sections, set in a contemporary, interactive style food market. Guests seeking to dine by the 800-meter free-form swimming pool will be able to feast on an assortment of local and international cuisine, as well as freshly grilled seafood at The Pool restaurant.

The interior design of the Radisson Blu Hotel Cebu features a strong use of local, natural elements such as woodwork carvings, weavings and pearls. Upon going through the main entrance, one is immediately impressed by the majestic lobby with cathedral-high ceilings and floor to ceiling glass windows. On the left is a spacious lounge-bar. Walking further to the right, one finds the reception desk and the grand marble staircase that leads to the second floor grand ballroom. The lobby offers a visual delight created by the design accents on the marble floors and the walls.

Other amenities offered by the Radisson Blu Hotel Cebu include state-of-the-art meeting facilities and extensive professional meeting and conference planning services, thus making it a top choice for MICE (meetings, incentives, conventions, and exhibitions) events.

Philippine President Benigno C. Aquino III graced the hotel's formal opening. "In launching this new facility, SM demonstrates that it is bullish about the country's economy," President Aquino said, as he commended business tycoon and patriarch Mr. Henry Sy, Sr. The President expressed confidence that the opening of Radisson Blu Hotel Cebu will spur even more growth in tourist arrivals to Cebu.

For his part, Mr. Grant Gaskin, general manager of Radisson Blu Hotel Cebu said, "Apart from being recognized as one of the top island destinations in Asia, Cebu is also fast becoming a business hub with convention facilities that meet international standards. Radisson Blu Hotel Cebu is positioned to deliver some of the highest levels of comfort and quality, making it an ideal hotel for business and leisure travelers."

CORPORATE GOVERNANCE

Business heads of SM's core businesses during the company's First Half 2010 Financial Results Briefing

SM Investments Corporation strengthened its platform of corporate governance in 2010 by enhancing its Manual on Corporate Governance and Code of Ethics. SMIC continues to reach new heights in best practices by promoting its commitment to all its stakeholders the corporate governance principles of fairness, accountability and transparency.

Board of Directors

Under SMIC's Manual on Corporate Governance, compliance with the principles of good corporate governance starts with the Board of Directors. While it is the Board's primary responsibility to foster the long term success of the Company and secure its sustained competitiveness consistent with its fiduciary responsibility, it should do so in the best interests of the Company, its shareholders and other stakeholders.

The Board is elected by SMIC stockholders during the Annual Stockholders' Meeting. The directors hold office for one (1) year and until their successors are elected following SMIC's By-Laws. The Board of Directors holds its organizational meeting after the annual election of directors. Regular meetings of the Board are held quarterly, but special meetings may be called by the Chairman, President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year is a ground for temporary disqualification in the succeeding election.

Independent Directors

The SMIC Board of Directors is composed of eight (8) directors, three (3) of which are independent directors. SMIC adopts the definition of independence from the Securities Regulation Code and considers an independent director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company. The nomination and election of independent directors follow the provisions set forth by the SEC. All Board members have been screened and deemed eligible by the Nominations Committee and have undergone the seminar on corporate governance in compliance with SMIC's Manual on Corporate Governance.

Board Committees

The Board has established three (3) committees to aid its corporate governance functions. The committees are the Compensation and Remuneration Committee, the Nomination Committee, and the Audit and Risk Management Committee. The Committees have each adopted a Charter which identifies the Committee's composition, roles and responsibilities, as culled from the Company's Manual on Corporate Governance. The Charters also include administrative provisions on conduct of proceedings and reporting to the Board and Committee Advisors.

The Compensation and Remuneration Committee

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

The Audit and Risk Management Committee

The Audit and Risk Management Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the approval of the Company's financial reports, risk management, internal control systems and review and approval of audit plans, auditing processes and related party transactions. Under its Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks. The Committee is chaired by an independent director, Mr. Vicente S. Perez, Jr.

The Nomination Committee

The Nominations Committee evaluates all candidates nominated to the Board in accordance with the provisions of the Manual on Corporate Governance on the qualifications and disqualifications of directors.

SM's Third Quarter 2010 Financial Results Briefing

SM celebrate its 5th listing anniversary at the PSE on May 6, 2010

Directors	Regular	ASM & Organizational Board	Regular	Special	Regular	Percentage
	3/03/10	4/28/10	8/4/10	9/22/10	11/03/10	
Henry Sy, Sr.	√	√	√	√	√	100%
Teresita T. Sy-Coson	√	√	√	√	√	100%
Henry T. Sy, Jr.	√	√	√	√	√	100%
Harley T. Sy	√	√	√	√	√	100%
Jose T. Sio	√	√	√	√	√	100%
Vicente S. Perez, Jr.	√	√	√	√	√	100%
Ah Doo Lim	√	√	√	√	√	100%
Gregorio L. Domingo*	√	√	N/A	N/A	N/A	100%

* *Gregorio L. Domingo resigned his seat on the SMIC Board of Directors on 30 June 2010 following his appointment as Secretary of the Department of Trade and Industry.*

Board Remuneration

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

Evaluation of the Board and President

In 2010, the SMIC Board of Directors conducted an annual self-evaluation and an evaluation of the President. Each member of the Board was asked to rate himself, the performance of the Board as a whole, and the President's performance for the past year. The evaluation was based on the duties and responsibilities of the Board and the President under SMIC's Manual on Corporate Governance and By-Laws.

The directors were also asked to rate the support services given to them on such matters as the quality and timing of information given to the Board, and the frequency and conduct of meetings. The directors were also requested to identify training, programs or any other assistance they may need in the performance of their duties as director. The results of the evaluation were presented to the Board and President.

Policies

In early 2010, SMIC updated its Manual on Corporate Governance to conform with the SEC Revised Code of Governance. Even prior to the updating of the Manual, the following were already being practiced by the Company:

- The Board of Directors shall collectively appoint the Compliance Officer.
- The Company shall have at least two (2) independent directors or at least 20%.
- The Board shall formulate and implement policies to ensure the integrity of related party transactions.

- The Board shall establish and maintain an alternative dispute resolution system to settle conflicts involving the Company.
- The Audit Committee shall be chaired by an independent director.

Code of Ethics

The Code serves as guideposts for the Company's directors, officers and employees in the performance of their duties and responsibilities, and the way they deal with investors, creditors, customers, contractors, suppliers, regulators and the public.

The salient provisions of the Code pertain to compliance and integrity, relationship with business partners, employee welfare, shareholder rights and protection of company information. Some of these important provisions are as follows:

- Immediately report to management all suspected or actual fraudulent or dishonest acts.
- Refrain from soliciting or accepting gifts in any form from any business partner.
- Promptly disclose to management any potential conflict of interest.
- Disclosure of vital business information may only be done if authorized by the Company or required by law.
- Insider trading is strictly prohibited.

Insider Trading Policy

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

SMIC issues reminders before the release of financial reports and the disclosure of material information to ensure compliance with the policy.

Related-Party Transactions

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

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

Guidelines on Acceptance of Gifts

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

In relation to the Guidelines on Acceptance of Gifts, travel sponsored by any current or prospective business partner is also prohibited.

Disclosure and Transparency

SMIC has formally adopted a policy of full and prompt disclosure of all material information based on its Manual on Corporate Governance and Code of Ethics. In line with this, SMIC regularly updates its disclosures and provides shareholders and the general public timely and relevant information. The SMIC website has a separate corporate governance section that features subsections on the CG Working Group, policies, programs and other relevant corporate governance developments.

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

The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) gives shareholders an opportunity to raise concerns, give suggestions and vote on relevant issues. Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with law and its By-Laws. These resolutions are recorded in the minutes of the ASM. Shareholders may also convey their concerns to the Chairman, the Board, the President, Board Committee Members, Senior Management and the External Auditors. The questions and corresponding responses are also recorded in the minutes of the ASM.

Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and officers. Also, minority shareholders are given access to information relating to matters for which the management is accountable.

Orientations and Trainings

SMIC recognizes that good corporate governance requires ethical awareness from all of its stakeholders. To create an office environment that manifests the principles of good governance, the Company provides relevant training opportunities and orientations for its directors and employees.

Through periodic orientations, SMIC continues to drill down to its employees the spirit and letters of the revised Code of Ethics. The orientations are meant to inform employees of their rights and obligations under the Code, as well as enlighten them on the principles and best practices in promoting good work ethic and values. This helps reinforce the corporate governance training included in the Human Resources Department's Corporate Orientation Program for new Employees (COPE) and the Re-Orientation Program for employees who have been employed with the Company for five (5) years or more. The orientations introduce employees to the SM platform of governance and the various components of corporate governance in the business, including business ethics, risk management and corporate social responsibility.

SM also conducted seminars on the Anti-Money Laundering Law for its finance and sales staff from the property group. The seminars provided an overview of the requirements and prohibitions under the law that applies to real estate transactions. Participants were also given tips and advice on what they can do to detect and report money laundering schemes in the performance of their duties.

SMIC attended a seminar on the SEC Revised Code of Corporate Governance in Makati City on March 19, 2010. The SEC focused its talk on the definition of corporate governance and touched on the responsibilities, duties and functions of the board of directors, the role and accountability of auditors, among others. The SEC also included in the presentation their latest memorandum circulars and legal opinions.

Ms. Corazon Guidote, SMIC's Vice President for Investor Relations attended the Institute of Corporate Directors' (ICD) Professional Directors Program (PDP). The PDP is an intensive five-day course that includes a Corporate Governance Orientation Program and interactive sessions on strategy, policy, monitoring and accountability. The Program aims to instill in corporate officers a commitment to enhance the long-term value of the companies they serve through the observance of corporate governance principles, ethics and social responsibility. Ms. Guidote joined the ranks of ICD Fellows in May 2010.

In July 2010, Mr. Reginald H. Tiu, SMIC's Corporate Governance Manager successfully completed the PDP held in Cebu and was inducted into the ICD as an Associate Fellow in December 2010.

External Projects and Advocacy

SMIC participated in the ICD Annual Working Session held November 18-20, 2010 at the Sea Wind Resort in Boracay. The annual event enables regulators, advocators and publicly-listed companies to tackle relevant corporate governance issues and strengthen best practice in the country.

SMIC participated in a seminar conducted by the Chartered Financial Analyst Institute, with the theme "Corporate Governance Global Update" on July 22, 2010. During the panel discussion on regional corporate governance practices, Ms. Corazon P. Guidote, SMIC's VP for Investor Relations discussed the positive effects of CG best practice on the business sector.

SMIC sponsored the "Investing in Moral Capital and Good Governance: Will It Boost Work Excellence?" forum held on May 12, 2010. The event was organized by the Foundation for Professional Training, Inc. - Lifelong Development for Women and tackled the compatibility of work excellence with human integrity and moral capital. Dr. Jesus P. Estanislao, Chairman of the ICD and Atty. Fe B. Barin, Chairperson of the SEC, were among the many prestigious speakers at the forum that benefited the Kanluran-Kamawi Center, which provides formation, training and care for women in Makati City.

SMIC participated in the Public Governance Forum held in Makati City on March 25, 2010, with the theme "Global Best Practices for Local Breakthroughs and Transformations: A Showcase of Balanced Scorecard and Performance Governance System Hall of Famers". The forum was conducted by the Institute for Solidarity in Asia in coordination with the National Competitiveness Council and the Development Academy of the Philippines.

Good Governance Advocates and Practitioners of the Philippines (GGAPP)

GGAPP is an association of corporate governance advocates and practitioners from various publicly-listed companies, the public sector and other organizations. They hold regular monthly meetings to discuss the latest in governance best practices, regulatory issues and other relevant developments. SMIC actively participates in their activities and is represented on their Board of Trustees by SMIC's Corporate Governance Manager, Mr. Reginald H. Tiu who also serves as the Association's Treasurer.

Corporate Social Responsibility (CSR)

The Company directs most of its corporate social responsibility to its subidiary - the SM Foundation Inc. which ably manages the CSR programs of the SM Group of Companies. In support of its focus on community development and the environment, SMIC adopts various energy conservation measures, such as a policy that ensures that lights are out in the work areas during lunch breaks and that air conditioning units are turned off after office hours to minimize electricity consumption. Similar to the SM Malls, waterless urinals are installed throughout the SMIC offices to help conserve water. Energy conservation tips are posted along the bulletin boards and uploaded onto the Company's intranet regularly. To aid the community, SMIC employees participate in regular blood donation drives, provide resources to the SM Foundation and extend emergency assistance to those in need during calamities.

Citations

For its fourth successive year, SMIC received the Corporate Governance Asia, Annual Recognition Award. The awards recognize Asian companies that demonstrate excellence in corporate governance while still keeping hold of Asian values and spirit. Further, SMIC's Vice Chairperson, Teresita Sy-Coson was awarded the Asian Corporate Director Recognition Award for her contributions to the development and implementation of best corporate governance practices across all the subsidiaries and affiliates of SM. Corporate Governance Asia is the only journal currently specializing in corporate governance in the region.

SMIC and four of its listed subsidiaries and affiliates, namely SM Prime Holdings, Inc. (SM Prime), SM Development Corporation (SMDC), Highlands Prime, Inc. (HPI), and China Bank, made it to the Silver Category of the 2009 Securities and Exchange Commission, Philippine Stock Exchange, and ICD corporate governance scorecards. The awards and recognition were given during the ICD annual dinner on May 27, 2010 at the Manila Peninsula Hotel. Ms. Teresita Sy-Coson delivered the keynote speech at the event and highlighted the role of corporate governance in the growth and success of the SM Group.

On January 6, 2011, SMIC, SM Prime and BDO, three companies under the SM Group of Companies, were awarded the Asset's Platinum Corporate Award. Only four companies from the Philippines were bestowed the prestigious award for all-around excellence in management, financial performance, corporate governance, social responsibility, environmental responsibility and investor relations. SMIC has won the award for two consecutive years. The Asset Publishing and Research Ltd. is a Hong Kong based multi-media entity that serves the Asian financial markets, and is the publisher of The Asset magazine.

Moving Forward

SMIC continues to move forward with the development of the SM corporate governance culture through the regular review and improvement of policies, the expansion of training and orientation programs and the adoption of new corporate governance practices into the business.

One of the new initiatives the Company is working on is the formalization of a Corporate Governance Coordinating Committee (CGCC). Each company under the SM Group of Companies will be represented on this committee which will coordinate the individual corporate governance needs of the respective companies and formulate policies and programs across the group. Currently, the responsibilities of the Audit and Risk Management Committee to deepen oversight of risk management systems are being enhanced.

SMIC will further promote key corporate governance principles through computer wallpapers, an enhanced website and the introduction of a corporate governance newsletter. Despite its numerous initiatives, SMIC remains committed to support the public and private sectors in the improvement of the country's governance practices.

CORPORATE SOCIAL RESPONSIBILITY

Encouraged and inspired by its accomplishments in 2010, SM Foundation looks forward to the new decade where it can further heighten its advocacies and make a bigger difference in the lives of a greater number of people.

2010: A Successful Run for SM Foundation

The year 2010 brought with it a challenge for SM Foundation to double its efforts in contributing to the society. The Foundation's efforts mainly concentrated in empowering our marginalized brothers and sisters as it came up with new projects while continuing to implement the programs that were done in the past and were deemed effective. The consequent success of these programs could not have been made possible without the selfless efforts and volunteerism of people who have worked tirelessly with SM Foundation. 2010 was a year of success for the college scholarship and school building program. Provision of much needed assistance to deprived communities through medical mission and livelihood training programs also formed part of the Foundation's focus.

SM Foundation's education advocacy is intent on improving the country's public education sector. It is focused mainly on the college scholarship program and its partnership with the Adopt-A-School Program of the Department of Education (DepEd). For 2010, SM Foundation has awarded college scholarships to 267 underprivileged yet deserving students who are now enrolled in four- or five-year college courses. The Foundation also gave 81 scholarships for technical-vocational courses. As of December 2010, there are 951 SM Foundation scholars enrolled in over 70 universities around the country. In addition, 105 SM Foundation scholars graduated from their respective courses last year, 52 of them with Latin honors, the highest in terms of percentage thus far. As for the donation of school buildings, the Foundation turned over a total of eight buildings with 20 classrooms to public elementary and high schools in 2010. This brings the total number of school buildings donated by SM Foundation to 35.

