SM PRIME HOLDINGS, INC.

Creating Value at All Times

Annual Report 2011

Creating Value at All Times

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

SM PRIME

VISION. LEADERSHIP. INNOVATION. FOCUS. HARD WORK. INTEGRITY. PRUDENCE.

SM MALL TIMELINE

1985	North EDSA, Q.C.	424,691 sqm
1990	Sta. Mesa, Manila	133,327 sqm
1991	Megamall, Pasig	346,789 sqm
1993	Cebu	274,236 sqm
1995	Southmall, Las Piñas	205,120 sqm
1997	Bacoor	120,202 sqm
1997	Fairview, Q.C.	188,681 sqm
1999	Iloilo	105,953 sqm
2000	Manila	167,812 sqm
2000	Pampanga	132,484 sqm
2001	Sucat, Parañaque	98,106 sqm
2001	Davao	78,735 sqm
2002	Cagayan de Oro	87,940 sqm
2002	Bicutan, Parañaque	113,671 sqm
2003	Lucena	78,655 sqm
2003	Baguio	107,950 sqm
2003	Marilao	107,950 sqm
2004	Dasmariñas	94,285 sqm
2004	Batangas	80,350 sqm
2005	San Lazaro, Manila	178,516 sqm

2005	Valenzuela	70,681 sqm
2005	Molino	52,061 sqm
2006	Sta. Rosa	86,463 sqm
2006	Clark	101,840 sqm
2006	Mall of Asia, Pasay	406,961 sqm
2006	Pasig	29,602 sqm
2006	Lipa	77,301 sqm
2007	Bacolod	71,752 sqm
2007	Taytay	98,928 sqm
2007	Muntinlupa	54,292 sqm
2008	Marikina	178,485 sqm
2008	Rosales	63,330 sqm
2008	Baliwag	61,262 sqm
2009	Naga	74,275 sqm
2009	Las Piñas	40,267 sqm
2009	Rosario	59,326 sqm
2010	Tarlac	101,629 sqm
2010	San Pablo	59,643 sqm
2010	Calamba	67,384 sqm
2010	Novaliches, Q.C.	60,560 sqm
2011	Masinag Antipolo City, Rizal	90,261 sqm

CHINA MALLS

2001	Xiamen	128,203 sqm
2005	Fupu (Jinjiang)	167,830 sqm
2006	Chengdu	166,665 sqm
2009	Lifestyle Center, SM Xiamen	109,922 sqm
2011	Suzhou	72,522 sqm

Our Vision

SM Prime envisions to be a leader in world-class mall development, committed to deliver the daily needs of millions by offering a total mall experience and creating a richer, better quality of life.

Our Mission

SM Prime commits to the following mission:

To constantly provide customers with a fresh and world-class mall experience through innovative and state-of-the-art facilities and services;

To undertake wide-ranging corporate social responsibility initiatives that provide greater service for customers with special needs, and ensure environmental sustainability through various programs on energy, water and air conservation;

To be an employer of choice, offering comprehensive opportunities for career growth and enhancement;

To deliver sustainable long-term growth and increasing shareholder value; and

To uphold its role as a catalyst for economic development.

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In the Philippines, our vision takes us now to urban centers such as Cebu, Davao, and key cities nationwide, where opportunities for growth exist. This supports our optimism and expectations of a stronger Philippine economy.

MESSAGE TO STOCKHOLDERS

I am pleased to inform you that SM Prime exceeded its target in 2011 with its 15% growth in net income and 13% growth in revenues. This is significant in light of a more challenging environment for the industry brought about by tempered consumer spending.

SM Prime malls continue to draw strength from the goodwill which it has built over the years with its customers and tenants, as well as through the dedication of the professionals working within the organization. SM Prime has also built a reputation for innovation and new concepts aimed at addressing the aspirations of its consumers. More importantly, SM Malls have evolved nationwide into prime destinations for shopping and leisure.

Over the years, SM Prime has also invested much of its resources toward environmental sustainability. Structures are built based on earth-friendly designs and architecture that enable the recycling and re-use of water, energy savings, and waste management. SM malls have also been equipped with provisions to assist the elderly, nursing mothers and customers with special needs.

Even with 45 malls now holding 5.6 million square meters of gross floor area in the Philippines and China, SM Prime still sees much room for expansion. As such, we continue to invest heavily in both countries. Our budget for 2012 earmarks an investment of Php14 billion for the Philippines and Php7 billion for China.

In the Philippines, our vision takes us now to urban centers such as Cebu, Davao, and key cities nationwide, where opportunities for growth exist. This supports our optimism and expectations of a stronger Philippine economy. Clearly, better governance in the public sector and the continued productivity of the Filipino people both in and outside of the country encourage steady growth in the consumer sector, most especially, the expanding mid-income market.

We are also participating in the economic growth in China where personal incomes continue to rise. We already see our existing Xiamen and Jinjiang malls reaping the benefits of the focus, dedication and the innovative approach put in by the management team. In 2012, we expect to open our fifth mall in Chongqing, which is one of the largest cities in China.

Finally, I would like to thank everyone who has contributed to yet another excellent year for SM Prime – the members of the Board, the management, our contractors and consultants, and of course, our tenants who have grown with us over the years. We also thank our investors for their invaluable trust and confidence. Most of all, we thank our millions of customers to whom we dedicate our growth and our continuous efforts towards innovation and sustainable development.

HENRY SY, SR.
Chairman

Inspired and encouraged by our company's accomplishments of 2011, we now look forward to the coming years with increased optimism. Your continued support and patronage for our future endeavours will be highly appreciated.

PRESIDENT'S REPORT

I am very happy to report to you that SM Prime Holdings, Inc. (SM Prime) surpassed expectations in 2011 notwithstanding the tempered growth that our domestic economy experienced. This leaves little doubt that the business formula we have been implementing is truly resilient and geared towards sustainable growth.

SM Prime's net income grew 15% to Php9.1 billion, while revenues improved by 13% to Php26.9 billion. This signaled an improvement in our net margin of 34% from 33% in 2010, and our EBITDA margin of 69% from 67%.

A confluence of positive developments allowed our company to perform in this manner, foremost of which is the strong growth of 7% in our same store rental revenues. Add to that the effect of expansion of our floor space to 5.1 million square meters (sqm) in the Philippines, combined with a tighter control over operating expenses, particularly in the area of energy conservation.

Another contributing factor is our flourishing presence in China where net income from the four malls more than doubled by 107% to Php889.0 million in 2011. Gross revenues, on the other hand, increased by 45% to Php2.0 billion, as a result of better average occupancy rates, and higher rental rates on renewal of existing leases, among others. It is rewarding to see that our malls are gaining even more traction and finding greater acceptance from the huge and still expanding consumer markets in the cities we are now servicing.

As we continue our expansion program, this affirms our desire to provide our brand of products and services to progressive areas outside the National Capital Region since a good number of provinces and municipalities are fast turning into dynamic centers for business and commerce. Disposable incomes in these places are also rising, aided primarily by remittances of Filipinos working abroad.

2012 will see more malls being opened in areas outside Metro Manila. The 47,426-sqm SM City Olongapo was opened in February 2012. Thereafter, we will open SM City Lanang in Davao City, which is a regional mall with a GFA of 145,824 sqm; SM City General Santos in Southern Mindanao, with a GFA of 88,106 sqm; SM City San Fernando with a GFA 42,625 sqm; and SM City Consolacion in Cebu, with a 73,801-sqm GFA.

Our expansion in China will usher in our fifth mall namely SM City Chongqing with a GFA of 147,446 sqm. Chongqing is a very large and progressive city with a population huge enough to fill a country in many areas. Our success in this city will bring endless opportunities for growth and further expansion.

Once all these malls have been opened, SM Prime will end 2012 with 46 malls in the Philippines and five in China. Combined, our GFA will reach approximately 6.3 million sqm.

There is more to the success of SM Prime. Behind all our operations and expansion plans is our CSR program called SM Cares. Unknown still to many, SM Prime is at the forefront of implementing various projects that extend a helping and caring hand to persons with disabilities, children, nursing women, overseas Filipino workers (OFWs), and the elderly. SM Cares also pays particular attention to environmental sustainability from the time the mall is designed to the time it operates. We have programs for energy and water conservation, and clean air and waste management.

On top of all these, SM Cares also provides emergency assistance. Last year, we answered the call for help from the flood victims in Northern Mindanao by donating Php3.0 million to distressed local government units even as we gave out relief goods to thousands of displaced families in Cagayan de Oro and Iligan City. We are also building 200 homes in Cagayan De Oro in partnership with Gawad Kalinga as part of our ongoing efforts for the rehabilitation of the victims of Typhoon Sendong. The tragedy in those cities was severe and one that we wish and pray would never have to happen again.

Inspired and encouraged by our company's accomplishments of 2011, we now look forward to the coming years with increased optimism. Your continued support and patronage for our future endeavours will be highly appreciated.

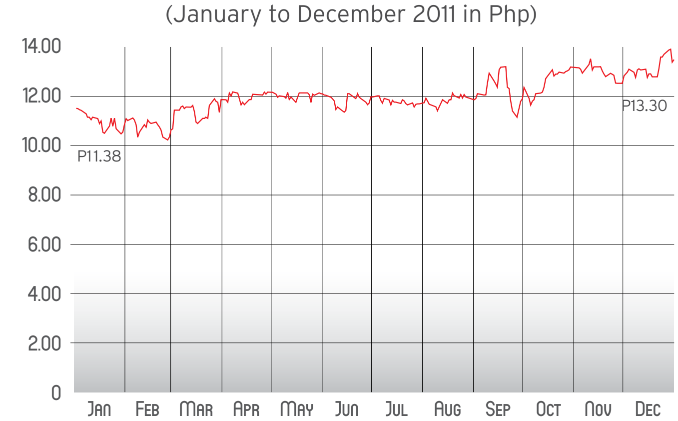
I sincerely thank all of you our shareholders, as well as our loyal customers, suppliers, and employees, for enabling us to be what we have become today serving millions every day the SM way.

MR. HANS SY
President

January to December 2011 (in Php millions)

	2011	2010	% chg
Operating Revenues	26,869	23,716	13%
Operating Expenses	12,277	11,271	9%
Income from Operations	14,620	12,445	17%
Income Before Tax and Minority Interest	12,220	10,797	13%
Provision for Income Tax	2,838	2,657	7%
Income Before Minority Interest	9,382	8,140	15%
Minority Interest	326	284	15%
Net Income	9,056	7,856	15%

SMPHI SHARE PRICE CHART
(January to December 2011 in Php)



TRENDS & EXPECTATIONS

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

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

How did SM Prime perform in 2011?