For the Foundation's health advocacy, we were able to conduct 76 medical missions in 2010, serving 72,119 indigent beneficiaries from all over the Philippines. These beneficiaries received not only the proper medical diagnosis and treatment; they were also given free medicines and vitamins, including complete courses of antibiotics. SM Foundation's mobile clinics also provided laboratory and examination procedures such as x-ray and urinalysis, among many others. Apart from medical missions, the Foundation's health advocacy also focused on the Felicidad T. Sy Wellness Centers program, wherein renovations of dilapidated public health centers help to provide a better environment for healing and recuperation. Eight public health centers were successfully repaired and improved last year; thus bringing to 62 the total number of beneficiary centers since the project started.

The Foundation's mall-based outreach program carried on with its four quarterly projects in 2010. Its first quarter project, Share Your Extras, collected from shoppers in all 40 SM malls donations in kind amounting to approximately Php2.0 million. The donated items were given to 14,484 indigent families or roughly 87,000 individuals. During the second quarter, Donate-A-Book was able to collect close to 200,000 books, many of which were brand new. A total of 1,375 public schools and six reading centers nationwide were beneficiaries of this endeavor. During the third quarter, Gamot Para Sa Kapwa project was staged in coordination with our health and wellness advocacy. The undertaking brought together Php1.18 million worth of donated medicines, which were used during the Foundation's medical missions. In the last quarter of 2010, the Make A Child Happy / Share A Toy project collected 8,866 toys from mall donors and distributed to underprivileged children during the Make-A-Child-Happy program in various SM malls.

The Foundation's livelihood advocacy, on the other hand, continued its Kabalikat sa Kabuhayan program, which trains beneficiaries in scientific and latest-technology farming methods. Last year, 1,102 farmer-beneficiaries graduated from the project. To date, more than 3,000 farmers all over the country have undergone training through the foundation's efforts. Several selected produce from these farmers are sold at SM retail outlets.

In all of its advocacies' plans and projects during the year, SM Foundation recognizes the invaluable contribution of its partners from both the public and private sectors. The Foundation's partnerships with private individuals, organizations, and companies, as well as with local and national government agencies truly widened its reach and enhanced its capability to share its efforts and resources with the underprivileged.

Encouraged and inspired by its accomplishments in 2010, SM Foundation looks forward to the new decade where it can further heighten its advocacies and make a bigger difference in the lives of a greater number of people.

2010 AWARDS AND CITATIONS

SM Investments Corporation

The Asset
Platinum Award, all-around excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

Finance Asia (Best Companies in Asia Poll for the Philippines)
#8 Best Managed Company
#10 Best Investor Relations
#5 Best Corporate Social Responsibility
#8 Most Committed to a Strong Dividend Policy

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

Corporate Governance Asia
One of the recipients of the Corporate Governance Annual Recognition Awards

Corporate Governance Asia / 1st Asian Excellence Recognition Awards
Best Investor Relations by a Philippine Company
Best Investor Relations Website / Promotion
Best Corporate Social Responsibility
Asia's Best CEO (Investor Relations)-Mr. Harley Sy
Asia's Best CFO (Investor Relations)-Mr. Jose T. Sio
Best Investor Relations Professional-Corazon P. Guidote

Alpha Southeast Asia
Best Corporate/Financial Institution of the Year

BusinessMirror and Stern Stewart & Co.
Among the Top 25 Companies in the Philippines (based on the company's performance and on the Wealth Value Index)

Philippine Quill Awards
Award of Merit for SMIC's 2009 Annual Report

World Wildlife Fund
Environmental Leadership Award given to Hamilo Coast in Nasugbu, Batangas

SM Retail

Retail Asia's Top 500 Awards
Best of the Best Award
Gold Award as the Philippines' Top Retailer

Department of Trade and Industry
2010 Bagwis Corporate Gold Award for Consumer Excellence

Anvil Awards
Award of Excellence for the SM Generations Book
Award of Merit for the "My City, My SM" Campaign

Philippine Quill Awards
Merit Award for the My City, My SM Print Advertisement Campaign

City of Makati
SM Mart, Inc.-Among the 10 Outstanding Corporate Citizens of Makati City

SM Prime Holdings, Inc.

The Asset
Platinum Award, all-around excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

Finance Asia (Best Companies in Asia Poll for the Philippines)
#6 Best Managed Company
#8 Best Corporate Governance
#10 Best Investor Relations
#4 Best Corporate Social Responsibility
#4 Most Committed to a Strong Dividend Policy

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

Corporate Governance Asia / 1st Asian Excellence Recognition Awards
Best Environmental Responsibility

Asia Pacific Real Estate Association (APREA) Best Practices Awards
Emerging Markets Highly Commended Award

ICSC Asia Shopping Centre Awards
Gold Award for Marketing Excellence, Sales Promotion and Events- SM City North Edsa's world-class Safari Display at the Sky Garden

46th Anvil Awards
Awards of Excellence for the SM Cares Program on Disability Affairs and Al Gore in Manila
Awards of Merit for the "We Built this City" and Eco-Bag Programs

Department of Trade and Industry (DTI) and Philippine Retailers Association
Shopping Center of the Year-SM City North Edsa

City Government of Valenzuela
Top Taxpayer

City Government of Mandaluyong
Top Taxpayer

Philippine Business for Social Progress and Laguna Lake Development Authority
Champion for Reuse/Recycle from the Zero Basura Olympics (ZBO) for the Trash to Cash and Green Bags projects

Laguna Lake Development Authority-Lakan ng Lawa Award for good environmental performance
SM Corporate Office-Green Award for pollution control
SM City North Edsa and SM City San Lazaro- Blue Awards for their commitment to keep the earth clean and green

Department of Interior and Local Government (DILG) and Bureau of Fire Protection
Recognition to SM City Sta. Rosa for its remarkable assistance to the goals and aspirations of the Bureau of Fire Protection

Parent Advocates for Visually Impaired Children (PAVIC)
Recognition to SM Supermalls Committee on Disability Affairs for its outstanding efforts and active involvement in the welfare of PWD's

ASEAN Centre for Biodiversity
Friends of Biodiversity Award in recognition of SM Prime's efforts to promote biodiversity conservation by supporting the center's information, education and communication campaign

Pilipinas Shell Petroleum and Pilipinas Shell Foundation
Recognition to SM City Batangas for its invaluable contri bution of resources and expertise in creating awareness and educating children through the Road Safety for Children Program in Batangas City

BDO

The Asset
Platinum Award, all-around excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

Rising Star Cash Management Bank

Finance Asia
Best Bank in the Philippines , BDO
Best Foreign Exchange Bank in the Philippines,BDO
Best Investment Bank, Best Equity House, Best Bond House (BDO Capital)
Best Private Bank (BDO Private Bank)

Bangko Sentral ng Pilipinas
Top Commercial Bank on Overseas Filipinos Remittances

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

Corporate Governance Asia / 1st Asian Excellence Recognition Awards
Best Investor Relations by a Philippine Company
Best Investor Relations Professional-Luis Reyes, Jr.

Alpha Southeast Asia
Best Bank in the Philippines
Best Wealth Management Bank (BDO Private Bank)
Best Investment Bank (BDO Capital)
Best Bond House (BDO Capital)

Asia's Most Admired Companies-The Wall Street Journal Asia
Rank #6 in the Philippines

1st Asia CEO Awards
KPMG Executive Leadership Team of the Year

Global Finance
One of the World's Best Foreign Exchange Providers for 2010
One of the World's Best Trade Finance Banks for 2010

Asiamoney
Best Domestic Debt House in the Philippines, BDO Capital
Best Equity House, BDO Capital

Euromoney
Best Local Private Bank, BDO Private Bank

The Asian Banker
Achievement Award for Trade and Finance, BDO Private Bank

Corporate Governance Asia
Among those cited for Excellence in Corporate Governance

Reader's Digest
Trusted Brand Gold Winner, Bank Category
Trusted Brand Gold Winner, Credit Card Category

Visa
Highest Transaction Count Growth, Visa Classic
Highest Card in Force Growth, Visa Credit Card Classic

China Banking Corporation

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

Bureau of Treasury
One of the Top Ten Best Performing Government Securities Eligible Dealers in the Primary Market

IFR Asia and The Asset
Joint lead underwriter for SMB Bond Deal
IFR Asia, Domestic Bond Deal of the Year-Philippine Capital Markets
The Asset, Best Local Currency Bond

BANCNET
No. 2 in generating the highest average of transactions from January 1, 2005 to December 31, 2009
Also cited for generating the highest average volume of approved switched transactions from January 1, 2005 to December 31, 2009

SM Development Corporation

Asia's Most Admired Companies-The Wall Street Journal Asia
Rank #9 in the Philippines

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

Colliers International
Cited as the largest residential property developer in Metro Manila for the first half of 2010 both in terms of the number of units sold and the value of sales

Highlands Prime, Inc.

Securities and Exchange Commission, Philippine Stock Exchange and Institute of Corporate Directors Corporate Governance Scorecard
Silver Award

SM Foundation, Inc.

World Health Organization (WHO)
Award for innovative health initiatives

Finance Asia (Best Companies in Asia Poll for the Philippines)
#5 Best Corporate Social Responsibility

BOARD OF DIRECTORS

FACES

HENRY SY, SR.
Chairman

Mr. Sy is the founder of the SM Group and is currently Chairman of SM Prime, SM Land, Inc., SM Development, and Highlands Prime Inc., among others. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with five lines of businesses – retail, mall operations, banking, property and hotels and conventions. He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation.

TERESITA SY-COSON
Vice Chairperson

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

HENRY T. SY, JR.
Vice Chairperson

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

HARLEY T. SY
President

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

JOSE T. SIO
Executive Vice President and Chief Finance Officer

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

VICENTE S. PEREZ, JR.
Independent Director

Mr. Perez is the Chief Executive Officer of Alternergy Partners, a renewable power company for emerging Asian countries, Chairman of Merritt Partners, an energy advisory firm, and Chairman of Ten Knots Philippines, the holding company of El Nido Resorts. He was the youngest and longest serving Secretary of the Department of Energy. He had also briefly served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. He is Chairman of WWF Philippines and member of the WWF-International Board. Mr. Perez is a member of the advisory boards of Coca-Cola Phils., Pictet Clean Energy Fund, and Yale Center for Business and Environment. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics f rom the University of the Philippines. He was a 2005 World Fellow at Yale University where he lectured an MBA Class on renewable power in emerging countries.

AH DOO LIM
Independent Director

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

JOSEPH R. HIGDON
Independent Director

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

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

Executive Committee
Henry Sy, Sr.
Teresita Sy-Coson
Henry T. Sy, Jr.
Harley T. Sy
Jose T. Sio

Audit and Risk Management Committee

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

Compensation and Remuneration Committee

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

Nomination Committee

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

Advisers to the Board of Directors
Elizabeth T. Sy
Hans T. Sy
Herbert T. Sy
Roberto G. Manabat
Stephen CuUnjieng

Compliance Officers

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

Corporate Information Officers

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

EXECUTIVE OFFICERS

FACES

SM INVESTMENTS CORPORATE EXECUTIVES

Left to Right

MA. RUBY LL. CANO	Senior Vice President/Financial Controller
GRACE F. ROQUE	Senior Vice President, Treasury
CECILIA R. PATRICIO	Senior Vice President, Corporate Tax
CORAZON P. GUIDOTE	Vice President, Investor Relations
GIL L. GONZALES	Vice President, Corporate Planning and Corporate Governance
JOSE T. SIO	Executive Vice President/Chief Finance Officer
HARLEY T. SY	President
ELIZABETH ANNE C. UYCHACO	Senior Vice President, Corporate Services
MILA C. DUNGOG	Vice President, IT and Audit
ATTY. MARIANNE M. GUERRERO	Senior Vice President, Legal Department
ATTY. CORAZON I. MORANDO	Senior Vice President, Corporate and Legal Affairs / Assistant Corporate Secretary
ATTY. EMMANUEL C. PARAS	Corporate Secretary

RETAIL OPERATIONS

Left to Right

ROBERT KWEE	Executive Vice President SM Hypermarkets
HERBERT T. SY	President SM Supermarkets
TERESITA SY-COSON	President SM Retail, Inc.
HARLEY T. SY	Executive Vice President, Merchandising, SM Retail, Inc.
JORGE T. MENDIOLA	Senior Vice President, Operations, SM Retail, Inc.
RICKY A. LIM	Senior Vice President, Controllership, SM Retail, Inc.

HOTELS AND CONVENTIONS

Left to Right

SM HOTELS AND CONVENTIONS CORP.

CHRISTINA A. BAUTISTA	Vice President, Business Development
REYNALDO D. VILLAR	Executive Vice President
ELIZABETH T. SY	President
NESTOR OMAR T. ARCE-IGNACIO	Senior Vice President, Design and Construction

BANKING

Left to Right

BDO

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

CHINA BANK

PETER S. DEE	President and CEO
GILBERT U. DEE	Chairman
RICARDO R. CHUA	Executive Vice President and COO

MALL OPERATIONS

Left to Right

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

PROPERTY

Left to Right

LUIS Y. BENITEZ, JR.	Senior Vice President, Finance, SM Land, Inc.
SHIRLEY C. ONG	Senior Vice President, Highlands Prime, Inc.
DAVID L. RAFAEL	Senior Vice President / Commercial Properties, SM Land, Inc.
JOSEFINO C. LUCAS	Executive Vice President/ Leisure, SM Land, Inc.
ANA BESS G. PINGOL	Senior Vice President/ Chief Finance Officer, SM Land, Inc.
LEE MENG KONG	Senior Vice President, Project Engineer, SM Land, Inc.
HENRY T. SY, JR.	Vice Chairman, SM Land, Inc., SM Development Corp., Highlands Prime, Inc.
ATTY. EPITACIO B. BORCELIS, JR.	Assistant Corporate Secretary, SM Development Corp.
JOSE T. GABIONZA	Vice President, Business Planning and Special Projects, SM Development Corp.
ROGELIO R. CABUÑAG	President, SM Development Corp.
ROSALINE Y. QUA	Senior Vice President and Chief Financial Officer, SM Development Corp.
EFREN L. TAN	Vice President, Sales, SM Development Corp.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Calendar Year Ended December 31, 2010 and 2009

Results of Operation
(amounts in billion pesos)

Accounts	12 / 31 / 2010	12 / 31 / 2009	% Change
Revenue	**₱ 179.3**	**₱ 160.0**	**12.1%**
Cost and Expenses	146.2	131.8	11.0%
Income from Operations	**₱ 33.1**	**₱ 28.3**	**17.2%**
Other Income (Charges)	(2.9)	(2.4)	19.2%
Provision for Income Tax	5.4	4.8	13.1%
Non-controlling Interests	6.4	5.1	26.7%
Net Income Attributable to Equity Holders of the Parent	**₱ 18.4**	**₱ 16.0**	**15.1%**

Consolidated revenues grew by 12.1% to ₱179.3 billion, as against last year's ₱160.0 billion. Income from operations increased by 17.2% to ₱33.1 billion from last year's ₱28.3 billion. Operating income margin and Net profit margin is at 18.5% and 10.3%, respectively. Net income attributable to equity holders of the Parent for the year ended December 31, 2010 increased by 15.1% to ₱18.4 billion compared to ₱16.0 billion of the same period last year.

Retail Sales accounts for 75.6% or ₱135.6 billion of the total revenues for the year. Consolidated Retail sales grew by 9.4% from ₱123.9 billion to ₱135.6 billion for the year ended December 31, 2010 due mainly to the opening of the following new stores in 2010:

	SM Department Stores	SM Supermarkets / SaveMore Stores	SM Hypermarkets
1	SM City Tarlac	SM City Tarlac	North Harbour*
2	SM City San Pablo	SM City San Pablo	Adriatico
3	SM City Calamba	SM City Calamba	Cubao*
4	SM City Novaliches	SM City Novaliches	Jaro, Iloilo*
5	-	Megamall Extension	Jalandoni, Batangas*
6	-	Southmall Extension	Mabalacat, Pampanga*
7	-	SaveMore West Kamias	-
8	-	SaveMore Mendez	-
9	-	SaveMore Legazpi	-
10	-	SaveMore Baliwag	-
11	-	SaveMore Pasong Tamo	-
12	-	SaveMore Amang Rodriguez	-
13	-	SaveMore Bacolod East	-
14	-	SaveMore Malabon	-
15	-	SaveMore Cagayan De Oro	-
16	-	SaveMore Zapote	-
17	-	SaveMore Cartimar	-
18	-	SaveMore Berkeley	-
19	-	SaveMore Isabela	-
20	-	SaveMore Angeles	-

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

Excluding the full year sales of Makro, the retail sales growth would be 12.5% from ₱115.0 billion in 2009 to ₱129.4 billion in 2010. Of the total retail sales, the non-food group, which is composed of SM Department stores, contributed 42.7% or ₱57.9 billion, while the food group, composed of SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, contributed 57.3% or ₱77.7 bilion.

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

Real estate sales for the year ended December 31, 2010, derived mainly from condominium projects of SMDC, surged by 64.6% to ₱10,557.9 million. In 2010, SMDC launched its new brand, MPlace, through the unveiling of its inaugural project, MPlace South Triangle, in the Panay Avenue – Mother Ignacia area of Quezon City. Another project, Blue Residences, which is located at Loyola Heights in Quezon City, was also launched in 2010. In 2009, Princeton Residences and the "Big Four" projects were launched. Princeton Residences is a 40-storey condominium located at Gilmore Ave. Quezon City. The Big Four projects namely, Jazz Residences (Jupiter St., Makati), Sun Residences (Welcome Rotonda, Quezon City), Wind Residences (Tagaytay, Cavite), and Light Residences (Pioneer, EDSA) were simultaneously introduced to the market in December 2009. These projects are experiencing brisk market uptake.

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

Rent revenue for the year ended December 31, 2010, derived mainly from mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.9% to ₱17.9 billion in 2010 from ₱15.7 billion in 2009. SM Prime is the country's leading shopping mall developer and operator which currently owns 40 malls in the Philippines and three malls in China. The increase in rental revenues is largely due to rentals from new SM Supermalls. Towards the end of 2008, three malls were opened, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, as well as expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were also opened. The new malls and expansions added 904,000 square meters (sqm) to total gross floor area. Excluding the new malls and expansions, same store rental growth is at 6.0%.

The three malls in China contributed ₱1.4 billion in 2010 and ₱1.0 billion in 2009, or 7.7% and 6.5%, respectively, of SMIC's consolidated rental revenue. The rental revenue of these three malls in China increased by 35.5% in 2010 compared to the same period in 2009 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle which added 110,000 sqm of gross floor area. Average occupancy rate for the three malls is now at 92%.

For the year 2010, cinema ticket sales and amusement revenues increased by 31.2% to ₱3.7 billion in 2010 from ₱2.8 billion in 2009 due to the deployment of digital technology and cinema renovations which increased our market share for both local and foreign films and more blockbuster movies shown in 2010 compared to 2009. Amusement revenues is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Equity in net earnings of associates increased by 39.2% to ₱5.4 billion in 2010 from ₱3.9 billion in 2009, primarily due to the increase in the net income of Banco de Oro which is attributed to the continued growth of its operating income resulting from the sustained growth in business volumes, judicious management of operating costs and lower funding costs. Banco de Oro continues to derive bulk of its operating income from core lending and deposit-taking business and fee-based service activities. Also, Banco de Oro was able to capitalize on trading opportunities during the period.

Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives increased by 141.2% to ₱1.8 billion in 2010 from ₱0.8 billion in 2009 primarily due to the gain on sale of various available-for-sale investments of certain subsidiaries and fair value changes of the embedded derivatives related to the US$300 million convertible bonds of SMIC.

Dividend income decreased to ₱0.3 billion in 2010 compared to ₱0.4 billion in 2009 mainly due to the maturity of the $50M BDO Preferred shares under "Available-for-sale investments" account of SMPHI in October 2009.

Management fees, which is computed based on percentage of sales, increased by 22.9% from ₱0.6 billion in 2009 to ₱0.7 billion in 2010 mainly due to increase in sales of retail affiliates.

Other revenues, which comprise mainly of service fees for the promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets and service income, decreased by 44.2% to ₱3.0 billion in 2010 from last year's ₱5.3 billion mainly due to the ₱1.2 billion reversal of asset provisions in 2009.

Total cost and expenses went up by 11.0% to ₱146.2 billion for the year ended December 31, 2010 compared to 2009. Retail cost of sales increased by 6.4% from ₱98.5 billion to ₱104.8 billion while real estate cost of sales and others increased by 67.1% from ₱3.6 billion to ₱6.0 billion mainly due to the increase in sales. Selling, general and administrative expenses increased by 19.5% from ₱29.7 billion in 2009 to ₱35.5 billion in 2010. Major contributors to the increase in selling, general and administrative expenses are personnel cost, depreciation and amortization, utilities, rent, taxes and licenses, outside services, advertising and promotion and repairs and maintenance totaling to ₱29.8 billion in 2010 or a growth of 17.7% from ₱25.3 billion in 2009. The increase is primarily associated with mall expansions and new malls, department stores, supermarkets, savemore and hypermarkets.

Other charges of ₱2.9 billion in 2010 increased from last year's other charges of ₱2.4 billion mainly due to the additional interest expense on loans availed and bonds issued in 2010 (refer to Note 20 of the consolidated financial statements). Interest income increased by 7.5% from ₱3.4 billion in 2009 to ₱3.7 billion in 2010 mainly due to higher balance of temporary investments and time deposits in 2010. Gain on sale of investments in associates and real properties increased by 235.3% to ₱697.4 billion from ₱208.0 billion mainly due to disposal of certain investments in associates during the year. The increase in foreign exchange gains by 81.8% from ₱0.2 billion in 2009 to ₱0.4 billion in 2010 is primarily related to the decline in exchange rate from ₱46.20:US$1.00 in 2009 to ₱43.84:US$1.00 in 2010.

Provision for income tax increased by 13.1% to ₱5.4 billion for the year 2010 from ₱4.8 billion in 2009 mainly due to the increase in taxable income.

Non-controlling Interests increased to ₱6.4 billion in 2010 from ₱5.1 billion in 2009 due to the increase in net income of certain subsidiaries.

Financial Position
(amounts in billion pesos)

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

On the Balance Sheet side, consolidated total assets as of December 31, 2010 amounted to ₱407.4 billion, higher by 19.2% from ₱341.6 billion in previous year. On the other hand, consolidated total liabilities grew by 19.1% to ₱209.6 billion in 2010 from ₱175.9 billion in previous year.

Total current assets increased by 17.9% to ₱104.3 billion as of December 31, 2010 from ₱88.5 billion as of last year. Cash and cash equivalents increased by 53.8% to ₱67.0 billion in 2010 from ₱43.5 billion in 2009 mainly due to proceeds from loan availments during the year. Time deposits and short-term investments decreased by 91.5% to ₱0.9 billion from ₱10.4 billion as these were used to fund the early redemption by the bondholders of the US$246.3 million convertible bonds in March 2010. Investments held for trading and sale decreased by 58.1% to ₱2.0 billion in 2010 from ₱4.8 billion in 2009 mainly due to disposal of certain investments in bonds. Receivables increased by 11.7% to ₱9.8 billion from ₱8.8 billion primarily due to increase in receivable from tenants and real estate buyers associated with the increase in real estate sales and rental revenues. Merchandise inventories increased by 35.1% to ₱10.5 billion from ₱7.8 billion primarily due to new department stores, supermarkets, savemore and hypermarkets. Other current assets increased by 6.9% to ₱14.1 billion from ₱13.2 billion mainly due to the increase in inventory of club shares of Costa del Hamilo in Pico de Loro to ₱0.9 billion in 2010 from ₱0.02 billion in 2009.

Total consolidated noncurrent assets amounted to ₱303.1 billion as of December 31, 2010, a growth of 19.7% from ₱253.2 billion as of December 31, 2009. Investments available for sale increased by 44.5% to ₱11.1 billion in 2010 from ₱7.7 billion in 2009 mainly due to additional investments in bonds during the year. Investments in shares of stock increased by 22.5% to ₱70.9 billion in 2010 from ₱57.8 billion in 2009 mainly due to additional investment in shares of stock of associates, increase in equity in banks and additional share in the unrealized gain on AFS investments of associates in 2010. The increase in investment properties, property and equipment and land and development by 11.8% or ₱12.0 billion, 21.6% or ₱2.4 billion and 59.3% or ₱7.3 billion, respectively, arose from new mall constructions and expansions, real estate developments and purchase of commercial lots in 2010. The increase in noncurrent time deposits by 16.1% to ₱37.4 billion in 2010 from ₱32.2 billion in 2009 mainly came from the US$186.3 million bonds issued in 2010. Deferred tax assets went down by 39.6% to ₱0.6 billion in 2010 from ₱0.9 billion in 2009 mainly due to the decrease in deferred tax from unrealized foreign exchange loss and others of the group. Other noncurrent assets grew by 49.8% to ₱21.0 billion from ₱14.0 billion mainly due to the increase in non-current receivable from real estate buyers and escrow fund for SMDC projects.

Total consolidated current liabilities increased by 53.1% to ₱62.4 billion as of December 31, 2010 mainly due to availment of bank loans which increased by 318.8% to ₱20.4 billion in 2010 from ₱4.9 billion in 2009 and increase in accounts payable by 15.2% to ₱39.0 billion in 2010 from ₱33.9 billion in 2009 arising from trade transactions, acquisition of land and payable to government agencies in 2010. See note 18 to the audited consolidated financial statements for further discussion regarding bank loans. Income tax payable increased by 11.0% to ₱1.2 billion in 2010 from ₱1.1 billion in 2009 mainly due to higher taxable income in 2010. The 92.0% or ₱0.8 billion increase in current portion of long-term debt is mainly due to the reclassification from Long-term debt of loans which will mature in 2011. See note 20 to the audited consolidated financial statements for further discussion regarding long-term debt.

Total Noncurrent Liabilities increased to ₱147.2 billion, mainly due to the issuance of additional bonds by SMIC (US$186.3 million new money component of the US$400 million exchangeable bonds), corporate notes by SMDC (₱10.0 billion) and SM Prime (₱6.0 billion) and loan availments of the group, net of loan payments. The details of these transactions are further discussed in Note 20 to the audited consolidated financial statements. Defined benefit liability decreased by 49.0% to ₱0.2 billion in 2010 from ₱0.3 billion in 2009 due to additional contributions to the retirement fund in 2010. Deferred tax liabilities increased by 6.6% to ₱4.6 billion in 2010 from ₱4.3 billion in 2009 mainly due to higher capitalized interest and deferred rent income in 2010. Tenants' deposits and others increased by 23.9% to ₱12.4 billion in 2010 from ₱10.0 billion in 2009 mainly due to new malls and expansions in 2009 and 2010 and from new condominium projects of the real estate group. Noncurrent derivative liability decreased by 38.5% to ₱1.4 billion from ₱2.2 billion mainly due to the availment by the bondholders of US$246.3 million of the early redemption option in March 2010 and conversion of US$9M convertible bond of SMIC. See note 30 to the audited consolidated financial statements for further discussion regarding derivative transactions.

Total Stockholders' equity amounted to ₱197.8 billion as of December 31, 2010, while total Equity attributable to equity holders of the parent amounted to ₱141.5 billion. Cost of common shares held by a subsidiary increased by 993.1% to ₱0.3 billion in 2010 from ₱0.02 billion in 2009 mainly due to the acquisition by a subsidiary of parent common shares during the year. The 16.0% or ₱0.06 billion decrease in cumulative translation adjustment is related to the translation of the financial accounts of SM China malls from China Yuan Renminbi to Philippine peso. Non-controlling Interests increased by 37.5% to ₱56.3 billion in 2010 from ₱40.9 billion in 2009 mainly due to increase in net assets of certain subsidiaries. See Note 21 to the audited consolidated financial statements for further discussion regarding the Stockholders' Equity.

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

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

Key Performance Indicators

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

Accounts	12 / 31/ 2010	12 / 31/ 2009
Current Ratio	1.67 : 1.00	2.17 : 1.00
Debt-equity Ratios:		
On Gross Basis	50% : 50%	49% : 51%
On Net Basis	22% : 78%	21% : 79%
Return on Equity	13.8%	13.6%
Net Income to Revenue	10.3%	10.0%
Revenue Growth	12.1%	8.5%
Net Income Growth	15.1%	14.4%
EBITDA (In Billions of Pesos)	₱39.4B	₱34.2B

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

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

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

EBITDA improved to ₱39.4 billion in 2010 over ₱34.2 billion in 2009 mainly due to higher revenue growth of 12.1% this year compared with last year's 8.5% and higher operating margin of 18.5% this year compared with last year's 17.7%.

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

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

Expansion Plans / Prospects for the Future

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

By the end of 2011, SM Prime will have 43 malls in the Philippines, of which 16 are in Metro Manila, and the others are spread out nationwide, and four malls in China. The 47 malls will have an estimated combined GFA of 5.9 million sqm. by the end of 2011.

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

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

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

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

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

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

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

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

TERESITA T. SY-COSON
Vice Chairperson of the Board

HARLEY T. SY
President

JOSE T. SIO
Chief Financial Officer

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Committee Charter

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

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. In summary, the Charter enumerates seven (7) items which fall under the responsibilities of the Committee, namely:

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

Organization and Role of the Committee

The Audit and Risk Management Committee Charter requires that the Committee should have at least three (3) and no more than six (6) members of the Board, three of whom shall have a good understanding of finance and financial competency in such area, and one of whom shall be an independent director, Mr. Vicente S. Perez, Jr., in compliance with the requirements of the Manual on Corporate Governance. Mr. Perez meets the criteria for independence under the Securities Regulation Code. The Corporate Secretary, Atty. Emmanuel C. Paras, acts as the Committee Secretary.

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

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

Principal Activities for 2010

The Committee met four (4) times in 2010 (on March 2, on April 28, August 4 and November 3) and discussed the following matters:

- The Committee reviewed and discussed with management and Sycip, Gorres, Velayo and Company (SGV & Co.), the company's external auditor, the parent and consolidated financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2009, 1st quarter ended March 31, 2010, six month period ended June 30, 2010, and 3rd quarter ended September 30, 2010, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations.
- The Committee discussed with SGV & Co. its audit plan, including its scope of work, preliminary audit strategy, and audit time table.
- The Committee discussed with SGV & Co. significant accounting and audit issues, changes in accounting policies applicable to the SM Group, and tax updates.
- The Committee discussed with the Internal Audit Group its audit plan and results of its internal audit work.
- The Committee reviewed the details of the company's related party transactions.
- The Committee reviewed and assessed the effectiveness of the company's risk management system.
- The Committee monitored and assessed the company's compliance with laws and regulations.
- The Committee reviewed the performance and independence of the external auditor. Except for regular audit of financial statements and assistance in the preparation of annual income tax returns, SGV & Co. did not render any other professional services in 2010.

Based on its review and discussion, the Committee hereby recommends the approval of the consolidated financial statements of SM Investments Corporation and subsidiaries for the year ended December 31, 2010, and the re-appointment of SGV & Co. as external auditors.