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

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

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

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

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

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

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

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

Will you be expanding existing malls in 2012?

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

What are your plans in China for 2012?

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

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

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

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

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

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

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

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

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

PHILIPPINE MALL EVENTS

Independence Day Celebration. *SM Mall of Asia celebrated Independence Day by holding various activities which started off with a flag-raising ceremony attended by hundreds of participants which include SM employees, tenants, business partners and the Boy Scouts of the Philippines.*

Justin Bieber's "My World" Tour. *All roads led to the SM Mall of Asia Concert Grounds on May 10, 2011 as an estimated crowd of 50,000 watched music's wonder boy, Justin Bieber perform hits from his successful albums as part of his "My World" Tour.*

Earth Hour. *As part of the worldwide observance of Earth Hour, SM Supermalls all over the Philippines once again participated as they switched off lights from 8:30 pm to 9:30 pm on March 26, 2011. SM Supermalls likewise encouraged its business partners and shoppers to go beyond the Earth Hour by adopting earth-friendly practices and lifestyles.*

Philippine Fashion Week. *Popular fashion brands unveiled their latest creations at the SM Mall of Asia Atrium and the SMX Convention Center during the Philippine Fashion Week 2011. The presence of celebrities, models and athletes who walked the ramp wearing stylish creations added glitz and glamour to the country's biggest fashion and lifestyle event.*

SM Global Pinoy Award for the Philippine Azkals. *SM Global Pinoy, a special program launched by SM Supermalls under its SM Cares Program, awards the Philippine Men's National Football Team a.k.a. Azkals, the SM Global Pinoy card and plaque of recognition for bringing pride to the Philippines and for putting the country in the map of Asian football.*

Miley Cyrus Rocks SM Mall of Asia. *Thousands of Filipino fans had the time of their lives as American pop star Miley Cyrus staged her "Gypsy Heart" Tour at the SM Mall of Asia Concert Grounds on June 17, 2011. The concert was made even more special as the Philippines was the tour's only stop in Asia.*

Miss World-Philippines Search. *The search for Miss World-Philippines 2011 was filled with excitement as screenings were held in various SM Malls all over the Philippines. Presented by CQ Global Quest, Inc. in cooperation with SM Development Corporation (SMDC), the pageant attracted hundreds of aspirants in SM City Naga, SM City Cebu, SM Mall of Asia, SM City Pampanga, SM City Bacolod and SM City Davao.*

SM MALLS TRIVIA PHILIPPINES

5.0 million sqm
Total Gross Floor Area

12,763
Mall Tenants

228
Movie Screens

3.5 million
Average Daily Pedestrian Count

41
Malls Nationwide

24,580
Food Court Seats

138,304
Cinema Seats

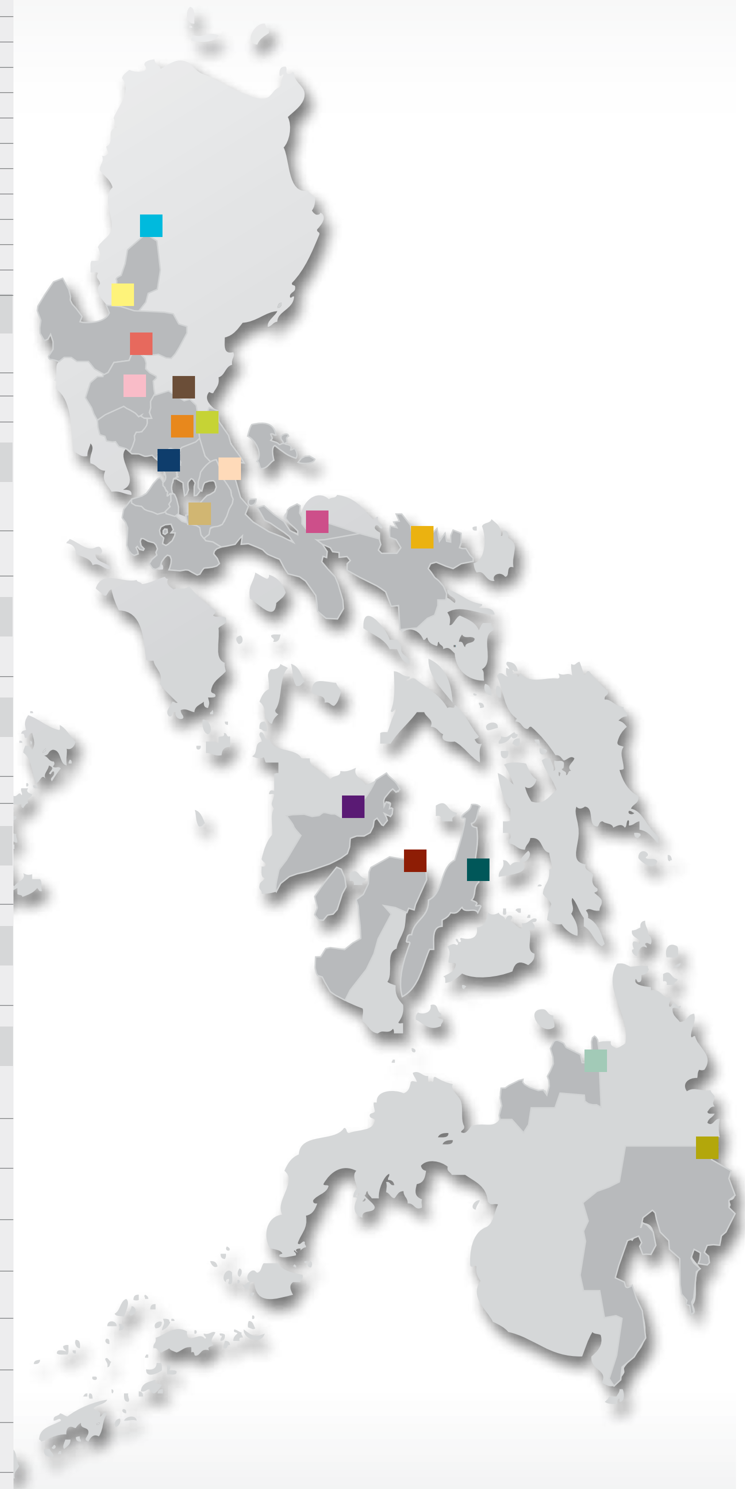
104
Bowling Lanes

55,602
Parking Slots

408
Food Court Tenants

PHILIPPINE MALLS

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



2011 MALL OPENING-PHILIPPINES

SM Prime Opens
SM City Masinag

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

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

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

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

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

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

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

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

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

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

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

PHILIPPINE MALL EXPANSION PROGRAM 2012

SM City Consolacion

SM City Lanang

Growing Beyond the Metropolis

SM Prime Set to Open Five New Malls Outside Metro Manila

At a Glance

SM Malls to Open in 2012	GFA in square meters
SM City Olongapo in Zambales	46,869
SM City San Fernando in Pampanga	42,625
SM City Consolacion in Cebu	108,179
SM City Lanang in Davao	144,002
SM City General Santos in South Cotabato	125,245
TOTAL GFA	466,920

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

"Call centers, special economic zones, logistics hubs, industrial parks, and other similar sites are today spread throughout the different regions and provinces, creating more jobs and sources of income in those places. Many provinces are also sites of millions of families benefiting from remittances of overseas Filipino workers, all looking for a more organized retail environment that can help them improve and upgrade their lifestyles. As a result, these places have become ideal locations for SM malls," Mr. Hans T. Sy, SM Prime president, explained.

Starting off SM Prime's expansion program this year is **SM City Olongapo**, which opened last February 10, 2012.

The opening of SM City Olongapo is expected to further enhance employment and business opportunities in this highly progressive city, many residents of which have been enjoying an urban, modern lifestyle. Thus, to match the urbane tastes and preferences of the area's population, SM City Olongapo's design theme is intentionally made more upscale, featuring lighted exterior accents and metal screens.

Prior to the mall's opening, more than 80% of SM City Olongapo's retail space had already been awarded to various tenants that include SM Department Store and SM Supermarket, BDO, Watsons, Ace Hardware, National Bookstore, Jollibee, and KFC, among others.

SM City Olongapo is the company's very first mall in the province of Zambales. Olongapo is a highly urbanized and first-class city that sits right next to the Subic Bay Freeport Zone, a former United States naval base that is now a major industrial, tourism, and logistics hub. Olongapo is also known for its innovative urban management methods and has been cited by international organizations.

Next in line would be **SM City San Fernando** in Pampanga.

A unique feature of this shopping mall will be its distinctive exterior design, which complies with the architectural theme of a heritage area, as mandated by the San Fernando local government. SM City San Fernando is SM Prime's third mall in the province, after SM City Pampanga and SM City Clark, which were opened in November 2000 and May 2006, respectively.

SM City San Fernando answers the need for another SM Mall in Pampanga, as the province has clearly progressed through the years, benefiting from its established agricultural economy and

SM City Gensan

SM City San Fernando

its now thriving tourism industry that is highlighted by its popular local cuisine.

The seven-storey SM City San Fernando, which is located in Pampanga's business-friendly and highly developed capital, features an SM Department Store and an SM Supermarket as anchor tenants. It will provide, for the added convenience of mall-goers, a three-level parking building that directly connects to the shopping mall. Three cinemas will be part of the major attractions of SM City San Fernando's indoor entertainment area. The mall's eye-catching main entrance will usher in shoppers to a wide variety of shops.

Another new mall to open this year is **SM City Consolacion in Cebu.**

After nearly two decades, a much-awaited second SM mall will open in Cebu, dubbed as the Queen City of the South. Cebu is widely recognized as the main business, industry, transportation, and tourism hub in the Visayas. Together with its predecessor, SM City Cebu, which was inaugurated in November 1993, SM City Consolacion will serve the shopping, dining, and entertainment needs of this highly developed province.

SM City Consolacion will be a three level shopping center with a vibrant, well-proportioned exterior appearance, featuring a combination of crisp colors and materials and a dynamically patterned and curved facade, all detailed for a modern sophisticated appearance. When approaching the mall from the national highway, shoppers will immediately take notice of a double-height iconic glass wall that reveals the activity inside the mall.

As in most other SM malls, it will house an SM Department Store and an SM Supermarket. It also features an al fresco dining area in its food court and a Cyberzone for the latest in tech gadgets and equipment. Four cinemas will serve the needs of avid moviegoers. Covered parking for close to 900 vehicles will be available.