2 March 2011

VICENTE S. PEREZ, JR.
Member
Chairman

HENRY T. SY, JR.
Member

JOSE T. SIO
Member

ATTY. CORAZON I. MORANDO
Member

SERAFIN U. SALVADOR
Member

ATTY. EMMANUEL C. PARAS
Corporate Secretary

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Investments Corporation

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

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

March 2, 2011

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 18, 22, 29 and 30)	**₱66,961,010**	₱43,547,001
Time deposits and short-term investments (Notes 8, 20, 22, 29 and 30)	**876,800**	10,361,224
Investments held for trading and sale - net (Notes 9, 12, 22, 29 and 30)	**2,007,801**	4,790,803
Receivables - net (Notes 10, 17, 22, 29 and 30)	**9,826,776**	8,791,698
Merchandise inventories - at cost (Note 23)	**10,485,903**	7,760,762
Other current assets - net (Notes 11, 16, 22, 29 and 30)	**14,133,252**	13,226,486
Total Current Assets	**104,291,542**	88,477,974
Noncurrent Assets		
Available-for-sale investments - net (Notes 12, 22, 29 and 30)	**11,097,407**	7,681,911
Investments in shares of stock of associates - net (Note 13)	**70,860,181**	57,846,770
Time deposits (Notes 8, 20, 22, 29 and 30)	**37,419,095**	32,237,225
Property and equipment - net (Notes 14 and 18)	**13,368,539**	10,993,206
Investment properties - net (Notes 15 and 20)	**113,667,244**	101,689,860
Land and development (Note 16)	**19,703,595**	12,370,434
Intangibles (Note 17)	**15,354,200**	15,343,531
Deferred tax assets (Note 27)	**576,364**	953,999
Other noncurrent assets (Notes 10, 17, 22, 26, 29 and 30)	**21,045,636**	14,049,511
Total Noncurrent Assets	**303,092,261**	253,166,447
	₱407,383,803	₱341,644,421
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 29 and 30)	**₱20,408,800**	₱4,873,294
Accounts payable and other current liabilities (Notes 19, 22, 29 and 30)	**39,039,326**	33,902,563
Income tax payable	**1,185,678**	1,067,994
Current portion of long-term debt (Notes 20, 22, 29 and 30)	**1,766,761**	920,116
Dividends payable (Notes 29 and 30)	**24,287**	22,251
Total Current Liabilities	**62,424,852**	40,786,218
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**128,600,570**	118,251,268
Derivative liabilities (Notes 29 and 30)	**1,351,441**	2,198,472
Deferred tax liabilities (Note 27)	**4,636,174**	4,346,892
Defined benefit liability (Note 26)	**178,274**	349,251
Tenants' deposits and others (Notes 15, 28, 29 and 30)	**12,375,013**	9,987,054
Total Noncurrent Liabilities	**147,141,472**	135,132,937
Equity Attributable to Equity Holders of the Parent (Note 29)		
Capital stock (Note 21)	**6,119,826**	6,110,230
Additional paid-in capital (Note 21)	**35,456,200**	35,030,710
Equity adjustments from business combination (Note 5)	**(2,332,796)**	(2,332,796)
Cost of Parent common shares held by subsidiaries (Note 21)	**(263,195)**	(24,078)
Cumulative translation adjustment of a subsidiary	**289,260**	344,302
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**6,798,095**	3,816,597
Retained earnings (Note 21):		
Appropriated	**5,000,000**	5,000,000
Unappropriated	**90,475,674**	76,850,367
Total Equity Attributable to Equity Holders of the Parent	**141,543,064**	124,795,332
Non-controlling Interests	**56,274,415**	40,929,934
Total Equity	**197,817,479**	165,725,266
	₱407,383,803	₱341,644,421

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands, Except Per Share Data)

	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Equity Adjustments from Business Combination (Note 5)	Equity Attributable to Cost of Parent Common Shares Held by Subsidiaries (Note 21)
Balance at December 31, 2009	**₱6,110,230**	**₱35,030,710**	**(₱2,332,796)**	**(₱24,078)**
Net income for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Issuance of Parent common shares	**9,596**	**425,490**	–	–
Acquisition of Parent common shares held by a subsidiary	–	–	–	**(249,812)**
Disposal of Parent common shares held by a subsidiary	–	–	–	**10,695**
Cash dividends - ₱7.88 a share	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Balance at December 31, 2010	**₱6,119,826**	**₱35,456,200**	**(₱2,332,796)**	**(₱263,195)**
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)
Net income for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share in equity adjustment from business combination	–	–	(21,717)	–
Cash dividends - ₱6.88 a share	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Balance at December 31, 2009	₱6,110,230	₱35,030,710	(₱2,332,796)	(₱24,078)
Balance at December 31, 2007	₱6,110,230	₱35,030,710	(₱2,314,966)	(₱24,078)
Net income for the year	–	–	–	–
Other comprehensive loss	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Share in equity adjustment from business combination	–	–	3,887	–
Cash dividends - ₱5.90 a share	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Balance at December 31, 2008	₱6,110,230	₱35,030,710	(₱2,311,079)	(₱24,078)

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent					Non-controlling Interests	Total Equity
Cumulative Translation Adjustment of a Subsidiary	Net Unrealized Gain on Available-for-Sale Investments (Notes 12 and 13)	Appropriated Retained Earnings (Note 21)	Unappropriated Retained Earnings (Note 21)	Total		
₱344,302	**₱3,816,597**	**₱5,000,000**	**₱76,850,367**	**₱124,795,332**	**₱40,929,934**	**₱165,725,266**
–	**–**	**–**	**18,440,169**	**18,440,169**	**6,437,780**	**24,877,949**
(55,042)	**2,981,498**	**–**	**–**	**2,926,456**	**629,277**	**3,555,733**
(55,042)	**2,981,498**	**–**	**18,440,169**	**21,366,625**	**7,067,057**	**28,433,682**
–	**–**	**–**	**–**	**435,086**	**–**	**435,086**
–	**–**	**–**	**–**	**(249,812)**	**–**	**(249,812)**
–	**–**	**–**	**–**	**10,695**	**–**	**10,695**
–	**–**	**–**	**(4,814,862)**	**(4,814,862)**	**–**	**(4,814,862)**
–	**–**	**–**	**–**	**–**	**9,688,915**	**9,688,915**
–	**–**	**–**	**–**	**–**	**(1,411,491)**	**(1,411,491)**
₱289,260	**₱6,798,095**	**₱5,000,000**	**₱90,475,674**	**₱141,543,064**	**₱56,274,415**	**₱197,817,479**
₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334
–	–	–	16,025,038	16,025,038	5,082,164	21,107,202
(70,524)	2,967,535	–	–	2,897,011	676,055	3,573,066
(70,524)	2,967,535	–	16,025,038	18,922,049	5,758,219	24,680,268
–	–	–	–	(21,717)	(2,694)	(24,411)
–	–	–	(4,203,838)	(4,203,838)	–	(4,203,838)
–	–	–	–	–	(2,786,981)	(2,786,981)
–	–	–	–	–	(1,703,106)	(1,703,106)
₱344,302	₱3,816,597	₱5,000,000	₱76,850,367	₱124,795,332	₱40,929,934	₱165,725,266
(₱24,270)	₱8,027,248	₱5,000,000	₱54,630,498	₱106,435,372	₱39,213,081	₱145,648,453
–	–	–	14,003,705	14,003,705	3,391,140	17,394,845
439,096	(7,178,186)	–	–	(6,739,090)	(1,870,430)	(8,609,520)
439,096	(7,178,186)	–	14,003,705	7,264,615	1,520,710	8,785,325
–	–	–	–	3,887	–	3,887
–	–	–	(3,605,036)	(3,605,036)	–	(3,605,036)
–	–	–	–	–	412,182	412,182
–	–	–	–	–	(1,481,477)	(1,481,477)
₱414,826	₱849,062	₱5,000,000	₱65,029,167	₱110,098,838	₱39,664,496	₱149,763,334

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱30,279,002**	₱25,884,945	₱23,072,818
Adjustments for:			
Interest expense (Note 25)	**7,652,557**	6,266,135	4,472,771
Depreciation and amortization (Note 24)	**6,624,006**	5,968,144	5,237,660
Equity in net earnings of associates (Note 13)	**(5,440,826)**	(3,908,242)	(1,637,176)
Interest income (Note 25)	**(3,716,452)**	(3,458,066)	(5,808,615)
Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives - net (Notes 9, 12 and 30)	**(1,856,237)**	(769,691)	(6,601,396)
Gain on sale of investments in shares of stock, investment properties and property and equipment (Notes 13, 14 and 15)	**(697,378)**	(207,971)	(48,761)
Provision for (reversal of) impairment loss (Notes 10, 11, 12, 13, 15, 19 and 24)	**557,536**	(1,209,646)	5,602,193
Unrealized foreign exchange loss (gain)	**(435,321)**	(282,928)	707,849
Dividend income	**(303,518)**	(364,950)	(775,103)
Income before working capital changes	**32,663,369**	27,917,730	24,222,240
Decrease (increase) in:			
Land and development	**(13,991,134)**	(3,080,324)	(3,889,239)
Receivables	**(4,529,308)**	(773,740)	(3,539,319)
Merchandise inventories	**(2,725,140)**	(549,559)	(1,252,901)
Other current assets	**(1,374,622)**	204,343	(5,069,127)
Increase (decrease) in:			
Accounts payable and other current liabilities	**4,139,845**	3,392,912	4,633,400
Tenants' deposits and others	**2,411,126**	2,167,004	1,170,096
Defined benefit liability	**(170,977)**	(162,594)	15,818
Net cash generated from operations	**16,423,159**	29,115,772	16,290,968
Income tax paid	**(4,991,668)**	(4,514,091)	(4,934,513)
Net cash provided by operating activities	**11,431,491**	24,601,681	11,356,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investments held for trading	**3,713,156**	95,030	6,301,475
Available-for-sale investments	**2,878,859**	4,014,430	28,606,521
Investments in shares of stock of associates	**1,506,807**	182,514	–
Property and equipment	**210,586**	341,554	468,950
Investment properties	**194,208**	86,087	94,038
Additions to:			
Investment properties (Note 15)	**(15,426,869)**	(13,566,283)	(12,449,658)
Property and equipment (Note 14)	**(4,403,485)**	(2,868,231)	(1,756,240)
Available-for-sale investments	**(3,384,105)**	(2,603,561)	(610,930)
Investments held for trading	**(2,491,297)**	(1,573,150)	(6,456,730)
Investments in shares of stock of associates	**(1,598,303)**	(3,242,909)	(2,322,913)
Interest received	**4,113,667**	3,114,030	5,179,811
Dividends received	**1,669,398**	990,240	3,002,052
Net cash used in acquisition of subsidiaries (Note 5)	**–**	(588,900)	–
Acquisition of non-controlling interest in a subsidiary (Note 2)	**–**	(3,384,213)	–
Decrease (increase) in:			
Other noncurrent assets	**(1,639,195)**	(1,933,100)	(4,554,627)
Time deposits and short-term investments	**2,583,891**	(19,157,056)	(14,311,478)
Net cash provided by (used in) investing activities	**(12,072,682)**	(40,093,518)	1,190,271
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**33,964,598**	56,439,930	29,188,955
Bank loans	**22,828,100**	9,141,811	23,023,082
Payments of:			
Long-term debt	**(20,988,993)**	(15,182,416)	(4,727,968)
Interest	**(8,301,873)**	(5,521,272)	(3,470,992)
Bank loans	**(6,608,400)**	(21,885,000)	(7,687,408)
Dividends	**(6,224,317)**	(5,949,212)	(5,042,411)
Notes payable	**–**	–	(13,975,224)
Increase (decrease) in non-controlling interests	**9,688,915**	(2,623,843)	(1,293,504)
Acquisition of Parent common shares held by subsidiaries	**(249,812)**	–	–
Disposal of Parent common shares held by subsidiaries	**10,695**	–	–
Net cash provided by financing activities	**24,118,913**	14,419,998	16,014,530
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(63,713)**	(54,820)	341,983
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**23,414,009**	(1,126,659)	28,903,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**43,547,001**	44,673,660	15,770,421
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱66,961,010**	₱43,547,001	₱44,673,660

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

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

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations from IFRIC starting January 1, 2010, except when otherwise stated:

New Interpretation

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

Amendments to Standards and Interpretations

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

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

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

- Improvements to PFRS 2009 effective 2010

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

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

Future Changes in Accounting Policies

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

New Standards and Interpretations

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for annual periods beginning on or after January 1, 2012. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. As the Group's real estate development and tourism segment is engaged in this type of activity, the adoption of this interpretation will result to a change in the segment's revenue and cost recognition from percentage of completion method to completed contract method. The Group is in the process of quantifying the impact of this new interpretation on its consolidated financial statements.

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

Amendments to Standards and Interpretation

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

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

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

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

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

Improvements to PFRS 2010

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

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

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

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

        i. at fair value, or

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

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

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

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

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

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

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

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

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

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

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

c. the amendment is to be applied retrospectively.

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

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

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

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

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

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

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

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

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

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

Acquisitions of non-cotrolling interest, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized as goodwill.

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

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

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

	Percentage of Ownership			
	2010		2009	
Company	Direct	Indirect	Direct	Indirect
Shopping Mall Development				
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries (see Note 5)	**22**	**41**	21	45
Retail				
SM Retail Inc. (SM Retail) and Subsidiaries (see Note 5)	**100**	**–**	100	–
Prime Central, Inc. and Subsidiaries (Prime Central)	**100**	**–**	100	–
Rappel Holdings, Inc. (Rappel) and Subsidiary	**100**	**–**	100	–
Real Estate Development and Tourism				
SM Land, Inc. (SM Land) and Subsidiaries:	**67**	**–**	67	–
SM Development Corporation (SMDC) and Subsidiaries	**–**	**65**	–	65
Magenta Legacy, Inc. (Magenta) (see Note 5)	**–**	**99**	–	99
Mountain Bliss Resort and Development Corporation (Mt. Bliss) and Subsidiaries	**100**	**–**	100	–
SM Commercial Properties, Inc. and Subsidiaries (SMCP)	**59**	**–**	99	–
Intercontinental Development Corporation (ICDC)	**72**	**28**	72	28
Bellevue Properties, Inc.	**62**	**–**	62	–
Tagaytay Resort Development Corporation	**25**	**33**	25	33
Hotels and Conventions				
SM Hotels and Conventions Corp. (SM Hotels) and Subsidiaries	**100**	**–**	100	–
Others				
Primebridge Holdings, Inc. (Primebridge)	**80**	**20**	80	20
Asia Pacific Computer Technology Center, Inc.	**52**	**–**	52	–
Multi-Realty Development Corporation	**91**	**–**	91	–

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

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

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

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

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

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

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

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

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

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

In January 2010, Supervalue, Inc. (SVI) transferred 20 of its operating SaveMore stores to Sanford. The transfer includes assignment of SVI's rights and obligations arising from certain contracts entered into by SVI for the benefit of the transferred stores. Any related assets and liabilities arising from the transfers were taken up in Sanford's 2010 statutory financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Estimates and Assumptions</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Time Deposits and Short-term Investments

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

Financial Instruments – Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

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

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

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

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

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

The Group's investments held for trading and derivative assets are classified as financial assets under this category, while the Group's derivative liabilities arising from issuance of convertible bonds and derivative financial instruments with negative fair values are also included as financial liabilities under this category (see Note 30).

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

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

The Group's cash and cash equivalents, time deposits and short-term investments (including noncurrent portion) and receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), receivable from a related party and long-term notes (included under "Other noncurrrent assets" account) are classified under this category (see Note 30).

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

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

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest rate method. Assets under this category are classified as current assets if expected to be realized within 12 months from reporting period and as noncurrent assets if expected date of disposal is more than a year from reporting period.

The Group's investments in shares of stock, bonds and corporate notes, redeemable preferred shares and club shares are classified under this category. The current portion is included under "Investments held for trading and sale" account in the consolidated balance sheets (see Note 30).

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

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

The Group's bank loans, accounts payable and other current liabilities, dividends payable, long-term debt and tenants' deposits and others are classified under this category (see Note 30).

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

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

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

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

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

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

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

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

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

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

Derivative Financial Instruments
The Group uses derivative financial instruments such as long-term currency swaps, foreign currency call options, interest rate swaps, foreign currency range options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 30). Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

Construction in Progress

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

Tenants' Deposits

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

Business Combinations

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

- not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

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

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

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

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

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

Intangible Assets

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

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

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

Impairment of Nonfinancial Assets

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

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

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/ or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

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

5. Business Combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Segment Information

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

The shopping mall development segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers.

The retail segment is engaged in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food and other merchandise.

The real estate development and tourism segment is involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

The hotels and conventions segment engages in and carries on the business of hotel and resort and operates and maintains any and all services and facilities incident thereto.

Others segment primarily includes the Parent Company which engages in asset management and capital investments, and associates which are involved in financial services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Segment assets and liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

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

Business Segment Data

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

	2009						
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Eliminations	Consolidated
				(In Thousands)			
Revenue:							
External customers	₱16,798,794	₱128,316,354	₱7,506,645	₱469,111	₱6,962,401	₱–	₱160,053,305
Inter-segment	3,824,919	1,800,424	2,059,453	–	3,374,675	(11,059,471)	–
	₱20,623,713	₱130,116,778	₱9,566,098	₱469,111	₱10,337,076	(₱11,059,471)	₱160,053,305
Segment results:							
Income before income tax	₱9,646,482	₱6,908,602	₱3,947,693	₱18,531	₱7,087,919	(₱1,724,282)	₱25,884,945
Provision for income tax	(2,369,645)	(1,791,245)	(206,176)	11	(415,542)	4,854	(4,777,743)
Net income	₱7,276,837	₱5,117,357	₱3,741,517	₱18,542	₱6,672,377	(₱1,719,428)	₱21,107,202
Net income attributable to:							
Equity holders of the Parent	₱7,023,350	₱4,850,361	₱3,732,656	₱17,772	₱6,672,527	(₱6,271,628)	₱16,025,038
Non-controlling interests	253,487	266,996	8,861	770	(150)	4,552,200	5,082,164
Segment assets (excluding deferred tax)	₱100,690,912	₱44,855,517	₱55,094,283	₱284,918	₱172,124,946	(₱32,360,154)	₱340,690,422
Segment liabilities (excluding deferred tax)	₱48,697,524	₱26,377,945	₱17,474,121	₱257,916	₱103,607,433	(₱24,842,676)	₱171,572,263
Net cash flows provided by (used in):							
Operating activities	₱12,600,419	₱9,014,763	(₱1,919,223)	₱119,586	₱6,216,442	(₱1,430,306)	₱24,601,681
Investing activities	(13,746,179)	(1,186,539)	458,569	(87,419)	(21,462,063)	(4,069,887)	(40,093,518)
Financing activities	(3,166,842)	(5,068,432)	1,281,780	–	16,024,139	5,349,353	14,419,998
Other information:							
Investments in shares of stock of associates	₱–	₱–	₱3,326,215	₱–	₱54,520,555	₱–	₱57,846,770
Equity in net earnings of associates	–	–	359,182	–	3,549,060	–	3,908,242
Capital expenditures	10,747,953	2,694,271	4,747,802	118,437	1,206,375	–	19,514,838
Depreciation and amortization	3,381,399	1,925,280	228,142	6,629	426,694	–	5,968,144
Reversal of impairment losses	–	–	–	–	1,209,646	–	1,209,646

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

7. Cash and Cash Equivalents

This account consists of:

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

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

8. Time Deposits and Short-term Investments

This account consists of:

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

Dollar and peso time deposits as of December 31, 2010 amounting to US$853.5 million (₱37,416.6 million) and ₱2.5 million, respectively, bear annual interest rates ranging from 3.5% to 6.5%. Dollar time deposits amounting to US$378.5 million (₱16,592.6 million) are due in July 2013, US$430.0 million (₱18,851.2 million) are due in September 2014, and US$45.0 million (₱1,972.8 million) are due in October 2017. Peso time deposit amounting to ₱2.5 million is due in August 2012.

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

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

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

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

9. Investments Held for Trading and Sale

This account consists of:

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

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

10. Receivables

This account consists of:

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

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

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

- The terms and conditions relating to related party receivables are further discussed in Note 22.

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

The movements in allowance for impairment loss are as follows:

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

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

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

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

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

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

11. Other Current Assets

This account consists of:

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

- Advances and other receivables include receivables from banks, credit cards and others which are noninterest-bearing and are normally collectible on a 30 to 90 days' term. This also includes interest-bearing advances to third parties, which are normally collectible within the next financial year, and accrued interest which relates mostly to short-term time deposits that will mature within the next financial year. Interest on time deposits is collected at respective maturity dates.

- Advances for project development mostly pertain to advances made to related parties for the acquisition of land for future development. In 2009, advances amounting to ₱639.8 million were liquidated through the transfer of the absolute voting rights in SMRC in favor of SMDC.

- Club shares inventories pertain to club shares of Pico de Loro which Costa received as consideration for the parcel of land and construction costs of the beach and country club. The club shares entitle its holders to proprietary club membership in Pico de Loro's beach and country club facilities. Costa's club shares inventories had a total of 7,256 and 4,067 as of December 31, 2010 and 2009, respectively.

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

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

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

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

12. Available-for-Sale Investments

This account consists of investments in:

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

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

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

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

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

The movements in allowance for impairment loss are as follows:

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

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

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

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

13. Investments in Shares of Stock of Associates

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

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

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

The major associates of the Group are as follows:

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

In 2010, the Group obtained 17.53% additional ownership in Belle for a total consideration of ₱1,598.3 million. The acquisition resulted in Belle becoming an associate of the Group at 24.77% and 13.24% direct and effective ownership, respectively, as of December 31, 2010.

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

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

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

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

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

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

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

The condensed financial information of significant associates is shown below:

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

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

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

14. Property and Equipment

The movements in this account are as follows:

	Land	Buildings, Condominium Units and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)					
Cost										
Balance as of December 31, 2008	₱2,947,124	₱4,865,603	₱5,167,326	₱2,811,850	₱1,774,776	₱1,802,878	₱1,698,384	₱564,584	₱275,611	₱21,908,136
Additions	–	10,825	750,586	308,156	558,185	383,206	564,356	219,653	73,264	2,868,231
Acquired business (see Note 5)	–	–	–	4,871	1,616	–	–	–	–	6,487
Reclassifications	–	(255,153)	71,554	(97,767)	203,080	43,606	(138,610)	919	(147,079)	(319,450)
Disposals/retirements	–	(64)	(181,426)	(61,744)	(299,390)	(205,196)	(163,901)	(4,851)	(572)	(917,144)
Balance as of December 31, 2009	2,947,124	4,621,211	5,808,040	2,965,366	2,238,267	2,024,494	1,960,229	780,305	201,224	23,546,260
Additions	–	62,715	1,090,663	360,809	784,465	667,928	817,095	30,169	589,641	4,403,485
Reclassifications	(1,892)	(140,961)	293,750	(35,386)	61,889	(88,121)	(132,640)	(182,360)	(85,092)	(310,813)
Disposals/retirements	–	(8,673)	(553,728)	(37,513)	(34,383)	(179,800)	(15,492)	(1,734)	(6,105)	(837,428)
Balance as of December 31, 2010	**₱2,945,232**	**₱4,534,292**	**₱6,638,725**	**₱3,253,276**	**₱3,050,238**	**₱2,424,501**	**₱2,629,192**	**₱626,380**	**₱699,668**	**₱26,801,504**
Accumulated Depreciation and Amortization										
Balance as of December 31, 2008	₱–	₱2,134,348	₱3,598,561	₱1,960,075	₱967,572	₱1,428,415	₱922,827	₱277,091	₱–	₱11,288,889
Depreciation and amortization	–	273,903	873,710	282,359	206,761	122,894	247,666	36,993	–	2,044,286
Acquired business (see Note 5)	–	–	–	1,098	118	–	–	–	–	1,216
Reclassifications	–	(179,829)	(18,140)	(30,026)	138,496	20,594	(118,758)	1,275	–	(186,388)
Disposals/retirements	–	(9)	(139,960)	(48,122)	(218,184)	(127,929)	(56,675)	(4,070)	–	(594,949)
Balance as of December 31, 2009	–	2,228,413	4,314,171	2,165,384	1,094,763	1,443,974	995,060	311,289	–	12,553,054
Depreciation and amortization	–	70,420	695,655	317,717	344,960	230,439	327,429	(9,309)	–	1,977,311
Reclassifications	–	(36,304)	59,002	(62,059)	(120,503)	(155,487)	(148,442)	2,522	–	(461,271)
Disposals/retirements	–	–	(523,959)	(26,979)	(18,658)	(64,217)	(1,643)	(673)	–	(636,129)
Balance as of December 31, 2010	**₱–**	**₱2,262,529**	**₱4,544,869**	**₱2,394,063**	**₱1,300,562**	**₱1,454,709**	**₱1,172,404**	**₱303,829**	**₱–**	**₱13,432,965**
Net Book Value										
As of December 31, 2010	**₱2,945,232**	**₱2,271,763**	**₱2,093,856**	**₱859,213**	**₱1,749,676**	**₱969,792**	**₱1,456,788**	**₱322,551**	**₱699,668**	**₱13,368,539**
As of December 31, 2009	2,947,124	2,392,798	1,493,869	799,982	1,143,504	580,520	965,169	469,016	201,224	10,993,206

15. Investment Properties

The movements in this account are as follows:

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

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

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

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

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱475.0 million and ₱487.0 million of December 31, 2010 and 2009, respectively, and a fair value of ₱13,531.0 million as of August 2007. The land was planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties was not part of the consideration paid by SM Prime of ₱10,827.0 million to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under "Investment properties" account and a corresponding liability equivalent to the same amount is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱623.0 million and ₱647.0 million as of December 31, 2010 and 2009, respectively, and a fair value of ₱16,879.0 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 20).

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

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

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

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱27,509.0 million and ₱19,076.0 million as of December 31, 2010 and 2009, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2010 and 2009 are valued at ₱5,745.0 million and ₱3,962.0 million, respectively.

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

16. Land and Development and Condominium Units for Sale

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

SMDC

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

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

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

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

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

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

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

Costa del Hamilo Inc. (Costa), a subsidiary of Mt. Bliss

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

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

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

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

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

17. Intangibles and Other Noncurrent Assets

Intangibles

This account consists of:

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

Other Noncurrent Assets

This account consists of:

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

The movements in goodwill are as follows:

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

The recoverable amount of goodwill, trademarks and brand names have been determined using the cash flow projections based on the financial budgets approved by senior management covering a 3-year period. The calculation of value-in-use is most sensitive to pre-tax discount rates. The pre-tax discount rates applied to cash flow projections ranged from 9.19% to 12.61% and 9.89% to 14.04% as of December 31, 2010 and 2009, respectively. The discount rates were determined based on the yield of 10-year government bonds at the beginning of the forecasted year. Discount rates reflect the current market assessment of the risks to each cash generating unit and were estimated based on the average percentage of weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted. Management assessed that no reasonable possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2010 and 2009 to materially exceed its recoverable amount.

In 2009, various cash advances were provided to a related party for payment of interest, purchase of shares and other operating requirements totaling to ₱6,000.0 million, which bears a fixed interest of 7.0%, payable semi-annually and will mature in 2012.

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

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

Long-term notes pertain to unquoted and unsecured subordinated debt instruments which carry fixed interest rates per annum ranging from 7.0% to 8.50% as of December 31, 2010 and 2009. The ₱200.0 million will mature on November 21, 2017, ₱88.6 million will mature on May 29, 2018 and the remaining ₱218.1 million will mature on March 20, 2019.

Treasury bonds pertain to quoted Philippine government treasury bonds classified as held-to-maturity investment which bear fixed interest rates ranging from 8.5% to 9.0%, payable quarterly. The ₱200.0 million will mature on July 31, 2013 while the remaining ₱300.0 million will mature on July 31, 2011 (see Note 11).

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

18. Bank Loans

This account consists of:

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

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

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

19. Accounts Payable and Other Current Liabilities

This account consists of:

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

The terms and conditions of the above liabilities follow:

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

20. Long-term Debt

This account consists of:

	2010			2009		
	Gross Amount	**Debt Issue Cost**	**Net Amount**	Gross Amount	Debt Issue Cost	Net Amount
			(In Thousands)			
Parent Company						
U.S. dollar-denominated:						
Fixed Rate bonds	**₱45,453,484**	**(₱473,682)**	**₱44,979,802**	₱39,270,000	(₱351,967)	₱38,918,033
Convertible bonds	**993,374**	**(3,062)**	**990,312**	13,167,251	(70,007)	13,097,244
Peso-denominated:						
Five-year and seven-year retail bonds	**9,400,000**	**(73,859)**	**9,326,141**	9,400,000	(85,466)	9,314,534
Bank loans collateralized with time deposits	**9,000,000**	**(24,335)**	**8,975,665**	6,000,000	(17,964)	5,982,036
Preferred shares	**3,500,000**	**(9,256)**	**3,490,744**	3,500,000	(11,871)	3,488,129
Other bank loans	**12,549,000**	**(28,079)**	**12,520,921**	13,049,500	(34,160)	13,015,340
Subsidiaries						
U.S. dollar-denominated:						
Three-year term loans	**3,945,600**	**(48,325)**	**3,897,275**	4,158,000	(85,442)	4,072,558
Three-year bilateral loans	**1,753,600**	**(22,795)**	**1,730,805**	924,000	(4,438)	919,562
Three-year club loan	**1,753,600**	**(40,462)**	**1,713,138**	–	–	–
Five-year bilateral loans	**1,315,200**	**(26,951)**	**1,288,249**	–	–	–
Two-year, three-year and five-year bilateral loans	**1,096,000**	**(16,193)**	**1,079,807**	2,541,000	(33,705)	2,507,295
China yuan-renminbi denominated:						
Five-year loan	**2,614,348**	**–**	**2,614,348**	2,368,520	–	2,368,520
Eight-year loan	**763,071**	**–**	**763,071**	778,228	–	778,228
Peso-denominated:						
Three-year and five-year fixed rate notes	**10,000,000**	**(75,510)**	**9,924,490**	–	–	–
Five-year, seven-year and ten-year corporate notes	**5,000,000**	**–**	**5,000,000**	–	–	–
Five-year and ten-year corporate notes	**4,295,200**	**(41,020)**	**4,254,180**	4,300,000	(43,395)	4,256,605
Five-year floating rate notes	**2,994,000**	**(8,562)**	**2,985,438**	3,996,000	(18,239)	3,977,761
Five-year, seven-year and ten-year fixed rate notes	**2,988,020**	**(18,152)**	**2,969,868**	2,994,010	(21,598)	2,972,412
Five-year bilateral loans	**109,375**	**(458)**	**108,917**	3,171,875	(10,952)	3,160,923
Other bank loans	**11,800,000**	**(45,840)**	**11,754,160**	10,380,000	(37,796)	10,342,204
	131,323,872	**(956,541)**	**130,367,331**	119,998,384	(827,000)	119,171,384
Less current portion	**1,767,203**	**(442)**	**1,766,761**	921,467	(1,351)	920,116
Noncurrent portion	**₱129,556,669**	**(₱956,099)**	**₱128,600,570**	₱119,076,917	(₱825,649)	₱118,251,268

Parent Company

Fixed Rate Bonds
On October 13, 2010, SMIC issued US$400.0 million (₱16,807.6 million) bonds which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears and will mature on October 13, 2017. This issuance is comprised of US$186.3 million (₱8,167.5 million) additional bonds, and US$82.9 million (₱3,329.5 million) and US$130.8 million (₱5,310.6 million) exchanged bonds from the existing US$350.0 million 6.75% bonds due in 2013 and US$500.0 million 6.00% bonds due in 2014, respectively. The exchange was not accounted for as an extinguishment but merely a modification of terms because the terms of the exchanged bonds are not substantially different from the existing bonds (i.e. the difference between the net present value of the cash flows of the exchanged bonds and the present value of the remaining cash flows of the existing bonds discounted using the original effective interest rate did not exceed 10%).

On September 22, 2009, SMIC issued US$500.0 million (₱16,622.2 million) bonds which bear a fixed interest rate of 6.0% per annum, payable semi-annually in arrears. The bonds will mature on September 22, 2014.

On July 17, 2008, SMIC issued US$350.0 million bonds, with peso equivalents of ₱12,023.7 million and ₱16,170.0 million as of December 31, 2010 and 2009, respectively, which bear a fixed interest rate of 6.75% per annum, payable semi-annually in arrears. The bonds will mature on July 18, 2013 and may be redeemed at the option of the relevant holder beginning July 18, 2011 at the principal amount.

Convertible Bonds
On March 19, 2007, SMIC issued at face US$300.0 million Convertible Bonds (the Bonds) (financial liability component amounted to ₱993.4 million), which carry a zero coupon with a yield to maturity of 3.50%, due on March 20, 2012. The bonds contain multiple embedded derivatives (i.e., conversion option, call option and put option) which are further discussed in Note 30.