Meanwhile, the biggest SM mall scheduled to open in 2012 is **SM City Lanang in Davao.**

The upcoming premiere shopping complex is the second SM mall in the province, after SM City Davao, which first opened its doors in November 2001. SM Prime intends to fully develop its property in Lanang into an impressive, integrated business, tourism, residential, and entertainment complex. SM projects to rise within the Lanang property include the 200-room Park Inn Davao Hotel and SMX Davao Convention Center, among others. SM City Lanang is seen to complement these major projects.

SM City Lanang's distinctive over-all exterior design is underscored by the folded building concept, which in turn is inspired by the traditional Japanese art of folding paper known as Origami. In addition, its facade will be enhanced by embedded LED lights. To top it all, the mall will have an innovative and accessible roof garden with stunning water fountains, art installations, and landscaping. It will have four levels, inclusive of a basement, with customer parking available for more than 1,500 vehicles.

The mall's offerings are simply outstanding, matching those of SM Prime's large malls in Metro Manila. For instance, it will have five cinemas plus an IMAX 3D-capable theater. On top of these, there will also be a theater set-up for live performances such as concerts. These, however, just barely scratch the surface because in the pipeline of planned offerings are a Cyberzone, a bowling center, and a Science Discovery Center.

As if these were not enough, SM City Lanang will host as major tenants SM Department Store, SM Supermarket, and Forever 21, among many others. There will also be a wide activity area with an elevated stage that will make it suitable for big outdoor events.

Rounding out SM Prime's 2012 expansion program in the country is **SM City General Santos in South Cotabato.**

The three-level shopping complex will be SM Prime's first mall in the city of General Santos and in the province of South Cotabato. The city, more popularly known as GenSan, has been fast progressing and is now a highly urbanized first class city and is one of the most populous urban centers in the country. GenSan is also the largest producer of sashimi-grade tuna in the Philippines.

SM City General Santos' architectural design and color motif feature complementing shades of refreshing blue and green, recalling and paying homage to the pristine natural environment for which the area is known. It will host an SM Department Store, an SM Supermarket, a Cyberzone, and a food court. Other offerings include four cinemas and one live theater set-up. It will have both open and covered parking areas, which together could accommodate about 1,500 vehicles. A brightly colored al fresco dining area will also be made available.

Without a doubt, all these five new malls will proudly provide to thousands if not millions of shoppers the SM brand of high quality service and best value products and will further ensure the sustainability of SM Prime's growth and development.

CHINA MALLS

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

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

CHINA MALL EVENTS

Earth Hour at SM China Malls. *At exactly 8:00 pm on March 26, 2011, the three SM Malls in China–SM City Xiamen, SM City Jinjiang and SM City Chengdu–held the eco-friendly event "Earth Hour" wherein lights were turned off for one hour. The SM Malls likewise staged programs and other activities that aim to promote environmental awareness among shoppers.*

Fashion Weeks Unfold at SM Lifestyle Center. *The Lifestyle Center at SM City Xiamen presented the Spring & Summer / Fall & Winter Fashion Weeks which attracted international and local fashion brands such as Givenchy, Sinequanone, CK, GANT, Seven Days, Columbia, Zuczug, Exception and Ivy House, among others. Top models Yinping Wang and Youli Lin from Taiwan graced the renowned fashion event.*

SM City Chengdu Holds Domino Activity. *SM City Chengdu staged two successful domino activities in November and December with over 2,000 participants. The theme, Christmas screen was formed by 100,000 domino pieces that included gift boxes, Christmas stockings, Santa Claus and Christmas tree amidst cheers and applause from the audience.*

Swarovski Crystal Christmas Tree at SM Lifestyle Center. *The Christmas season was ushered in at the SM Lifestyle Center in Xiamen as Swarovski's magnificent 18-meter crystal Christmas tree was lit on December 7, 2011. Karen Mok, popular movie and film star from Hong Kong led the tree-lighting ceremony.*

Fun Cat Show at SM City Chengdu. *On April 2 to 7, 2011, SM City Chengdu held the popular Cat Fanciers' Association (CFA) Cat Show. Over 200 pedigree cats participated in the event which also featured lectures on the proper care of cats. The cat show attracted more than 2,000 cat lovers who had fun taking photos and videos of the show.*

2011 MALL OPENING-CHINA

SM Prime Opens
SM City Suzhou

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

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

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

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

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

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

CHINA MALL EXPANSION PROGRAM 2012

A Fifth in China:
SM City Chongqing

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

The city of Chongqing, located in Southwest China, derives its name from the Jialing River that runs through its environs and into the nearby mighty and historic Yangtze River. With more than 30 million residents, Chongqing is the heaviest populated city of China's four provincial-level municipalities, with the other three being no less than Beijing, Shanghai, and Tianjin. It has a rich industrial history and is now the largest center for motorcycle production in China. The city has several economic and technological development zones and is a major railway hub. Chongqing also has a booming tourism industry owing to its cultural heritage and natural attractions, and is the starting point for the Yangtze River cruise, which explores the stunning scenery of China's famous Three Gorges.

"We eagerly look forward to opening the doors of SM City Chongqing this year. The city's huge population and rising incomes ground our optimism with regard to the potential of the SM mall. It is a welcome addition to our other four SM malls in Xiamen, Jinjiang, Chengdu, and Suzhou, which have already made a name in those areas. We expect SM City Chongqing to provide the same level of best value-for-money in all of its offerings, and one-stop shopping and entertainment convenience, for which the SM brand is known," explained Jeffrey C. Lim, executive vice president of SM Prime.

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

"As SM Prime gains more experience and market acceptance in China, we expect to accelerate our pace of growth and expansion. That is why by next year, the company aims to launch two more new shopping malls, SM City Zibo and the highly anticipated SM City Tianjin, which we foresee will be the biggest among all our malls, with an estimated GFA of more than 500,000 sqm," Jeffrey Lim concluded.

CORPORATE GOVERNANCE

SM Prime Holdings, Inc. made significant headway in the development of its corporate governance culture through the enhancement of its corporate governance related policies and programs. The company implemented various new initiatives that further promoted to its stakeholders the importance of the principles of fairness, accountability and transparency in the operation of its business.

Policies

SM Prime has adopted and implemented several corporate governance policies and programs to supplement the foundation provided by its Manual on Corporate Governance and Code of Ethics. The Company regularly reviews and enhances these policies to keep pace with corporate governance best practice.

Manual on Corporate Governance

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

Code of Ethics

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

Insider Trading Policy

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

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

Guidelines on Acceptance of Gifts

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

Guidelines on Travel Sponsored by Business Partners

SM Prime prohibits any director, officer or employee to accept travel (e.g. trade shows, exhibits, etc.) sponsored by business partners. Business partners refer to contractors, suppliers, banks and other entities engaged in business with SM Prime.

The guidelines also cover accepting travel sponsorships by any current or prospective business partner which is participating in any on-going bidding or selection process for any SM project or transaction.

Related Party Transactions

SM Prime practices full disclosure of the details, 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 SM Prime's website at www.smprime.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 SM Prime conducts all related-party transactions on an arms' length basis.

Board of Directors

The Board of Directors oversee the management of SM Prime, ensure its financial viability and growth, protect the interests of its various stakeholders and promote the principles of corporate governance throughout the organization.

The Board is elected by SM Prime stockholders during the Annual Stockholders' Meeting. SM Prime's Board of Directors is composed of eight (8) directors, three (3) of which are independent directors. The positions of the Chairman of the Board and the President are held by separate individuals. Directors hold office for one (1) year and until their successors are elected and qualified in accordance with SM Prime's By-Laws. All directors are duly screened and deemed eligible by the Nomination Committee. They have undergone accredited training and orientations programs on corporate governance in compliance with the Company's Manual on Corporate Governance.

After the Annual Stockholders' Meeting, the Board holds its organizational meeting. Regular Board meetings 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. (Please visit SM Prime's website at www.smprime.com to access the certification on the record of attendance of the Board of Directors for 2011.)

Independent Directors

SM Prime adopts the definition of independence from the Securities Regulation Code and defines an independent director as 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.

Evaluation of the Board and President

SM Prime's Board of Directors regularly conducts an annual self-evaluation and an evaluation of the President. The evaluation is structured based on the duties and responsibilities of the Board and President under the Company's Manual on Corporate Governance and By-Laws. Each member of the Board is asked to rate himself, the performance of the Board as a whole, and the President's performance for the past year.

The evaluation also includes a rating of the support services given to the Board, such as the quality and timeliness of information

Directors	Regular	ASM Regular & Organizational	Regular	Special	Regular	Regular	Percentage
	2/14/11	4/19/11	6/13/11	7/11/11	8/01/11	11/03/11	
Henry Sy, Sr.	√	√	√	√	√	√	100%
Jose L. Cuisia, Jr.	√	√	√	√	√	√	100%
Henry T. Sy, Jr.	√	x	√	√	√	√	83%
Hans T. Sy	√	√	√	√	√	√	100%
Herbert T. Sy	√	√	√	√	√	√	100%
Senen T. Mendiola	√	√	√	√	√	√	100%
Gregorio U. Kilayko	√	√	√	√	√	√	100%
Joselito H. Sibayan*	n/a	n/a	√	√	√	√	100%

* Mr. Joselito H. Sibayan was elected as Independent Director in April 19, 2011.

CORPORATE GOVERNANCE

provided to them, the frequency and conduct of regular, special or committee meetings and their accessibility to Management, the Corporate Secretary and Board Advisors. Directors are also asked to identify training programs or any other forms of assistance that they may need in the performance of their duties as director.

The Board then reviews and evaluates the results of the evaluation, discussing possible changes that will enhance the performance of the individual directors, the support services given and the Board as a collective body.

Board Remuneration

Members of the Board of Directors receive a per diem of P10,000 (P20,000 for the Chairman and Vice Chairman) for each regular or special Board meeting or Board Committee meeting attended. 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.

Board Committees

The Board has established three (3) committees to aid in the performance of its corporate governance responsibilities, namely the Nomination Committee, the Compensation and Remuneration Committee and the Audit and Risk Management Committee. Each Committee has adopted a Charter that identifies the Committee's composition, roles and responsibilities, as based on the Company's Manual on Corporate Governance. The Charters also include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

The Nomination Committee

The Nomination Committee evaluates all candidates nominated to the Board in accordance with the requirements set forth by SM Prime's Manual on Corporate Governance. Based on the provisions of the Manual, the Committee ensures that those nominated to the Board meet all the qualifications for directorship.

Nomination Committee	
Herbert T. Sy	Chairman
Jose L. Cuisia, Jr.	Member (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)

The Compensation Committee

The Compensation Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement. The Committee also reviews existing human resource policies to ensure the continued growth and development of SM Prime's workforce.

Compensation Committee	
Hans T. Sy	Chairman
Gregorio U. Kilayko	Member (Independent Director)
Joselito H. Sibayan	Member (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 review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews SM Prime's internal control systems, its audit plans, auditing processes and related party transactions. Under its Charter, the Committee also reviews and assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.

Audit and Risk Management Committee	
Jose L. Cuisia, Jr.	Chairman (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)
Joselito H. Sibayan	Member (Independent Director)
Senen T. Mendiola	Member
Jose T. Sio	Member
Corazon I. Morando	Member
Serafin U. Salvador	Member

Enterprise Risk Management (ERM)

SM Prime entrusts the oversight of its risk management system to the Board of Directors through the Audit and Risk Management Committee. In 2010, SM Prime's Board formalized the ERM platform and took the following initiatives:

- Renamed the Audit and Corporate Governance Committee to the Audit and Risk Management Committee, and consequently expanded the Committee Charter to give impetus to risk management oversight.
- Established the Enterprise Risk Management Committee to serve as the working group in the development and execution of the ERM framework.
- Realigned the duties and responsibilities of the Corporate Governance Department to include the support and implementation of the ERM framework throughout the SM Group.
- Adopted a Risk Management Policy that establishes a culture of disclosing, evaluating and managing risks throughout the organization.
- Enhanced the Disaster Preparedness Program (DPP) across all the malls to address hazard risks by upgrading DPP Manuals and conducting drills to assess their effectiveness.
- Created mall security and safety scorecards.
- Enhanced SM Prime's Business Continuity Plans in key operating units, specifically for Information Technology.

Disclosure and Transparency

SM Prime is committed to providing its shareholders and the public, timely and accurate information on the Company and its business. In accordance with this, SM Prime regularly updates its website and practices full and prompt disclosure of all material information. The website has a separate corporate governance section that features among others, policies, programs and other relevant corporate governance information.

SM Prime also conducts regular briefings and meetings with investors, analysts and the press to keep them updated on the Company's various projects, financial and operational results. The presentation materials at these briefings, as well as the Company's SEC and PSE reports and annual reports, may be viewed and downloaded from the website. (Please visit SM Prime's website at www.smprime.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. Voting methods are clearly defined and explained to shareholders to ensure the observance of their voting rights and continued participation in the voting process. Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, shareholders may cumulatively vote for the election, removal or replacement of Board Directors. Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required.

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

Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and key officers.

Orientations and Trainings

SM Prime understands that continuous development of training and orientation programs is necessary in the cultivation of the Company's corporate governance culture. In line with this, SM Prime conducted and participated in several corporate governance related trainings and orientations in 2011. These training and orientation programs complement programs being offered and implemented by the Company's Human Resources Department.

SM Prime continues to drill down to its employees the values set forth in its Manual on Corporate Governance and Code of Ethics through the Human Resources Department's enhanced Corporate Orientation Program for New Employees. The program, referred to as ONE SM (Orientation for New Employees of SM), gives new employees an overview of the Company's corporate governance framework, policies and its various components. It also covers the importance of ethics in the business, informs employees of their rights and obligations, as well the principles and best practices in the promotion of good work ethics.

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

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

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

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

External Projects

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

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

Citations

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

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

SM Prime was awarded by Corporate Governance Asia (CG Asia) with its Annual Recognition Award – The Best of Asia. The award is bestowed upon companies that demonstrate excellent corporate governance practices in line with Asian values and spirit. CG Asia also recognized SM Prime with the Best Environmental Responsibility award. Corporate Governance Asia is the only journal currently specializing in corporate governance in the region.

Moving Forward

SM Prime continues to move forward with the development of its corporate governance culture and is steadfast in keeping pace with global corporate governance best practice. With the regular review and enhancement of its corporate governance related policies and programs, the Company will continue to operate at the highest level of integrity and ethics towards the attainment of its mission and vision.

SM Prime remains committed to support the public and private sectors in their efforts to improve the country's corporate governance practices.

SUSTAINABILITY REPORT

SM Cares

for People and Communities

As SM has grown through the years, its influence has seeped into every aspect of Filipino life and in every community where an SM Mall is located. All over the country, SM Supermalls have fast become the center of activities of communities around them. People celebrate milestones of their lives in SM Supermalls, they gather there to watch entertainment shows, to shop and to literally and vicariously experience the good life.

Knowing fully well its responsibility towards people and communities, SM Supermalls through its SM Cares program has seen to it that the company operates programs that enhance the lives of people and safeguard the rights and privileges of communities that have welcomed SM into their lives.

SM Prime Holdings Inc., under the guidance of its President Mr. Hans T. Sy, has expanded its operations to serve as catalysts for positive change throughout the nation. All of the company's social and environmental initiatives are joined under the banner program called SM Cares.

These committees consist of:

- Environment
- Persons with Disabilities
- Children
- Breastfeeding
- Women
- OFWs
- Elderly
- Social Entrepreneurship

SM Cares for the Environment

The focus of SM Supermalls on sustainable development is exemplified by the fervour of the SM Cares for the Environment Program. Long before sustainability became a key corporate emphasis, SM has started implementing strategies and programs to promote efficiency and stewardship. Today, these efforts have evolved beyond exceeding compliance with local regulations and operational sustainability. They now also spread the message of environmentalism and advocacy. At the core of this program are the four pillars of SM Supermalls' sustainability efforts, which focus on: solid waste management, energy and water conservation, and air quality.

Solid Waste Management

As the retail industry leader, SM Supermalls serves millions of Filipinos across the nation on a daily basis. Given its reach, the company ensures that all waste is segregated and properly managed and disposed. Moreover, SM partners with the public and selected institutions to foster both internal and communal sustainability.

Trash to Cash

One of SM Supermalls' most decorated and celebrated programs is the monthly Trash to Cash Recycling Market. Through this effort, all members of the community can bring their recyclables and waste materials to SM Malls and exchange them for useful household items and cash. The effort has fostered sales of over 35 million pesos worth of discarded goods, and saved the equivalent of over 32,300 seven year old trees.

Eco Bag

Modern consumers are making more sustainable lifestyle choices and adopting more environmentally conscious practices. SM remains ahead of this trend by promoting reusable SM Eco Bags for all shopping purposes. The bags offer rewards for their usage, thereby engaging our customers and giving incentives to less plastic-reliant shopping habits. The latest line of bags draws inspiration from the UN 2011 theme "International Year of Forests." The SM Eco Bag is the symbol of SM's commitment to sustainable living and encourages its patrons to reduce their carbon footprints by minimizing their plastic use. Under the theme "I Am Involved," SM spreads the message of awareness and environmental stewardship through this effort. Currently, there are over three million SM Eco Bags circulating in the market.

My Own Bag Wednesday

SM Supermalls, in partnership with SM Supermarket, the DENR, and the Earth Day Network Philippines, currently operates weekly "My Own Bag" Wednesday events. On this day, all consumers are especially encouraged to bring reusable shopping bags, as the cost of any plastic needed will be added to their purchases. Conducted nationwide in all SM Supermalls, this effort makes our customers mindful of their plastic consumption and promotes the habitual use of environmentally friendly shopping bags.

Water Conservation

As mall providers generally have high water consumption needs; SM Supermalls has thus implemented various programs to ensure both the efficiency of its water usage, as well as the quality of water treatment before discharge. This is achieved by operating Tertiary Treatment Plants in all malls to recycle water for cooling, flushing and irrigation. This effort, alongside the integration of water saving technology into all mall designs, allows SM to save over 4.9 billion litres of water per year.

Low-Flow Toilets / Waterless Urinals

Pursuant to the highest attainable level of water efficiency, SM Supermalls has switched to less resource intensive facilities that simultaneously achieve optimal levels of performance and hygiene.

Aerated, Ultra-Low Flow, Faucets

Currently, all SM malls incorporate aerated "foaming cap" faucets that ensure a lower rate of flow. These fixtures operate at a level that is 75% more water efficient than traditional models, and reduce the water flow sent to sewage treatment plants.

Recycled Water for Air-Conditioning

SM continues to streamline its system of utilizing recycled water for its mall air-conditioning needs to reduce water consumption and potable water bills.

Energy Efficiency

Through the latest technology and process innovations, SM ensures that our malls reduce overall consumption and achieve the highest level of energy efficiency attainable.

Focus Enterprise Building Automation Systems

Through its innovative EBAS systems, SM saves approximately 79 million kWh yearly and is able to swiftly respond to all climate variances across all SM Malls nationwide.

Clerestory Lights

At the heart of all new SM developments, and renovations of existing structures, is an ethic of sustainable design. In line with this, SM has incorporated clerestory style windows across numerous malls to efficiently utilize natural light and reduce energy consumption.

Two-Lamp Fixture

By converting its lighting fixtures to a more efficient 2-lamp model, SM has experienced a 22% increase in energy savings without compromising the luminescent qualities of the lighting.

LED System

LED lighting systems operate at a lower temperature, have longer life, and utilize energy 80% more efficiently than standard light bulbs. SM currently is implementing LED technology across all of its developments as an additional effort to further its campaign for energy efficiency.

These efforts have not gone unnoticed as SM received numerous awards for energy efficiency in 2011: namely the Don Emilio Abello Award, and the coveted Meralco Luminaries Award.

SUSTAINABILITY REPORT

Air Quality

As one of the four main pillars of the company's operational sustainability program, SM Supermalls works towards enhancing the air quality in all mall and community areas through various efforts and campaigns.

No Smoking Campaign

In order to reduce the overall release of harmful pollutants into the atmosphere, SM works more diligently to implement the no smoking campaign within all mall structures and designates only certain areas for smoking.

Bicycle Parking

SM promotes sustainable transportation, not only through public transportation, but through emission free transportation methods like biking. Bicycle parking facilities are provided in SM Malls and are highlighted in the "Bike for A Change" events that create awareness on environmental issues and advocate for a healthier and more emissions-free lifestyle.

Park Finders

In all parking structures, idle cars looking for empty spaces are a major source of unnecessary greenhouse gas emissions. To curb this effect, SM has established LED parking slot finders in almost all parking areas. This system not only allows SM to reduce emissions generated from idle vehicles, but also facilitates the shopping experience of all of its patrons.

EDD Guidelines

SM's operations and engineering groups strictly monitor their consumption and generation of various materials. Through these efforts, SM ensures that Engineering and Design Guidelines not only meet all local regulations and legislations, but also exceed the standards imposed on companies by the government and international bodies.