The conversion option entitles the holder to convert its outstanding bonds for SMIC's common shares at any time, on or after June 30, 2007 until the close of business on March 13, 2012, unless previously redeemed, converted or purchased and cancelled. Starting April 25, 2007, the conversion price is equal to ₱453.39 a share, after giving effect to the 4.27% stock dividend. At various dates in 2010, the bondholders of US$9.0 million (₱435.1 million) bonds opted to convert into 959,631 of SMIC's shares (see Note 21). The said conversion resulted in a gain of ₱84.8 million shown under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income. The related derivative liability derecognized upon conversion amounted to US$2.3 million (₱97.8 million) (see Note 30).

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

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

Five-year and Seven-year Retail Bonds
On June 25, 2009, SMIC issued fixed rate bonds comprised of 5-year or Series A Bonds and 7-year or Series B Bonds due on June 26, 2014 and June 25, 2016, respectively. The total issuance amounted to ₱8,400.0 million and ₱1,000.0 million for the Series A and Series B Bonds, respectively.

The Series A Bonds have a term of five years and one day from the issue date, with a fixed interest rate equivalent to 8.25% per annum payable semi-annually in arrears starting December 26, 2009. The Series B

Bonds have a term of seven years from the issue date, with a fixed interest rate equivalent to 9.10% per annum payable semi-annually in arrears starting December 25, 2009.

Bank Loans Collateralized with Time Deposits
On January 8, 2010, SMIC obtained two five-year term loans amounting to ₱1,500.0 million each. The fixed rate loan bears an annual interest of 7.34%, while the floating rate loan is based on a three-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus an agreed margin. Both loans are payable quarterly in arrears.

On October 16, 2007, SMIC obtained a five-year term loan amounting to ₱6,000.0 million, which bears interest on a 3-month PDST-F rate plus a margin of 0.375% per annum, payable quarterly in arrears.

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

Preferred Shares
On August 6, 2007, SMIC issued Series 1 and Series 2 of non-convertible, non-participating, non-voting preferred shares amounting to ₱3,300.0 million and ₱200.0 million, respectively. Each share has a par value of ₱10.0 a share and an offer price of ₱10,000.0 a share.

The Series 1 preferred shares carry a fixed dividend rate of 7.51% per annum, payable semi-annually in arrears, while the Series 2 preferred shares carry a dividend rate based on 3-month PDST-F rate plus a margin of 75 basis points. The dividend rights are cumulative. The preferred shares rank ahead of the common shares in the event of liquidation.

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

Other Peso Bank Loans
This account includes the following:

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

- In January 2008, SMIC obtained two ten-year term loans amounting to ₱1,050.0 million and ₱500.0 million, which bear fixed interest rates of 6.85% and 6.71% per annum, respectively.

- In April 2008, SMIC obtained seven-year and ten-year term loans amounting to ₱500.0 million each, which bear fixed interest rates of 8.56% and 8.79% per annum, respectively. The seven-year term loan is subject to ₱0.5 million amortization which is due annually after issue date up to the 6th year. The remaining balance is due on maturity.

- In March 2008, SMIC obtained a seven-year term loan amounting to ₱1,000.0 million, which bears a fixed interest rate of 7.28% per annum.

- The seven-year term loans also include ₱2,000.0 million and ₱1,000.0 million fixed rate loans with interest rates of 6.90% and 6.91%, respectively. It likewise includes ₱2,000.0 million floating rate loan with interest based on 3-month PDST-F plus a margin of 0.125% per annum. The loans will mature in October and November 2014. On January 31, 2011, SMIC prepaid the ₱2,000.0 million fixed rate loan.

- In February 2009, SMIC obtained a five-year term loan amounting to ₱3,000.0 million which bears a floating interest rate based on a 6-month PDST-F plus margin.

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

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

Subsidiaries

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

US dollar-denominated Three-Year Bilateral Loans
The US$40.0 million (₱1,753.6 million) three-year bilateral unsecured loans were obtained by SM Prime on July 13, 2010 and October 15, 2009. The loans bear interest rate based on LIBOR plus spread, with bullet maturity on January 14, 2013 and October 15, 2012.

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

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

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

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained by SM Prime on August 26, 2009 amounting to ¥350.0 million (₱2,216.2 million) to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.18% in 2010 and 2009 (see Note 30).

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained by SM Prime on August 27, 2010 amounting to ¥150.0 million to finance the construction of shopping malls. Partial drawdown amounting to ¥60.0 million (₱398.1 million) was made in 2010 and the balance will be drawn in 2011. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.60% in 2010 (see Note 30).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained by SM Prime on December 28, 2005 amounting to ¥155.0 million, with peso equivalents of ₱763.1 million and ₱778.2 million as of December 31, 2010 and 2009, respectively, to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 5.35% in 2010 and 2009 (see Note 30).

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

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

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

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

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

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

Philippine Peso-denominated Five-Year Bilateral Loan
This represents a five-year bullet term loan obtained by SM Prime on June 21, 2006 amounting to ₱3,000.0 million and will mature on June 21, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on December 21, 2010. The related unamortized balance of debt issue costs charged to expense amounted to ₱3.0 million (see Note 30).

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

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

Other Bank Loans - Subsidiaries
This account includes the following:

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

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

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

Year Obtained	Maturity	Subsidiary	**2010**	2009	Interest Rate (see Note 30)
			(In Millions)		
2010	2015	SM Prime	**₱2,000.0**	₱–	PDST-F plus an agreed margin
		SM Prime	**1,000.0**	–	Agreed fixed rate less PDST-F
		SM Land	**225.0**	–	Fixed rate of 8.0% to 8.15%
		Costa	**120.0**	–	Fixed rate of 8.0% to 8.27%
		SM Land	**75.0**	–	PDST-F plus an agreed margin
2009	2014	SM Prime	**3,000.0**	3,000.0	PDST-F plus an agreed margin
		SM Land	**1,400.0**	1,400.0	Fixed rate of 7.87% to 8.25%
		SM Land	**200.0**	200.0	PDST-F plus an agreed margin
		SMDC	**–**	1,250.0	PDST-F plus an agreed margin
2008	2013	SM Prime	**1,000.0**	1,000.0	Fixed rate of 7.18%
		SMDC	**–**	750.0	Fixed rate of 8.59% to 8.66%
			₱9,020.0	₱7,600.0	

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

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

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

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

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

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

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

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

21. Equity

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

Cost of Parent Common Shares Held by Subsidiaries
Certain subsidiaries hold common shares of the Parent Company. This is presented as "Cost of Parent common shares held by subsidiaries" and is treated as a reduction in equity as shown in the consolidated balance sheets and consolidated statements of changes in equity.

The cost of common shares held by subsidiaries as of December 31, 2010 amounting to ₱263.2 million pertains to 820,491 shares with an average cost of ₱320.8 per share.

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

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

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

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

22. Related Party Transactions

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at normal market prices. For the years ended December 31, 2010, 2009 and 2008, the Group did not make any provision for doubtful accounts relating to amounts owed by related parties. An assessment is undertaken at each financial year-end by examining the financial position of the related party and the market in which the related party operates. Affiliate refers to an entity, that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Rent
The Parent Company and subsidiaries have existing lease agreements for office and commercial spaces with related companies (retail affiliates, banking group and other affiliates). Total rent income amounted to ₱3,012.8 million, ₱2,775.4 million and ₱2,444.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Management Fees
The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. (affiliates) for the management of the office and mall premises. Total management fees amounted to ₱656.1 million, ₱611.8 million and ₱518.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

SMIC and SM Retail also receive management fees from retail affiliates for management and consultancy services. The annual management fees are based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱695.4 million, ₱565.7 million and ₱346.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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

Dividend Income
The Group's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees. Total dividend income from these affiliates amounted to ₱188.5 million, ₱139.7 million and ₱105.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

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

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

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

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

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

Compensation of Key Management Personnel of the Group

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

23. Cost of Sales

This account consists of:

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

24. Selling, General and Administrative Expenses

This account consists of:

	2010	2009	2008
		(In Thousands)	
Personnel cost (see Note 22)	**₱8,728,907**	₱7,893,583	₱6,413,565
Depreciation and amortization (see Notes 14, 15 and 20)	**6,624,006**	5,968,144	5,237,660
Utilities	**4,577,600**	3,647,984	3,405,763
Rent (see Note 28)	**3,016,022**	2,309,105	2,007,651
Taxes and licenses	**2,740,926**	2,608,944	2,371,515
Outside services	**1,974,286**	1,677,606	1,657,489
Advertising and promotions	**1,215,989**	662,424	675,495
Repairs and maintenance	**899,266**	601,484	493,676
Management fees (see Note 22)	**725,212**	659,835	646,471
Supplies	**698,628**	559,127	528,087
Provision for impairment loss and others (see Notes 10, 11, 12, 13 and 15)	**557,536**	–	5,602,193
Commission expense	**404,679**	361,603	121,471
Insurance	**356,054**	216,273	206,677
Entertainment, representation and amusement	**287,665**	196,239	117,847
Transportation and travel	**287,649**	228,031	161,500
Pension expense (see Note 26)	**281,567**	270,805	208,464
Professional fees	**206,447**	186,010	209,621
Data processing	**160,840**	96,994	51,561
Communications	**92,602**	101,862	88,507
Others	**1,660,453**	1,456,761	1,151,232
	₱35,496,334	₱29,702,814	₱31,356,445

25. Interest Income and Interest Expense

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

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

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

26. Pension Benefits

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

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

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

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

Defined Benefit Liability

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

Changes in the Present Value of the Defined Benefit Obligation

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

Changes in the Fair Value of Plan Assets

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

Unrecognized Actuarial Gain

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

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

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

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

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

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

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

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

Changes in the Present Value of the Defined Benefit Obligation

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

Changes in the Fair Value of Plan Assets

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

Unrecognized Actuarial Gain

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

The amounts for the current and previous four periods follow:

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

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

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

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

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

27. Income tax

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

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

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

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

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

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

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

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

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

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

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

28. Lease Agreements

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

The Parent Company's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Tenants likewise pay a fixed monthly rent which is calculated by reference to a fixed sum per square meter of area leased except for few tenants, which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants' deposits amounted to ₱9,503.8 million and ₱8,594.6 million as of December 31, 2010 and 2009, respectively.

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

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

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases of SM Prime as of December 31 are as follows:

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

SVI has finance leases for several sets of computer equipment included under "Property and equipment" account. The leases provide options to SVI to purchase the computer equipment at the end of the lease terms.

SVI's total future minimum lease payments amounted to ₱3.9 million and ₱10.9 million, while the present value of future minimum lease payments amounted to ₱3.1 million and ₱10.2 million, as of December 31, 2010 and 2009, respectively.

29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans, long-term debt, AFS investments, investments held for trading, time deposits and short-term investments and cash and cash equivalents. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has other financial assets and liabilities such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

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

Interest Rate Risk

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

	2010							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$400 million fixed rate bonds	$–	$–	$–	$–	$383,384	₱16,807,552	(₱190,699)	₱16,616,853
Interest rate	–	–	–	–	5.50%			
US$500 million fixed rate bonds	–	–	–	379,156	–	16,622,199	(194,453)	16,427,746
Interest rate	–	–	–	6.00%	–			
US$350 million fixed rate bonds	–	–	274,264	–	–	12,023,733	(88,530)	11,935,203
Interest rate	–	–	6.75%	–	–			
Peso Loans:								
Three-year, five-year, seven-year and ten-year fixed rate notes	₱5,990	₱5,990	₱2,981,980	₱9,994,060	₱–	12,988,020	(93,662)	12,894,358
Interest rate	9.31% - 9.60%	9.31% - 9.60%	6.76% - 9.60%	7.73% - 9.85%	–			
Five-year and seven-year retail bonds	–	–	–	8,400,000	1,000,000	9,400,000	(73,859)	9,326,141
Interest rate	–	–	–	8.25%	9.10%			
Corporate Notes	5,550	5,550	–	2,984,400	1,100,000	4,095,500	(39,587)	4,055,913
Interest rate	8.40%	8.40%	–	8.40%	10.11%			
Redeemable preferred shares - Series 1	–	3,300,000	–	–	–	3,300,000	(8,920)	3,291,080
Interest rate	–	7.51%	–	–	–			
Five-year, seven-year and ten-year corporate notes	50,000	50,000	50,000	1,027,300	822,700	2,000,000	–	2,000,000
Interest rate	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%	5.79% - 6.65%			
Peso loans collateralized with time deposits	–	–	–	1,500,000	–	1,500,000	(6,243)	1,493,757
Interest rate	–	–	–	7.34%	–			
Other bank loans	1,000,000	–	1,000,000	7,744,000	1,750,000	11,494,000	(33,370)	11,460,630
Interest rate	6.65% - 7.58%	–	6.82%	6.90% - 8.57%	6.71% - 9.75%			
Variable Rate								
Foreign Currency Loans:								
US$ three-year term loans	$–	$110,000	$–	$–	$–	4,822,400	(51,104)	4,771,296
Interest rate	–	LIBOR+spread	–	–	–			
China Yuan renminbi five-year loans	¥20,000	¥40,000	¥60,000	¥260,000	¥–	2,614,348	–	2,614,348
Interest rate	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	5.18% - 5.60%	–			
US$ club loans	$–	$40,000	$–	$–	$–	1,753,600	(40,462)	1,713,138
Interest rate	–	LIBOR+spread	–	–	–			
US$ bilateral loans	–	–	25,000	–	–	1,096,000	(16,193)	1,079,807
Interest rate	–	–	LIBOR+spread	–	–			
US$300 million convertible bonds	–	22,659	–	–	–	993,374	(3,062)	990,312
Interest rate	–	3.50%	–	–	–			
China Yuan renminbi eight-year bilateral loans	¥75,000	¥40,000	¥–	¥–	¥–	763,071	–	763,071
Interest rate	5.35%	5.35%	–	–	–			
Other bank loans	$–	$–	$20,000	$30,000	$–	2,192,000	(46,968)	2,145,032
Interest rate	–	–	LIBOR+spread	LIBOR+spread	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱6,000,000	₱–	₱1,500,000	₱–	7,500,000	(18,092)	7,481,908
Interest rate	–	PDST-F+margin%	–	PDST-F+margin%	–			
Five-year, seven-year and ten-year corporate notes	–	–	–	3,000,000	–	3,000,000	–	3,000,000
Interest rate	–	–	–	PDST-F+margin%	–			
Five-year floating rate loan	2,000	2,992,000	–	–	–	2,994,000	(8,562)	2,985,438
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Redeemable preferred shares - Series 2	–	200,000	–	–	–	200,000	(336)	199,664
Interest rate	–	PDST-F+margin%	–	–	–			
Corporate notes	–	–	–	199,700	–	199,700	(1,433)	198,267
Interest rate	–	–	–	PDST-F+margin	–			
Five-year bilateral loans	62,500	46,875	–	–	–	109,375	(458)	108,917
Interest rate	PDST-F+margin%	PDST-F+margin%	–	–	–			
Other bank loans	–	10,000	840,000	9,045,000	2,960,000	12,855,000	(40,548)	12,814,452
Interest rate	–	PDST-F+margin	PDST-F+margin	PDST-F+margin	PDST-F+margin			
						₱131,323,872	(₱956,541)	₱134,367,331

	2009							
	Below 1 Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total	Debt Issue Cost	Carrying Amount
				(In Thousands)				
Fixed Rate								
Foreign Currency Loans:								
US$500 million fixed rate bonds	$–	$–	$–	$500,000	$–	₱23,100,000	(₱234,973)	₱22,865,027
Interest rate	–	–	–	6.00%				
US$350 million fixed rate bonds	–	–	–	350,000	–	16,170,000	(116,994)	16,053,006
Interest rate	–	–	–	6.75%	–			
Peso Loans:								
Five-year and seven-year retail bonds	₱–	₱–	₱–	₱8,400,000	₱1,000,000	9,400,000	(85,466)	9,314,534
Interest rate	–	–	–	8.25%	9.10%			
Corporate Notes	5,850	5,850	5,850	2,982,450	1,100,000	4,100,000	(41,659)	4,058,341
Interest rate	8.40%	8.40%	8.40%	8.40%	10.11%			
Redeemable preferred shares - Series 1	–	–	3,300,000	–	–	3,300,000	(11,344)	3,288,656
Interest rate	–	–	7.51%	–	–			
Five-year, seven-year, ten-year fixed rate notes	5,990	5,990	5,990	981,980	1,994,060	2,994,010	(21,598)	2,972,412
Interest rate	9.31% - 9.60%	9.31% - 9.60%	9.31% - 9.60%	9.31% - 9.60%	9.60% - 9.85%			
Other bank loans	–	1,004,000	4,000	7,592,000	4,749,500	13,349,500	(39,748)	13,309,752
Interest rate	–	6.65% - 8.25%	8.20% - 8.25%	5.55% - 8.67%	6.71% - 9.75%			
Variable Rate								
Foreign Currency Loans:								
US$300 million convertible bonds	$–	$–	$285,005	$–	$–	13,167,251	(70,007)	13,097,244
Interest rate	–	–	3.50%	–	–			
US$ three-year term loans	–	–	110,000	–	–	5,082,000	(89,880)	4,992,120
Interest rate	–	–	LIBOR+spread	–	–			
US$ bilateral loans	–	30,000	–	25,000	–	2,541,000	(33,705)	2,507,295
Interest rate	–	LIBOR+spread	–	LIBOR+spread	–			
China Yuan renminbi five-year loans	¥16,000	¥20,000	¥30,000	¥284,000	¥–	2,368,520	–	2,368,520
Interest rate	5.18%	5.18%	5.18%	5.18%	–			
China Yuan renminbi eight-year bilateral loans	–	75,000	40,000	–	–	778,228	–	778,228
Interest rate	–	5.35%	5.35%	–	–			
Peso Loans:								
Peso loans collateralized with time deposits	₱–	₱–	₱6,000,000	₱–	₱–	6,000,000	(17,964)	5,982,036
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year floating rate loan	2,000	2,000	3,992,000	–	–	3,996,000	(18,239)	3,977,761
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Five-year bilateral loans	62,500	3,062,500	46,875	–	–	3,171,875	(10,952)	3,160,923
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	–	–			
Series "A" floating rate note	500,000	–	–	–	–	500,000	(925)	499,075
Interest rate	PDST-F+margin%	–	–	–	–			
Redeemable preferred shares - Series 2	–	–	200,000	–	–	200,000	(527)	199,473
Interest rate	–	–	PDST-F+margin%	–	–			
Five-year and ten-year syndicated loans	–	–	–	–	200,000	200,000	(1,736)	198,264
Interest rate	–	–	–	–	PDST-F+margin%			
Other bank loans	–	–	–	9,580,000	–	9,580,000	(31,283)	9,548,717
Interest rate	–	–	–	PDST-F+margin	–			
						₱119,998,384	(₱827,000)	₱119,171,384

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's guideline is to keep between 50% to 60% of its borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge the underlying debt obligations. As of December 31, 2010 and 2009, after taking into account the effect of interest rate swaps, approximately 67% and 60%, respectively, of the Group's borrowings are kept at a fixed rate of interest, considering market conditions.

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

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

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

<u>Foreign Currency Risk</u>

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

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

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

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, current portion of time deposits and short-term investments, investments held for trading and current portion of AFS investments-bonds and corporate notes amounting to ₱66,961.0 million, ₱876.8 million, ₱444.7 million and ₱1,000.0 million, respectively, as of December 31, 2010.

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

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

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

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

Credit Risk

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

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

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

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

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

	2009					
	Shopping Mall Development	Retail	Real Estate Development and Tourism	Hotels and Conventions	Others	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	₱3,786,467	₱12,469,094	₱701,146	₱73,314	₱25,094,946	₱42,124,967
Time deposits and short-term investments (including noncurrent portion)	924,000	–	–	–	41,674,449	42,598,449
Investments held for trading	333,665	–	–	–	1,308,384	1,642,049
AFS investments	1,102,795	4,558	6,744,819	–	2,978,493	10,830,665
Receivables - net (including noncurrent portion of receivables from real estate buyers)	2,184,967	1,783,171	5,081,146	45,999	2,344,664	11,439,947
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	669,192	3,824,628	1,495,516	19,726	1,454,422	7,463,484
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	–	–	–	–	6,000,000	6,000,000
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheet)	–	500,000	–	–	–	500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	–	288,600	–	–	218,124	506,724
Derivative assets	355,235	–	–	–	944	356,179
	₱9,356,321	₱18,870,051	₱14,022,627	₱139,039	₱81,074,426	₱123,462,464

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

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

Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

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

	2010		
	High Quality	**Standard Quality**	**Total**
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱66,077,142**	**₱–**	**₱66,077,142**
Time deposits and short-term investments (including noncurrent portion)	**38,295,895**	**–**	**38,295,895**
Investments held for trading	**444,676**	**–**	**444,676**
AFS investments	**12,656,288**	**4,244**	**12,660,532**
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**11,379,096**	**2,791,810**	**14,170,906**
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	**5,546,152**	**–**	**5,546,152**
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	**6,000,000**	**–**	**6,000,000**
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheet)	**500,000**	**–**	**500,000**
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	**506,724**	**–**	**506,724**
Derivative assets	**1,253,129**	**–**	**1,253,129**
	₱142,659,102	**₱2,796,054**	**₱145,455,156**

	2009		
	High Quality	Standard Quality	Total
		(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	₱42,124,967	₱–	₱42,124,967
Time deposits and short-term investments (including noncurrent portion)	42,598,449	–	42,598,449
Investments held for trading	1,642,049	–	1,642,049
AFS investments	10,614,883	215,782	10,830,665
Receivables - net (including noncurrent portion of receivables from real estate buyers)	8,581,832	2,190,787	10,772,619
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheet)	7,463,484	–	7,463,484
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,000,000	–	6,000,000
Treasury bonds (included under "Other noncurrent assets" account in the consolidated balance sheet)	500,000	–	500,000
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	506,724	–	506,724
Derivative assets	356,179	–	356,179
	₱120,388,567	₱2,406,569	₱122,795,136

Equity Price Risk

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

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

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

	2009		
	Change in Equity Price	Effect on Income Before Income Tax	Effect on Equity After Income Tax
		(In Millions)	
Investments held for trading	+13.30%	₱71.8	₱–
	-13.30%	(71.8)	–
AFS investments	+13.30%	–	71.4
	-13.30%	–	(71.4)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of net interest-bearing debt divided by total capital plus net interest-bearing debt and interest-bearing debt divided by total capital plus interest-bearing debt. Net interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits, net of cash and cash equivalents, time deposits and short-term investments, investments in bonds held for trading, AFS investments (redeemable preferred shares and bonds and corporate notes) and long-term notes included under "Other noncurrent assets" account, while interest-bearing debt includes all short-term and long-term debt, reduced by related pledged time deposits. The Group's guideline is to keep the gearing ratio at not lower than 50:50. The Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt was 22:78 and 21:79 as of December 31, 2010 and 2009, respectively, while the ratio of interest-bearing debt to total capital plus interest-bearing debt were 50:50 and 49:51 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the Group's ratio of net interest-bearing debt to total capital plus net interest-bearing debt and ratio of interest-bearing debt to total capital plus interest-bearing debt were as follows:

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

	2010	2009
	(In Thousands)	
Bank loans	**₱20,408,800**	₱4,873,294
Current portion of long-term debt	**1,766,761**	920,116
Long-term debt - net of current portion and pledged time deposits	**121,147,771**	111,828,298
Less cash and cash equivalents, time deposits (net of pledged) and short-term investments, investments in held for trading bonds, AFS investments (bonds and corporate notes and redeemable preferred shares) and long-term notes included under "Other noncurrent assets" account*	**(102,807,129)**	(83,740,364)
Total net interest-bearing debt (a)	**40,516,203**	33,881,344
Total equity attributable to equity holders of the Parent	**141,543,064**	124,795,332
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱182,059,267**	₱158,676,676
Gearing ratio (a/b)	**22%**	21%

** Excluding AFS investments-bonds and corporate notes and long-term notes included under "Other noncurrent assets" account amounting to ₱218.1million and ₱288.6 million, respectively, in 2010 and ₱260.6 million and ₱288.6 million, respectively, in 2009.*

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

	2010	2009
	(In Thousands)	
Bank loans	**₱20,408,800**	₱4,873,294
Current portion of long-term debt	**1,766,761**	920,116
Long-term debt - net of current portion and pledged time deposits	**121,147,771**	111,828,298
Total interest-bearing debt (a)	**143,323,332**	117,621,708
Total equity attributable to equity holders of the Parent	**141,543,064**	124,795,332
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱284,866,396**	₱242,417,040
Gearing ratio (a/b)	**50%**	49%

30. Financial Instruments

Fair Values
The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, recognized as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading - bonds	**₱444,676**	**₱444,676**	₱1,642,049	₱1,642,049
Derivative assets	**1,253,129**	**1,253,129**	356,179	356,179
	1,697,805	**1,697,805**	1,998,228	1,998,228
Loans and receivables:				
Cash and cash equivalents	**66,961,010**	**66,961,010**	43,547,001	43,547,001
Time deposits and short-term investments (including noncurrent portion)	**38,295,895**	**43,063,118**	42,598,449	45,898,280
Receivables - net (including noncurrent portion of receivables from real estate buyers)	**14,794,788**	**14,794,788**	11,439,947	11,439,947
Advances and other receivables - net (included under "Other current assets" account in the consolidated balance sheets)	**5,546,152**	**5,546,152**	7,463,484	7,463,484
Receivable from a related party (included under "Other noncurrent assets" account in the consolidated balance sheets)	**6,000,000**	**6,400,621**	6,000,000	6,207,480
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheets)	**506,724**	**574,530**	506,724	657,718
	132,104,569	**137,340,219**	111,555,605	115,213,910
Held-to-Maturity -				
Treasury bonds (included under "Other current and noncurrent assets" account in the consolidated balance sheets)	**500,000**	**519,454**	500,000	527,875
AFS Investments:				
Shares of stock	**7,430,829**	**7,430,829**	6,984,843	6,984,843
Bonds and corporate notes	**5,120,431**	**5,120,431**	3,737,607	3,737,607
Redeemable preferred shares	**104,162**	**104,162**	102,795	102,795
Club shares	**5,110**	**5,110**	5,420	5,420
	12,660,532	**12,660,532**	10,830,665	10,830,665
	₱146,962,906	**₱152,218,010**	₱124,884,498	₱128,570,678
Financial Liabilities				
Financial Liabilities at FVPL -				
Derivative liabilities	**₱1,351,441**	**₱1,351,441**	₱2,198,472	₱2,198,472
Other Financial Liabilities:				
Bank loans	**20,408,800**	**20,408,800**	4,873,294	4,873,294
Accounts payable and other current liabilities*	**37,581,200**	**37,581,200**	32,946,622	32,946,622
Long-term debt (including current portion and net of unamortized debt issue cost)	**130,367,331**	**142,521,216**	119,171,384	129,075,779
Dividends payable	**24,287**	**24,287**	22,251	22,251
Tenants' deposits	**12,375,013**	**12,352,285**	9,987,054	9,986,529
	₱202,108,072	**₱214,239,229**	₱169,199,077	₱179,102,947

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

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are the quoted market prices of the instruments at reporting period.

Cash and Cash Equivalents. The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

Time Deposits and Short-term Investments. The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates. The discount rates used range from 1.10% to 2.80% and 1.15% to 2.92% as of December 31, 2010 and 2009, respectively.

Receivables and Advances and Other Receivables included under "Other current assets" account. The net carrying value approximates the fair value due to the short-term maturities. The carrying value of the noncurrent portion of receivables from real estate buyers likewise approximates its fair value.

Receivable from a Related Party and Long-term Notes included under "Other noncurrent assets" account. The estimated fair values of receivable from a related party and long-term notes is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used for receivable from a related party range from 1.79% to 2.50% and 4.42% to 5.12% as of December 31, 2010 and 2009, respectively. While the discount rates used for long-term notes range from 1.29% to 5.68% and 4.28% to 8.10% as of December 31, 2010 and 2009, respectively.

Held-to-Maturity Investment. The fair value is based on its quoted market price ranging from 103.75% to 104.10% and 105.25% to 106.07% as of December 31, 2010 and 2009, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at reporting period. For investment in debt instruments, such as the investments in mandatorily redeemable preferred shares where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. The discount rates used range from 3.31% to 4.33% and 6.28% to 7.09% as of December 31, 2010 and 2009, respectively. For unquoted equity securities, these are carried at cost less allowance for impairment loss due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair value.

Bank Loans. The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts Payable and Other Current Liabilities and Dividends Payable. The carrying values reported in the consolidated balance sheets approximate the fair value due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.31% to 5.43% and 4.27% to 8.94% as of December 31, 2010 and 2009, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 1.94% to 3.55% and 1.92% to 3.52% as of December 31, 2010 and 2009, respectively.

Tenants' Deposits. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.31% to 9.19% and 6.94% to 9.93% as of December 31, 2010 and 2009, respectively.

Derivative Assets and Liabilities. The fair values of the interest rate swaps, cross currency swaps, foreign currency call options and non-deliverable forwards are based on quotes obtained from counterparties. The fair value of the options relating to the investment in bonds and issuance of convertible bonds were computed using the indirect method of valuing multiple embedded derivatives. This valuation method compares the fair value of the option-free bond against the fair value of the bond as quoted in the market. The difference of the fair values is assigned as the value of the embedded derivatives.

Fair Value Hierarchy

As at December 31, 2010, the Group held the following financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3 and redeemable preferred shares categorized as AFS investments under Level 2;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables shows the Group's financial instruments carried at fair value as of December 31:

		2010	
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading -bonds	**₱444,676**	**₱–**	**₱–**
Derivative assets	**–**	**1,253,129**	**–**
	444,676	**1,253,129**	**–**
AFS investments:			
Shares of stocks	**7,374,086**	**–**	**–**
Bonds and corporate notes	**5,120,431**	**–**	**–**
Redeemable preferred shares	**–**	**104,162**	**–**
Club shares	**5,110**	**–**	**–**
	12,499,627	**104,162**	**–**
	₱12,944,303	**₱1,357,291**	**₱–**
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱1,224,810**	**₱126,631**

		2009	
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading - bonds	₱1,642,049	₱–	₱–
Derivative assets	–	355,235	944
	1,642,049	355,235	944
AFS investments:			
Shares of stocks	6,691,382	–	–
Redeemable preferred shares	–	102,795	–
Bonds and corporate notes	3,737,607	–	–
Club shares	5,420	–	–
	10,434,409	102,795	–
	₱12,076,458	₱458,030	₱944
Financial Liabilities			
Financial Liabilities at FVPL - Derivative liabilities	₱–	₱386,829	₱1,811,643

During the years ended December 31, 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instruments classified under Level 3 pertain to the derivative assets arising from options embedded in the investment in convertible bonds and derivative liability arising from the options in the Parent Company's convertible bonds. These were classified under Level 3 because of the credit spreads used as inputs to the fair value calculation of the options which were assessed by the Group as having a significant impact to its fair values.