GREEN RETAIL AGENDA

Annually, SM Supermalls conducts the Green Retail Agenda, a large scale symposium for all tenants in the mall to educate them in the latest technology, processes, and innovations in sustainable business operations; as well as educate them on current environmental issues and celebrate companies who integrate sustainability into their company vision. While all malls conduct their own Green Retail Agenda, the flagship event is held each year at the SMX Convention Center. This event serves as a nationally regarded and esteemed environmental event, bringing together the foremost leaders in international sustainable development, Philippine environmentalism, and social and ecological advocacy.

Other Initiatives

SM Cares for PWDs

Working towards the vision of making SM Supermalls as "A Mall for All", the SM Program on Disability Affairs is a multi-awarded program designed to enable customers with special needs and their families to have a friendlier and more enjoyable shopping experience.

By educating its tenants and staff, SM breaks away the physical and mental barriers that may hamper customers with special needs. Through yearly seminars, the company educates its frontliners, such as janitors and security guards, to be advocates of PWDs.

SM Supermalls has also upgraded its recreation facilities to allow PWDs to enjoy the same games that able people play. SM bowling lanes are now fitted with assistive devices for wheelchair users and the blind (like handle bars and directions done in braille). Through our continued partnership with the Autism Society of the Philippines, we also hold regular screenings of Sensory Friendly Movies or SFMs. By adjusting the sound and leaving the pilot lights on, children with autism can now enjoy the latest blockbusters with their families.

SM Cares for the Youth

The SM Cares for Children committee was created to cater to the needs of its most precocious customers. As an all access mall, we make sure that new malls are built with tiny feet in mind, and renovate existing ones to include the latest in child-proof technology. SM Mall employees, tenants and frontliners regularly undergo trainings on how to manage children as well as how to handle families or children in distress. Beyond safety, SM conducts year-round programs in SM Malls nationwide encouraging children

to be responsible citizens through time-honored Filipino values, and to instill in them a passion for learning.

SM Cares for Women

Much like the general population, women comprise the majority of SM's shoppers. In fact, approximately 60% of the people that go through our doors are women. However, the plight of women continues to be underrepresented, even as Filipinas continue to make their mark at home and abroad. Last year, SM kicked off 2011 by celebrating March as the International Women's Month. Launched at SM Megamall in cooperation with the Gifts and Graces Foundation, International Women's month featured exhibits in three malls: SM Mall of Asia, SM City North EDSA, and SM Southmall.

SM Cares for Nursing Mothers

The SM Cares for Breastfeeding Mothers is one of SM's most awarded pioneer programs. Since its inception in 2006, it has grown to include 40 breastfeeding stations, catering to over 135,000 mothers nationwide. By fostering a caring, and comfortable breastfeeding environment, SM Supermalls continues to break new ground on how large institutions cater to the needs of mothers and children.

SM Cares for Global Pinoys

The SM Global Pinoy Program is one of the most active SM Cares Departments, as it caters to one of SM Supermalls' biggest sectors: overseas Filipino workers and their families. The keystone feature of this program is the SM Global Pinoy Center, a "one-stop service hub" that educates, informs and helps bring families together. These locations offer free refreshments, free internet services, free mobile phone charging, free voice calls, BDO Remittance Pick-up services and Foreign Exchange services by the SM Department Store. In addition, SM has partnered with several government agencies in order to provide them the most relevant deployment and overseas employment information. The Global Pinoy Program conducts routine pre-departure counselling for OFWs and their families, so they are prepared to handle the challenges that arise from having family members who live abroad. SM has also launched several free livelihood financial literacy seminars, aimed at educating the families of OFWs. SM Global Pinoy continues to strive to help our country's Modern Heroes by continuously serving them, helping improve their lives, and bringing them closer to home and to their families.

SM Cares for Senior Citizens

SM Cares has institutionalized a program that aims to improve the quality of life of senior citizens and their primary caretakers. The program began with initiatives to cultivate a senior citizen-friendly environment in SM Malls, but has since evolved into a venue for advocacy and various programs. For example, the committee began the year by launching the Elderpreneurship program last January, a creativity, innovation, and entrepreneurship program specifically for seniors in order to educate them on running and managing successful businesses. Moving forward, SM Cares aims to create more programs that appreciate and revitalize senior citizens by encouraging them to lead more sustainable and productive lives.

SM Cares for Tourism

The Philippines – with its rich culture, unique traditions, and picturesque landscapes – is one of Asia's prized jewels. As an advocate of Philippine culture and ingenuity, the SM Cares Yes! Tourism Committee work tirelessly with the tourism industry to showcase the wealth and wonders of our country. We continuously strive to develop and improve our program every year, conceptualizing projects and exerting efforts in support of Philippine tourism. We also continue to upgrade our malls to provide the best dining and entertainment options, joining the Department of Tourism in its campaign in saying "It's more fun in the Philippines!". We are also partners with the DOT in providing Tourism Awareness Seminars to equip our frontliners with basic knowledge on tourism behavior patterns, tourism products and services, and other information they can imbibe in order to develop pride for country that will make them natural tourist promoters. With a more aware and informed staff, we at SM continue to make headway in our resolve to be a responsible developer—excelling in our core competence while keeping in touch with our customers through effective and meaningful customer service that genuinely warms the heart.

CORPORATE SOCIAL RESPONSIBILITY

A Note from SM Foundation

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

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

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

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

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

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

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

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

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

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

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

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

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

2011 AWARDS

SM Prime Holdings, Inc.

The Asset Corporate Awards
Platinum Awardee 2010 and 2011
For All Around Excellence in:
Management
Financial Performance
Corporate Governance
Social Responsibility
Environmental Responsibility
Investor Relations

7th Corporate Governance Asia Recognition Awards
One of the recipients of the Annual Corporate Governance Awards – **The Best of Asia (2006-2011)**

Corporate Governance Asia's 1st Asian Excellence Awards 2011
Best Environmental Responsibility

Asia Pacific Real Estate Association
Emerging Markets Highly Commended Award
Emerging Markets Merit Awards:
Valuation Category
Corporate Governance
Country Award: Best Submission in the Philippines

ICSC Foundation
SM Prime Holdings, Inc. (SM City North Edsa)
2011 Asia Community Support Award, "Breaking the Poverty Chain" Campaign

City of Manila
Awardee, **Top Ten Business Taxpayers and Top Ten Real Property Taxpayers**

City Government of Valenzuela
Top Taxpayer of the Year

City Government of Parañaque
Top Taxpayer of the Year

City Government of Sta. Rosa, Laguna
Cited as one of the **Top 20 Realty Taxpayers**

Municipality of Mandaluyong
First Asia Realty Development, **Top Taxpayer of the Year**

SM Supermalls

Public Relations Society of the Philippines 47th Anvil Awards
Awards of Excellence for the SM Cares Program on Disability Affairs, "There's Life After 60 at SM," and "Rizal at 150@SM"

Awards of Merit for SM City North Edsa's Summer Campaign, Green Film Festival and SM Global Pinoy Program for the Education/Literacy and Entrepreneurship/Job Generation Categories

Reader's Digest
SM City North Edsa – **Gold Award, Most Trusted Brand in the Mall Category**

Philippine Retailers Association
SM City North Edsa, **Shopping Center of the Year, Hall of Fame Large Category**

Philippine Foundation for the Rehabilitation of the Disabled, Inc. (The 2011 Apolinario Mabini Awards)
Disabled Friendly Establishments of the Year
Gold – SM City Tarlac
Silver – SM City North Edsa, SM Marikina, SM Rosario
Bronze – Interior Zone, Sky Garden and The Block, SM Megamall, SM Fairview, SM Rosales, SM Pampanga, SM Valenzuela, SM Baliwag, SM Pasig, SM Sucat, SM Bacoor, SM Muntinlupa, SM Calamba, SM Batangas, SM Naga, SM City Cebu Annex, SM Iloilo, SM Cagayan De Oro
"**Mapagmahal Sa May Kapansanan Award**," SM Mall of Asia, SM Cares

Department of Health
Recognition Award for the Implementation of the Exclusive Breastfeeding in the Workplace
SM City Baguio, SM City Lucena, SM Cagayan De Oro

SPOTLIGHT

Mr. Joselito H. Sibayan

INDEPENDENT DIRECTOR
SM Prime Holdings, Inc.

As far as I'm concerned, the independent director either does his or her job the right way, OR if not, he or she does not deserve to serve as an independent director. The independent director has to be prepared, through requisite research and readings, for each board or committee meeting, and to speak up and argue with logic and facts whatever position he or she takes on an important matter.

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

As an independent director, I am expected to render independent judgment in carrying out my responsibilities as a director. I, therefore, should be mindful of all stakeholders' interests in the company, and to balance such interests when we, your directors (independent, non-independent, and executive directors), deliberate as a board on SM Prime's vision and plans for long-term success and sustained competitiveness.

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

The key word is independence. The code of corporate governance requires independent directors to be "independent of management and to be free from any business or other relationship," which may interfere with our ability to render independent judgment. Our independence is especially critical in situations where the board is faced with decisions where stakeholder interests (of both minority and majority shareholders, creditors, regulatory agencies, customers, etc.) may seem short-term divergent but are really long-term aligned, if assessed in the proper context.

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

I have done close to 25 years of investment banking work out of New York, London, and Manila, and have advised central banks, supranational agencies, large corporates, and institutional investors on various aspects of investments, capital raising, and corporate workouts and restructurings. I think this wide exposure to different corporate situations, over an international arena, allows me to share relevant global best practices to an SM Prime that has become more regional in its aspirations.

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

In another month, I would have spent close to a year already with the SM Prime board. I find our regular audit committee, board meetings very engaging, and highly focused, thanks to the leadership of another independent director, Ambassador Joey Cuisia.

There is clearly a very stretching effort to practice good corporate governance, as embodied in SM Prime's manual on corporate governance. It is not just evident in the timely disclosures we make to our stakeholders, but also in our headstrong approach to addressing issues as they confront us, such as the times last year when we had flooding and security problems in some of our operations.

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

Between the board, audit committee, and annual general assembly, I get to do about 12 company related meetings each year. I do a lot of readings on our company and on the business space we operate in. I also take time to meet with our officers to inquire about specific projects and relevant policies. I do visit our Metro Manila and provincial malls incognito just to see whether the regular board reports I get are indeed reflective of what is happening on the ground. I would assume that 20-25% of my regular work hours is dedicated to my role as an independent director at SM Prime.

What are your thoughts and views on corporate governance?

The code defines corporate governance as "a system whereby shareholders, creditors, and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place". I think every company, whether big, listed or small, has a responsibility to practice proper corporate governance, in order to ensure that every life or form it touches benefits from its existence.

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

We, independent directors, help ensure that our company indeed practices proper corporate governance. Independent directors, aside from their presumed integrity and background qualifications, are expected to be "assiduous," which is actually specified in the code. We have to be tenacious and persevering in our judicious deliberations on issues and situations that regularly confront our company.

How would you measure the success of an independent director?

As far as I'm concerned, the independent director either does his or her job the right way, OR if not, he or she does not deserve to serve as an independent director. The independent director has to be prepared, through requisite research and readings, for each board or committee meeting, and to speak up and argue with logic and facts whatever position he or she takes on an important matter.

Doing our jobs the right way is not a measure of success, but is a basic requirement. For me, success applies only to how well the company has performed. If a company has failed to generate revenue and income, to preserve or create more jobs, and to keep its stakeholders happy, then all directors in the company have no 'success' to talk about.

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

Last year, when most global markets were down because of problems in the developed economies of Europe and North America, the Philippine stock market was the third best performer in the world, based on a 4% year-on-year gain. Our economic growth slowed down also to the 4% area. However, SM Prime's Net Income grew by 15%! The fact that we outperformed the national economy by at least 10% is a testament to our staff and management's ability to work together and to cope with the challenges of a market slowdown.

Last February 17, we had our first meeting in our new Arena Annex building. Despite our financial gains, our management continues to maintain very spartan offices, which I find very admirable. With a better economic outlook for the Philippines and the world in 2012, I am confident SM Prime will outperform its achievements in 2011.

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

I am a chemical engineer by education, from De La Salle University. My technical orientation is thanks to the Philippine Science High School, where I graduated from in 1975. After five years of selling mainframe computers for Burroughs Corporation, I took my MBA from the University of California at Los Angeles (UCLA).

I then proceeded to Wall Street in 1987, and successively worked at Merrill Lynch, Deutsche Bank, and NatWest Markets over ten years in New York and London. I managed sales teams, which traded fixed income and derivatives with institutional accounts in the Americas, Europe, and the Middle East.

I came home in the late 90's to set up Credit Suisse-First Boston's (CSFB) Philippine office and was country manager until 2005. I then retired from corporate life and subsequently started Mabuhay Capital with two other bankers. For the past six years, we have provided financial advisory services to mid-sized companies, which tend to be by-passed by the bigger investment banks.

BOARD OF DIRECTORS

FACES

HENRY SY, SR.
Chairman

Mr. Sy has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman of SM Investments Corporation, SM Land, Inc., Highlands Prime, Inc. and SM Development Corporation. He is likewise Chairman Emeritus of BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the fore in the SM Group's diversification into the commercial centers, retail, financial services, and real estate development and tourism businesses.

JOSE L. CUISIA, JR.*
Vice Chairman and Independent Director

Mr. Cuisia has served as Vice Chairman of the Board of Directors of SM Prime since 1994. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He is the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company and currently serves as the Vice Chairman of Philamlife since August 2009. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. In May 2011, he was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton School of the University of Pennsylvania for an outstanding career in the country's banking and social security system.

HANS T. SY
Director and President

Mr. Sy has served as Director since 1994 and as President since 2004. He holds many key positions in the SM Group, among which are Adviser to the Board of SM Investments Corporation. He is Director and Chairman of China Banking Corporation, Director of Highlands Prime, Inc. and SM Land, Inc. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

SENEN T. MENDIOLA
Director

Mr. Mendiola has served as Director since 1994. He is Vice Chairman of a number of SM Group companies and holds a number of board positions within the Group including Adviser to the Board of BDO Unibank, Inc. A graduate of San Beda College with a Bachelor's degree in commerce, he has worked closely with Mr. Henry Sy, Sr. for more than four decades.

HENRY T. SY, JR.
Director

Mr. Sy has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is also Vice Chairman and President of SM Land, Inc., Vice Chairman of SM Investments Corporation and SM Development Corporation, President of Highlands Prime, Inc., Director of BDO Unibank, Inc., Chairman of Pico de Loro Beach and Country Club, Inc. and President of the National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

HERBERT T. SY
Director

Mr. Sy has served as Director since 1994. He is an Adviser to the Board of SM Investments Corporation and is currently the Vice Chairman of Supervalue Inc., Super Shopping Market, Inc. and Sanford Marketing Corporation and Director of SM Land, Inc. and China Banking Corporation. He holds a Bachelor's degree in management from De La Salle University. He also holds board positions in several companies within the SM Group.

GREGORIO U. KILAYKO*
Independent Director

Mr. Kilayko is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Barings' stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. He was elected as Independent Director of SM Prime in 2008.

JOSELITO H. SIBAYAN*
Independent Director

Mr. Sibayan has spent the past 20 years of his career in investment banking. From 1987 to 1994, he was based in New York and in 1995, he moved to London. He is currently the President and CEO of Mabuhay Capital Corporation (MC2). Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking-Philippines and Philippine Country Manager for Credit Suisse First Boston and established its representative office in Manila in 1998, which he later migrated to a branch. He was elected as Independent Director of SM Prime in 2011.

TERESITA SY-COSON
Adviser to the Board

Ms. Sy-Coson has served as Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of BDO Unibank, Inc., Vice Chairman of SM Investments Corporation and Director of SM Land, Inc. She also holds board positions in several companies within the SM Group.

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

Board Committees

Audit and Risk Management Committee

Jose L. Cuisia, Jr.	Chairman (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)
Joselito H. Sibayan	Member (Independent Director)
Senen T. Mendiola	Member
Jose T. Sio	Member
Serafin U. Salvador	Member
Corazon I. Morando	Member

Compensation Committee

Hans T. Sy	Chairman
Gregorio U. Kilayko	Member (Independent Director)
Joselito H. Sibayan	Member (Independent Director)

Nomination Committee

Herbert T. Sy	Chairman
Jose L. Cuisia, Jr.	Member (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)

Compliance Officers

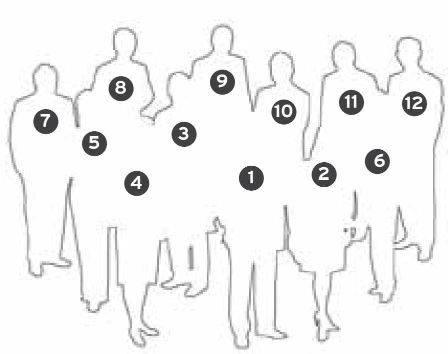
Atty. Corazon I. Morando	Compliance Officer
Jeffrey C. Lim	Alternate Compliance Officer
Atty. Emmanuel C. Paras	Alternate Compliance Officer

Corporate Information Officers

Jeffrey C. Lim	Corporate Information Officer
Atty. Corazon I. Morando	Alternate Corporate Information Officer
Teresa Cecilia H. Reyes	Alternate Corporate Information Officer

EXECUTIVE OFFICERS

FACES



1 HANS T. SY President **2 ELIZABETH T. SY** Senior Vice President, Marketing **3 JEFFREY C. LIM** Executive Vice President & Chief Finance Officer **4 CORAZON I. MORANDO** Senior Vice President, Legal & Corporate Affairs/Assistant Corporate Secretary **5 DIANA R. DIONISIO** Vice President, Finance (China Projects) **6 TERESA CECILIA H. REYES** Vice President, Finance **7 EMMANUEL C. PARAS** Corporate Secretary **8 EDGAR RYAN C. SAN JUAN** Vice President, Legal **9 ERICKSON Y. MANZANO** Vice President, Project Development **10 RONALD G. TUMAO** Vice President, Market Research and Planning **11 CHRISTOPHER S. BAUTISTA** Vice President, Internal Audit **12 KELSEY HARTIGAN Y. GO** Vice President, Information Technology

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

2011

Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2011	**% to Revenues**	**2010**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	26,897	100%	23,716	100%	13%
Operating Expenses	12,277	46%	11,271	48%	9%
Operating Income	14,620	54%	12,445	52%	17%
Net Income	9,056	34%	7,856	33%	15%
EBITDA	18,450	69%	15,946	67%	16%

	Dec 31 2011	**% to Total Assets**	**Dec 31 2010**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	128,556	100%	116,343	100%	10%
Investment Properties	107,836	84%	93,940	81%	15%
Total Debt	40,893	32%	38,843	33%	5%
Net Debt	29,913	23%	26,642	23%	12%
Total Stockholders' Equity	63,774	50%	58,191	50%	10%

	Dec 31	
Financial Ratios	**2011**	**2010**
Current Ratio	1.49	2.20
Debt to Equity	0.39 : 0.61	0.40 : 0.60
Net Debt to Equity	0.32 : 0.68	0.31 : 0.69
Return on Equity	0.15	0.14
Return on Investment Properties	0.10	0.10
Debt to EBITDA	2.22	2.44
EBITDA to Interest Expense	9.47	9.13
Operating Income to Revenues	0.54	0.52
EBITDA Margin	0.69	0.67
Net Income to Revenues	0.34	0.33
Debt Service Coverage Ratio	6.72	5.54

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns forty two malls in the Philippines and four malls in China, posts 13% increase in gross revenues for the year 2011 to ₱26.90 billion from ₱23.72 billion in 2010. Rental revenues, accounting for 85% of total revenues, grew by 14% amounting to ₱22.76 billion from last year's ₱19.99 billion. This is largely due to rentals from new SM Supermalls opened in 2010 and 2011, namely, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Novaliches and SM Masinag. The new malls added 380,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 7%.

In terms of gross revenues, the four malls in China contributed ₱2.0 billion in 2011 and ₱1.41 billion in 2010, or 8% and 6% of total consolidated revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 9% and 7% to SM Prime's consolidated rental revenues in 2011 and 2010, respectively. Gross revenues of the four malls in China increased 45% in 2011 compared to 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 square meters of gross floor area. Average occupancy rate for the four malls is now at 95%.

For the year 2011, cinema ticket sales increased by 10% largely due to the success of local blockbuster movies shown in 2011 compared to 2010. In 2011, major blockbusters shown were "Transformers 3: Dark of the Moon," "Praybeyt Benjamin," "Harry Potter & The Deathly Hollow Part 2," "No Other Woman" and "Twilight Saga: Breaking Dawn Part 1." In 2010, major films shown were "Twilight Saga: Eclipse," "Iron Man 2," "Avatar," "Clash of the Titans" and "Harry Potter & The Deathly Hallow Part 1."