Shown below is the rollforward analysis of the fair value changes from these financial instruments for the year ended December 31:

	2010	2009
	(In Thousands)	
Balance at beginning of year	(₱1,810,699)	(₱1,481,991)
Fair value of derivatives on settled contracts	1,736,460	–
Fair value changes	(52,392)	(328,708)
Balance at end of year	(₱126,631)	(₱1,810,699)

The balance at beginning of year includes positive fair value at inception of the option arising from investment in convertible bonds amounting to ₱0.9 million and negative fair value at the beginning of the year of the options arising from the Parent Company's convertible bonds amounting to ₱1,811.6 million. The fair value changes during the year were recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

To assess the impact of the credit spreads used, the Group performed a sensitivity analysis using an increase (decrease) assumption in the credit spreads, the result of which is shown below:

	Increase (Decrease) in Credit Spread	Net Effect on Fair Values of Option
		(In Thousands)
2010	**100 bps**	**(₱12,934)**
	(100) bps	**13,156**
2009	100 bps	(250,370)
	(100) bps	259,760

Derivative Financial Instruments

To address the Group's exposure to market risk for changes in interest rates primarily arising from long-term floating rate debt obligations and manage its foreign exchange risks, the Group entered into various derivative transactions such as cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. These derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

Derivative Assets

	2010	2009
	(In Thousands)	
Parent:		
Options arising from investments in convertible bonds	₱–	₱944
Non-deliverable forwards	514,900	–
Subsidiary:		
Non-deliverable forwards	541,278	287,576
Interest rate swaps	196,951	67,659
	₱1,253,129	₱356,179

Derivative Liabilities

	2010	2009
	(In Thousands)	
Parent:		
Non-deliverable forwards	₱514,900	₱–
Options arising from convertible bonds	126,631	1,811,643
Subsidiary:		
Non-deliverable forwards	541,278	287,577
Interest rate swap	168,632	99,252
	₱1,351,441	₱2,198,472

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

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
		(Amounts in Thousands)	
Interest Rate Swaps			
Floating-fixed:			
Outstanding notional amount	**$30,000**	**$30,000**	**$30,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.53%**	**3.53%**	**3.53%**
Outstanding notional amount	**$40,000**	**$40,000**	**$–**
Receive-floating rate	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**	**–**
Pay-fixed rate	**3.41%**	**3.41%**	**–**
Outstanding notional amount	**$20,000**	**$20,000**	**$20,000**
Receive-floating rate	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**	**6 months LIBOR +margin%**
Pay-fixed rate	**3.41%**	**3.41%**	**3.41%**

(Forward)

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
		(Amounts in Thousands)	
Outstanding notional amount	**$115,000**	**$115,000**	**$25,000**
Receive-floating rate	**6 months**	**6 months**	**6 months**
	LIBOR +margin%	**LIBOR +margin%**	**LIBOR +margin%**
Pay-fixed rate	**4.10% to 5.40%**	**4.10% to 5.40%**	**4.10%**
Outstanding notional amount	**₱750,000**	**₱750,000**	**₱750,000**
Receive-floating rate	**3 months**	**3 months**	**3 months**
	PHIREF+margin%	**PHIREF+margin%**	**PHIREF+margin%**
Pay-fixed rate	**8.20%**	**8.20%**	**8.20%**
Fixed-floating:			
Outstanding notional amount	**₱1,000,000**	**₱1,000,000**	**₱1,000,000**
Receive-floating rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱1,000,000**	**₱1,000,000**	**₱1,000,000**
Receive-floating rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**
Outstanding notional amount	**₱985,000**	**₱980,000**	**₱975,000**
Receive-fixed rate	**9.3058%**	**9.3058%**	**9.3058%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	2009		
	<1 Year	>1-<2 Years	>2-<5 Years
		(Amounts in Thousands)	
Interest Rate Swaps			
Floating-fixed:			
Outstanding notional amount	$145,000	$115,000	$25,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	4.10% to 5.40%	4.10% to 5.40%	4.10%
Outstanding notional amount	₱750,000	₱750,000	₱750,000
Receive-floating rate	3 months		
	PHIREF+margin%	3 months PHIREF+margin%	3 months PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-floating:			
Outstanding notional amount	₱990,000	₱985,000	₱980,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Options Arising from Investment in Convertible Bonds. The Parent Company invested in US$ denominated convertible bonds of a public company which it classified as AFS investments. The bonds contain multiple embedded derivatives such as long equity call, short call and long put options and were accounted for as compound derivatives. Such multiple embedded derivatives were bifurcated by the Parent Company from the host bonds on the respective purchase dates of the bonds. The net positive fair value of the options at inception amounted to ₱3.7 million. The long equity call option pertains to the right of the Parent Company to convert the bonds into common shares of the issuer at the conversion price of ₱63.7 per share with a fixed exchange rate of US$1.0 to ₱40.6 until January 31, 2013, subject to cash settlement option on the part of the issuer. The short call option pertains to the right of the issuer to early redeem the bonds on or after February 11, 2010 subject to the conditions stated in the bond agreement. On the other hand, the long put option pertains to the right of the Parent Company to require the issuer to redeem the bonds at the 115.6% on February 11, 2011.

As of December 31, 2010, all embedded derivatives (i.e., conversion option, call option and put option) have nil values.

As of December 31, 2010 and 2009, the net fair value of the options, which is shown under noncurrent asset in the consolidated balance sheets amounted to nil and ₱0.9 million gain, respectively. The Group recognized unrealized marked-to-market loss of ₱0.9 million and ₱2.8 million in 2010 and 2009, respectively, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Options Arising from Convertible Bonds. The Parent Company's convertible bonds contain multiple embedded derivatives such as short equity call option, long call option and short put option, which are accounted for as compound derivatives.

Short equity call option pertains to the option of the bondholders to convert the bonds into SMIC's common shares prior to maturity. If a bondholder exercised its conversion option, the Parent Company can choose either to settle the bonds in cash or issue common shares, and such option on the part of the Parent Company is a long call option.

The Bonds are denominated in U.S. dollar while the currency of the underlying asset is denominated in Philippine peso. The contracting parties have fixed the exchange rate at ₱48.37 to US$1. Considering the exposure of the Parent Company, the option was assessed as a short put option. In addition, the bondholder may require the Parent Company to redeem all or some of the Bond at 110.79% of the principal amount on March 19, 2010, and such option is also considered a short put option.

As of December 31, 2010 and 2009, the fair value of the options, which is shown as a noncurrent liability in the consolidated balance sheets, amounted to ₱126.6 million and ₱1,811.6 million, respectively. The Group recognized unrealized marked-to-market loss of ₱51.5 million in 2010 and ₱325.9 million in 2009, which is reflected under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Call Options Arising from Sale of SMC Common Shares. On October 31, 2008, the shares sale was consummated through the PSE of which a realized marked-to-market gain of ₱236.9 million was recognized under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

Cross Currency Swaps. In 2004, SM Prime entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.3 to US$1.0. Under these agreements, SM Prime effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet-term loan with semi-annual interest payments up to October 2009 (see Note 20). As of December 31, 2008, the cross currency swaps have negative fair values of ₱861.0 million. Gain on fair value changes from these cross currency swaps contracts recognized in the consolidated statements of income amounted to ₱185.2 million in 2009.

Interest Rate Swaps. In 2010, SM Prime entered into two Philippine peso interest rate swap agreements with notional amount of ₱1,000.0 million each. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 20). As of December 31, 2010, these swaps have positive fair values of ₱86.7 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$40.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 20). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱6.4 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 20). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱1.9 million.

Also in 2010, SM Prime entered into US$ interest rate swap agreement with notional amount of US$30.0 million. Under the agreement, SM Prime effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 20). As of December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱20.0 million.

In 2009, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$145.0 million. Under these agreements, SM Prime effectively converts the floating rate US$30.0 million two-year bilateral loan, US$90.0 million three-year term loans and US$25.0 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 20). SM Prime preterminated the US$30.0 million on November 30, 2010. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2010. As of December 31, 2010 and 2009, the outstanding floating to fixed interest rate swaps have net negative fair values of ₱129.8 million and ₱99.3 million, respectively.

In 2009, SM Prime entered into Philippine peso interest rate swap agreement with a notional amount of ₱750.0 million. Under these agreement, SM Prime effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 20). As of December 31, 2010 and 2009, the floating to fixed interest rate swap has negative fair value of ₱30.6 million and positive fair value of ₱9.6 million, respectively.

In 2008, SM Prime entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000.0 million with repayment of ₱5.0 million every anniversary. Under these agreements, SM Prime effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 20). As of December 31, 2010 and 2009, the fixed to floating interest rate swaps have positive fair values of ₱90.3 million and ₱58.1 million, respectively.

In 2004, SM Prime entered into US$ interest rate swap agreements with an aggregate notional amount of US$80.0 million. Under these agreements, SM Prime effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009 (see Note 20). As of December 31, 2008, the floating to fixed interest rate swaps have negative fair values of ₱40.6 million. Gain on fair value changes from these interest rate swaps contracts recognized in the consolidated statements of income amounted to ₱40.6 million in 2009.

Foreign Currency Options. In 2010, SM Prime simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. SM Prime combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As of December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

In 2009, SM Prime entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38.0 million. Under the option contracts, at each expiry date, SM Prime compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, SM Prime, on a net-settlement basis, will buy US$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, SM Prime, on a net-settlement basis, will buy, US$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As of December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US$1.00 and ₱49.02 to US$1.00, respectively. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6.0 million gain in 2009.

To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, SM Prime entered into the following cost reduction trades in 2007:

Trade Date	Start Date	Notional Amount *(In Thousands)*	Strike Rate	Premium (p.a.)	Payment Dates
January 25, 2007	January 25, 2007	₱3,942,000	₱52 (US$1.00)	1.00%	October 18, 2007 April 18, 2008
June 27, 2007	April 18, 2007	₱3,942,000	₱49 (US$1.00)	1.00%	October 18, 2007 April 18, 2008 June 30, 2008
June 27, 2007	February 15, 2007	₱1,200,000	₱49 (US$1.00)	1.00%	February 15, 2008 June 30, 2008

In these trades, SM Prime will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the exchange rate between US$ and ₱ trade above the strike price on the two dates, SM Prime will have to pay a penalty based on an agreed formula. As of December 31, 2008, there were no outstanding foreign currency call options. Loss on fair value changes from these currency options is ₱17.0 million in 2008.

Non-deliverable Forwards. In 2010, the Parent Company and SM Prime entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. The Parent Company and SM Prime recognized derivative asset and derivative liability amounting to ₱1,056.2 million from the outstanding forward contracts as of December 31, 2010.

In 2009, SM Prime entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. SM Prime recognized derivative asset and derivative liability amounting to ₱288.0 million from the outstanding forward contracts as of December 31, 2009.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative instruments as of December 31 are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**(₱1,842,293)**	(₱2,353,176)
Fair value of derivatives on settled contracts	**1,487,595**	969,501
Net change in fair value	**256,386**	(458,618)
Balance at end of year	**(₱98,312)**	(₱1,842,293)

In 2010, net changes in fair value amounting to ₱327.4 million comprise of interest paid amounting to ₱71.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱256.4 million, which is included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

In 2009, net changes in fair value amounting to (₱139.6 million) comprise of interest paid amounting to ₱319.0 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market loss on derivatives amounting to ₱458.6 million, which is included under "Gain on sale of available-for-sale investments and fair value changes on investments held for trading and derivatives" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets as follows:

	2010	2009
	(In Thousands)	
Derivative assets (see Note 17)	**₱1,253,129**	₱356,179
Derivative liabilities	**(1,351,441)**	(2,198,472)
Balance at end of year	**(₱98,312)**	(₱1,842,293)

31. EPS Computation

	2010	2009	2008
	(In Thousands, Except for Per Share Data)		
Net Income Attributable to Common Equity Holders of the Parent			
Net income attributable to common equity holders of the Parent for basic earnings (a)	**₱18,440,169**	₱16,025,038	₱14,003,705
Effect on net income of convertible bonds, net of tax	**–**	747,104	–
Net income attributable to common equity holders of the Parent adjusted for the effect of dilution (b)	**₱18,440,169**	₱16,772,142	₱14,003,705
Weighted Average Number of Common Shares Outstanding			
Weighted average number of common shares outstanding for the period (c)	**611,218**	611,023	611,023
Dilutive effect of convertible bonds	**–**	29,552	–
Weighted average number of common shares outstanding for the period adjusted for the effect of dilution (d)	**611,218**	640,575	611,023
Basic EPS (a/c)	**₱30.17**	₱26.23	₱22.92
Diluted EPS (b/d)	**₱30.17**	₱26.18	₱22.92

The effect of the convertible bonds on net income and on the number of shares were not considered due to its antidilutive effect, which if included, will arrive at an EPS of ₱30.32 and ₱25.90 in 2010 and 2008, respectively.

32. Other Matters

a. In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a negotiated sale and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from DBP.

   Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge, filed with the Regional Trial Court (RTC) of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of the mortgages of these properties. The Parent Company was impleaded as a party defendant in 1995. The RTC of Makati voided the foreclosure by the DBP on the mortgaged properties and declared the Parent Company a buyer in bad faith.

   The DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. On May 25, 2007, the Court of Appeals issued a decision completely reversing and setting aside the February 13, 2004 decision of the RTC Makati and, consequently, dismissing the said RTC case. The appellees (certain non-controlling stockholders of RHC) filed a Motion for Reconsideration with the Court of Appeals and on November 9, 2007, the Court of Appeals issued a resolution denying the appellees' Motion for Reconsideration. The appellees filed a Petition for Review on Certiorari before the Supreme Court appealing the decision of the Court of Appeals reversing the said decision of the RTC Makati. On December 23, 2009, the Supreme Court rendered a decision decreeing, among others, that the foreclosures of the mortgaged Baguio Pines Hotel and Taal Vista Lodge properties were valid; and on October 24, 2010, the Supreme Court issued a Resolution denying petitioners (certain non-controlling stockholders of RHC) Motion for Reconsideration of the Resolution dated June 21, 2010 denying with finality the separate Motion for Partial Reconsideration filed by Petitioner and DBP since it was treated as a second Motion for Reconsideration, a prohibited pleading under the Rules of Court.

b. On November 10, 2009, Belle entered into a Memorandum of Agreement with SMCP and its related companies, for Belle's acquisition of all the outstanding capital stock of Premium Leisure & Amusement, Inc. (PLAI). PLAI and its consortium members were granted a license by the Philippine Amusement and Gaming Corporation, to develop and operate an integrated resort complex.

   The acquisition of PLAI will be via share swap, where the entire outstanding capital stock of PLAI, consisting of 0.05 million common shares, will be exchanged for 2,700.0 million new common shares of Belle, from its authorized and unissued capital stock.

   The valuation of the PLAI shares was made by an independent appraiser and approved by the SEC on October 6, 2010. Pursuant to this acquisition, Belle obtained a loan facility from BDO amounting to ₱5,600.0 million on December 1, 2010, which will be used to finance the construction of the said integrated resort complex.

   As of March 2, 2011, Belle and PLAI are taking steps for the implementation of the share swap, following the approvals from the Bureau of Internal Revenue and SEC.

c. On February 4, 2011, the Parent Company issued corporate notes amounting to ₱7,000.0 million, which bear a fixed interest rate of 6.165% per annum, payable semi-annually in arrears. The corporate notes will mature on February 4, 2016.

SM INVESTMENTS CORPORATION

Bankers

Allied Banking Corporation
Australian New Zealand Bank (ANZ)
Banco De Oro Unibank, Inc.
BDO Capital and Investments
Bank of Commerce
Bank of the Philippine Islands
Bank of Tokyo - Mitsubishi UFJ
Barclays Bank
China Banking Corporation
Citibank, N.A.
Credit Agricole
Credit Suisse
Deutsche Bank, A.G.
Hongkong and Shanghai Bank
ING Bank, N.V.
JPMorgan Chase Bank, N.A.
Land Bank of the Philippines
Metropolitan Bank & Trust Company
Philippine National Bank
Rizal Commercial Banking Corp.
Security Bank
Standard Chartered Bank
Union Bank

Company Headquarters

SM Investments Corporation
One E-com Center, 10th Floor, Harbor Drive
Mall of Asia Complex, CBP-1A, Pasay City 1300 Philippines

Legal Counsel

Andres Marcelo Padernal Guerrero & Paras Law Offices
Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan Law Offices
Villaraza & Angangco Law Offices
Tan Acut and Lopez
Yorac Arroyo Chua Caedo & Coronel Law Firm

External Auditor

SyCip, Gorres, Velayo & Co. CPAs

Stockholder Inquiries

SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Banco De Oro Unibank, Inc. - Trust and Investments Group
BDO Corporate Center, 7899 Makati Avenue, Makati City
Tel. (632) 840-7000 loc. 6975 to 6980; 878-4053 Fax (632) 878-4056

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

Institutional Investor Inquiries

SM Investments Corporation welcomes inquiries from analysts, the financial community, and institutional investors.

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