Amusement and other revenues likewise increased by 13% to ₱1,086 million in 2011 from ₱958 million in 2010 mainly due to higher sponsorship revenues in 2011. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Operating expenses increased by 9% from ₱11.27 billion in 2010 to ₱12.28 billion in 2011 mainly due to increase in depreciation, utilities and manpower expenses because of the new malls. Same-store growth in operating expenses is 4%. Likewise, income from operations posted a 17% growth from ₱12.44 billion in 2010 to ₱14.62 billion in 2011. In terms of operating expenses, the four malls in China contributed ₱1.05 billion in 2011 and ₱0.83 billion in 2010, or 9% and 7% of SM Prime's consolidated operating expenses, respectively.

Interest and dividend income increased significantly by 44% to ₱361 million in 2011 compared to ₱251 million in 2010 mainly due to higher average balance of temporary investments in 2011 compared to last year.

Interest expense for the year increased by just 12% despite the additional loans, from ₱1.75 billion in 2010 to ₱1.95 billion in 2011, due to the low interest rate environment and prepayment of high interest-bearing loans using refinancing.

Net income for the twelve months ended 2011 increased by 15% at ₱9.06 billion from last year's ₱7.86 billion. On a stand-alone basis, the net income of China operations doubled to P889 million in 2011 compared to ₱428 million in 2010, while net income of the Philippine operations grew 10% at ₱8.17 billion from ₱7.43 billion in 2010.

On the balance sheet side, cash and cash equivalents decreased by 15% from ₱9.72 billion to ₱8.29 billion as of December 31, 2010 and 2011, respectively, mainly due to capital expenditure requirements.

Investments held for trading increased by 63% from ₱500 million to ₱813 million as of December 31, 2010 and 2011, respectively, due to additional investments in corporate bonds.

Receivables increased by 18% from ₱4.19 billion to ₱4.94 billion as of December 31, 2010 and 2011, respectively, due to increase in rental receivables usually expected during the holiday season. Prepaid expenses and other current assets likewise increased by 16% from ₱1.10 billion to ₱1.28 billion as of December 31, 2010 and 2011, respectively, mainly due to input taxes.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Investment properties increased by 15% from ₱93.94 billion to ₱107.84 billion as of December 31, 2010 and 2011, respectively, mainly due on-going new mall projects located in Taguig, Pampanga, Olongapo, Cebu City, General Santos and Davao City in the Philippines and Chongqing and Zibo in China. In addition, SM Megamall and SM City Davao are under expansion.

The decrease in derivative assets by 84% from ₱738 million to ₱116 million as of December 31, 2010 and 2011, respectively and derivative liabilities by 66% from ₱710 million to ₱238 million as of December 31, 2010 and 2011, respectively, is mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans.

Deferred tax assets increased by 14% from ₱223 million to ₱254 million as of December 31, 2010 and 2011, respectively, due to unrealized mark-to-market losses on interest rate swaps.

Other noncurrent assets decreased by 20% from ₱3.95 billion to ₱3.15 billion as of December 31, 2010 and 2011, respectively, mainly due to refund of a bid bond for acquisition of a certain real property in China.

The increase in accounts payable and other current liabilities by 49% from ₱6.80 billion to ₱10.15 billion as of December 31, 2010 and 2011, respectively, is mainly due to payables to mall contractors, purchased land and accrued expenses.

Long-term debt increased by 5% from ₱38.84 billion to ₱40.89 billion as of December 31, 2010 and 2011, respectively, due to loan availments.

Deferred tax liabilities decreased by 5% from ₱1.32 billion to ₱1.26 billion as of December 31, 2010 and 2011, respectively, mainly due to depreciation of capitalized interest and foreign exchange gains in 2010 realized in 2011.

The increase in tenants' deposits by 15% from ₱6.47 billion to ₱7.47 billion as of December 31, 2010 and 2011, respectively, is due to the new malls and expansions. Other noncurrent liabilities likewise increased by 26% from ₱2.85 billion to ₱3.58 billion as of December 31, 2010 and 2011, respectively, mainly due to increase in liability for purchased real estate properties.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) earnings before interest, income taxes, depreciation and amortization (EBITDA); (7) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (8) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (9) operating income to revenues which basically measures the gross profit ratio; (10) EBITDA margin which measures the ratio of EBITDA to gross revenues and (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The Company's current ratio decreased to 1.49:1 from 2.20:1 as of December 31, 2011 and 2010, respectively, mainly due to increase in accounts payable and other current liabilities.

Interest-bearing debt to stockholders' equity slightly decreased to 0.39:0.61 from 0.40:0.60 as of December 31, 2011 and 2010, respectively, while net interest-bearing debt to stockholders' equity slightly increased to 0.32:0.68 from 0.31:0.69 as of December 31, 2011 and 2010, respectively. Debt service coverage ratio increased to 6.72:1 from 5.54:1 for years ended December 31, 2011 and 2010, respectively, due to higher operating cash flows in 2011 compared to 2010.

In terms of profitability, ROE slightly improved to 15% from 14% for the years ended December 31, 2011 and 2010, respectively.

EBITDA increased by 16% to ₱18.45 billion in 2011 from ₱15.95 billion in 2010. Debt to EBITDA slightly decreased to 2.22:1 from 2.44:1 as of December 31, 2011 and 2010, respectively. While EBITDA to interest expense increased to 9.47:1 from 9.13:1 for the years ended December 31, 2011 and 2010, respectively, due to higher cash flows from operations in 2011.

Consolidated operating income to revenues increased to 54% in 2011 from 52% in 2010. On a stand-alone basis, operating income margin of the Philippines and China operations is at 55% and 49% in 2011, compared to 53% and 41% in 2010, respectively.

EBITDA margin remains strong at 69% and 67% for the years ended December 31, 2011 and 2010, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 68% and 71% in 2011 and 67% and 71% in 2010, respectively.

Net income to revenues slightly increased to 34% from 33% for the years ended December 31, 2011 and 2010, respectively. On a stand-alone basis, net income margin of the Philippines and China operations is at 33% and 44% in 2011 and 33% and 30% in 2010, respectively.

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.

As of December 31, 2011, SM Prime has forty one Supermalls strategically located in the Philippines with a total gross floor area of 5.1 million square meters. Likewise, the Company also has four Supermalls located in the cities of Xiamen, Jinjiang, Chengdu and Suzhou in China with a total gross floor area of 0.6 million square meters.

Earlier this year, SM Prime opened SM City Olongapo in Zambales. For the rest of 2012, SM Prime is scheduled to launch SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City San Fernando in Pampanga and SM Chongqing in China. By year-end, SM Prime will have 46 malls in the Philippines and five in China with an estimated combined gross floor area of 6.3 million square meters.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

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

Internal Audit Charter

The Company's Internal Audit Group has a Charter that defines its roles and responsibilities. Under its Charter, the primary purpose of Internal Audit is to provide an independent and objective evaluation of the Company's risk management, organization and procedural controls. The Charter requires Internal Audit to:

- develop and implement an annual audit plan using an appropriate risk-based methodology, as approved by the Audit and Risk Management Committee;
- assist in the investigation of significant suspected fraudulent activities within the Company and notify the Audit and Risk Management Committee and Management of the findings; and
- report regularly to the Audit and Risk Management Committee on the results of its audit activities as well as on best practices and development in internal auditing.

To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit and Risk Management Committee, and administratively to the President. The Internal Auditor is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Risk Management Committee and Senior Management.

Principal Activities of the Audit and Risk Management Committee for 2011

The Committee met five (5) times in 2011 (on February 14, April 19, June 13, August 1 and November 3) and reviewed and discussed the following:

- SGV & Co.'s audit plan, including its scope of work, preliminary audit strategy, and audit time table.
- SGV & Co.'s significant accounting and audit issues, changes in accounting policies applicable to the SM Group, and tax updates.
- the Internal Audit Group's audit plan and results of its internal audit work.
- the details of the Company's related party transactions.
- the results of initial risk assessments of priority risk areas and effectiveness of the Company's over-all risk management system.
- the Company's compliance with laws and regulations.
- the performance and independence of the independent auditor and concluded that except for the regular audit of financial statements and assistance in the preparation of the annual income tax returns, SGV & Co. did not render any other professional services in 2011.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

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

17 February 2012

JOSE L. CUISIA, JR.
Chairman (Independent Director)

SENEN T. MENDIOLA
Member

SERAFIN U. SALVADOR
Member

JOSE T. SIO
Member

ATTY. CORAZON I. MORANDO
Member

GREGORIO U. KILAYKO
Member (Independent Director)

JOSELITO H. SIBAYAN
Member (Independent Director)

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SM Prime Holdings, Inc. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SGV & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Jose L. Cuisia, Jr.
Vice Chairman

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice President

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.

We have audited the accompanying consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0943-A (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2009,
September 30, 2009, valid until September 29, 2012
PTR No. 3174580, January 2, 2012, Makati City

February 17, 2012

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 18, 20 and 21)	**₱8,290,216,039**	₱9,719,718,284
Short-term investments (Notes 7, 18, 20 and 21)	**876,800,000**	876,800,000
Investments held for trading (Notes 8, 18, 20 and 21)	**812,953,412**	500,134,177
Receivables (Notes 9, 18, 20 and 21)	**4,940,102,186**	4,189,315,348
Available-for-sale investments (Notes 12, 18, 20 and 21)	**1,000,000,000**	1,104,161,471
Prepaid expenses and other current assets (Note 10)	**1,276,452,460**	1,104,217,482
Total Current Assets	**17,196,524,097**	17,494,346,762
Noncurrent Assets		
Investment properties - net (Notes 11 and 18)	**107,836,216,127**	93,940,301,554
Derivative assets (Notes 20 and 21)	**115,618,680**	738,228,976
Deferred tax assets (Note 16)	**254,132,999**	223,266,010
Other noncurrent assets (Note 11)	**3,153,887,932**	3,946,369,661
Total Noncurrent Assets	**111,359,855,738**	98,848,166,201
	₱128,556,379,835	₱116,342,512,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 18, 20 and 21)	**₱10,150,278,123**	₱6,796,847,322
Current portion of long-term debt (Notes 14, 18, 20 and 21)	**799,086,409**	766,703,000
Income tax payable	**623,013,182**	403,831,964
Total Current Liabilities	**11,572,377,714**	7,967,382,286
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 18, 20 and 21)	**40,093,522,320**	38,076,546,811
Tenants' deposits (Notes 19, 20 and 21)	**7,467,302,387**	6,465,889,827
Deferred tax liabilities (Note 16)	**1,258,514,789**	1,322,799,401
Derivative liabilities (Notes 20 and 21)	**237,979,926**	709,909,803
Liability for purchased land - net of current portion	**1,551,018,812**	1,618,695,982
Other noncurrent liabilities (Notes 11, 18, 20 and 21)	**2,028,857,966**	1,231,406,207
Total Noncurrent Liabilities	**52,637,196,200**	49,425,248,031
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 15 and 22)	**13,917,800,067**	13,917,800,067
Additional paid-in capital - net (Notes 2 and 15)	**8,219,067,298**	8,219,067,298
Cumulative translation adjustment (Note 15)	**872,658,862**	589,700,365
Unrealized gain on available-for-sale investments (Notes 12 and 15)	**–**	3,745,323
Retained earnings (Note 15):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**33,865,609,976**	28,562,329,066
Treasury stock (Notes 15 and 22)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 20)	**63,773,661,498**	58,191,167,414
Non-controlling Interests (Notes 2 and 15)	**573,144,423**	758,715,232
Total Stockholders' Equity	**64,346,805,921**	58,949,882,646
	₱128,556,379,835	₱116,342,512,963

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Rent (Notes 11, 18 and 19)	**₱22,759,402,156**	₱19,992,948,925	₱17,658,833,905
Cinema ticket sales	**3,051,716,588**	2,764,775,099	2,098,612,638
Others	**1,086,336,307**	958,207,627	740,052,372
	26,897,455,051	23,715,931,651	20,497,498,915
COSTS AND EXPENSES			
Depreciation and amortization (Note 11)	**3,829,971,166**	3,501,183,977	3,270,784,779
Administrative (Notes 17, 18 and 19)	**3,721,279,667**	3,549,874,202	2,689,127,059
Film rentals	**1,650,121,989**	1,494,236,340	1,118,015,199
Business taxes and licenses	**1,510,242,916**	1,326,394,330	1,146,588,071
Management fees (Note 18)	**794,923,211**	647,342,667	595,597,469
Others	**770,957,497**	752,349,899	925,711,837
	12,277,496,446	11,271,381,415	9,745,824,414
INCOME FROM OPERATIONS	**14,619,958,605**	12,444,550,236	10,751,674,501
OTHER INCOME (CHARGES) - Net			
Interest and dividend income (Notes 6, 7, 8, 12 and 18)	**361,227,330**	251,102,302	423,658,528
Interest expense (Notes 14, 18 and 21)	**(1,948,257,322)**	(1,746,215,754)	(1,416,807,840)
Others - net (Notes 8, 14 and 21)	**(812,537,877)**	(152,588,284)	(112,043,124)
	(2,399,567,869)	(1,647,701,736)	(1,105,192,436)
INCOME BEFORE INCOME TAX	**12,220,390,736**	10,796,848,500	9,646,482,065
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**2,932,357,842**	2,449,966,767	2,323,879,054
Deferred	**(94,188,973)**	206,748,328	45,765,632
	2,838,168,869	2,656,715,095	2,369,644,686
NET INCOME	**₱9,382,221,867**	₱8,140,133,405	₱7,276,837,379
Attributable to			
Equity holders of the parent (Note 22)	**₱9,055,995,525**	₱7,856,348,789	₱7,023,350,225
Non-controlling interests (Notes 2 and 15)	**326,226,342**	283,784,616	253,487,154
	₱9,382,221,867	₱8,140,133,405	₱7,276,837,379
Basic/Dilutive Earnings Per Share (Note 22)	**₱0.652**	₱0.584	₱0.527

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱9,382,221,867**	₱8,140,133,405	₱7,276,837,379
OTHER COMPREHENSIVE INCOME (LOSS) - Net			
Unrealized gain (loss) on available-for-sale investments - net of tax (Notes 12 and 15)	**(3,745,323)**	1,230,084	(45,831,311)
Cumulative translation adjustment (Note 15)	**282,958,497**	(91,770,374)	(139,632,483)
	279,213,174	(90,540,290)	(185,463,794)
TOTAL COMPREHENSIVE INCOME	**₱9,661,435,041**	₱8,049,593,115	₱7,091,373,585
Attributable to			
Equity holders of the parent	**₱9,335,208,699**	₱7,765,808,499	₱6,837,886,431
Non-controlling interests (Notes 2 and 15)	**326,226,342**	283,784,616	253,487,154
	₱9,661,435,041	₱8,049,593,115	₱7,091,373,585

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

				Equity Attributable to
	Capital Stock (Notes 15 and 22)	**Additional Paid-in Capital - Net** (Notes 2 and 15)	**Cumulative Translation Adjustment** (Note 15)	**Unrealized Gain on Available-for-Sale Investments** (Notes 12 and 15)
At January 1, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱589,700,365**	**₱3,745,323**
Total comprehensive income	**–**	**–**	**282,958,497**	**(3,745,323)**
Cash dividends - ₱0.27 a share	**–**	**–**	**–**	**–**
Dividends of a subsidiary	**–**	**–**	**–**	**–**
At December 31, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱872,658,862**	**₱–**
At January 1, 2010	₱13,348,191,367	₱2,375,440,999	₱681,470,739	₱2,515,239
Total comprehensive income	–	–	(91,770,374)	1,230,084
Additional issuance of shares	569,608,700	5,843,626,299	–	–
Cash dividends - ₱0.25 a share	–	–	–	–
Dividends of a subsidiary	–	–	–	–
At December 31, 2010	₱13,917,800,067	₱8,219,067,298	₱589,700,365	₱3,745,323
At January 1, 2009	₱13,348,191,367	₱5,493,656,403	₱821,103,222	₱48,346,550
Total comprehensive income	–	–	(139,632,483)	(45,831,311)
Acquisition of non-controlling interests	–	(3,073,952,352)	–	–
Cash dividends - ₱0.24 a share	–	–	–	–
Equity adjustment from business combination	–	(44,263,052)	–	–
Dividends of a subsidiary	–	–	–	–
At December 31, 2009	₱13,348,191,367	₱2,375,440,999	₱681,470,739	₱2,515,239

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent					
Retained Earnings				**Non-controlling**	
Appropriated	**Unappropriated**	**Treasury Stock**		**Interests**	
(Note 15)	(Note 15)	(Notes 15 and 22)	**Total**	(Notes 2 and 15)	**Total**
₱7,000,000,000	**₱28,562,329,066**	**(₱101,474,705)**	**₱58,191,167,414**	**₱758,715,232**	**₱58,949,882,646**
–	**9,055,995,525**	**–**	**9,335,208,699**	**326,226,342**	**9,661,435,041**
–	**(3,752,714,615)**	**–**	**(3,752,714,615)**	**–**	**(3,752,714,615)**
–	**–**	**–**	**–**	**(511,797,151)**	**(511,797,151)**
₱7,000,000,000	**₱33,865,609,976**	**(₱101,474,705)**	**₱63,773,661,498**	**₱573,144,423**	**₱64,346,805,921**
₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
–	7,856,348,789	–	7,765,808,499	283,784,616	8,049,593,115
–	–	–	6,413,234,999	–	6,413,234,999
–	(3,337,047,842)	–	(3,337,047,842)	–	(3,337,047,842)
–	–		–	(206,197,712)	(206,197,712)
₱7,000,000,000	₱28,562,329,066	(₱101,474,705)	₱58,191,167,414	₱758,715,232	₱58,949,882,646
₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556
–	7,023,350,225	–	6,837,886,431	253,487,154	7,091,373,585
–	–	–	(3,073,952,352)	(310,260,212)	(3,384,212,564)
–	(3,199,040,237)	–	(3,199,040,237)	–	(3,199,040,237)
–	–	–	(44,263,052)	–	(44,263,052)
–	–	–	–	(293,089,202)	(293,089,202)
₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱12,220,390,736**	₱10,796,848,500	₱9,646,482,065
Adjustments for:			
Depreciation and amortization (Note 11)	**3,829,971,166**	3,501,183,977	3,270,784,779
Interest expense (Notes 14, 18 and 21)	**1,948,257,322**	1,746,215,754	1,416,807,840
Interest and dividend income (Notes 6, 7, 8, 12 and 18)	**(361,227,330)**	(251,102,302)	(423,658,528)
Mark-to-market loss (gain) on derivatives (Note 21)	**226,901,219**	(29,839,113)	(220,310,203)
Unrealized foreign exchange loss (gain) - net	**120,523,863**	(84,810,032)	(26,539,451)
Mark-to-market gain on investments held for trading (Note 8)	**(13,439,353)**	(14,231,667)	(5,564,136)
Operating income before working capital changes	**17,971,377,623**	15,664,265,117	13,658,002,366
Decrease (increase) in:			
Receivables	**(706,117,333)**	(515,862,483)	(382,977,478)
Prepaid expenses and other current assets	**(165,159,468)**	(295,988,909)	339,523,982
Increase in:			
Accounts payable and other current liabilities	**3,093,279,729**	870,437,601	698,656,743
Tenants' deposits	**981,080,452**	762,974,229	848,888,049
Cash generated from operations	**21,174,461,003**	16,485,825,555	15,162,093,662
Income taxes paid	**(2,711,823,417)**	(2,572,575,448)	(2,561,674,952)
Net cash provided by operating activities	**18,462,637,586**	13,913,250,107	12,600,418,710
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 11)	**(16,550,283,823)**	(11,221,050,968)	(10,788,585,167)
Other noncurrent assets	**854,989,275**	(1,299,686,629)	(521,055,620)
Investments held for trading	**(299,379,882)**	(99,638,981)	(248,996,193)
Available-for-sale investments	**100,000,000**	–	2,383,633,239
Short-term investments	**–**	–	475,200,000
Interest and dividend received	**348,964,295**	239,534,893	479,604,831
Acquisition of non-controlling interests (Notes 2 and 15)	**–**	–	(3,384,212,564)
Net cash used in investing activities	**(15,545,710,135)**	(12,380,841,685)	(11,604,411,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14 and 18)	**15,894,082,275**	14,224,724,000	17,364,465,000
Payments to unwinding of interest rate swaps	**(76,220,800)**	–	–
Proceeds from additional issuance of shares (Note 15)	**–**	6,413,234,999	–
Payments to maturity of cross currency swaps	**–**	–	(615,600,000)
Payments of:			
Loans (Notes 14 and 18)	**(14,142,267,058)**	(10,338,573,989)	(16,082,755,137)
Dividends	**(4,006,411,766)**	(3,543,245,554)	(3,492,129,439)
Interest	**(2,028,628,142)**	(2,355,255,672)	(2,482,588,750)
Net cash provided by (used in) financing activities	**(4,359,445,491)**	4,400,883,784	(5,308,608,326)
EFFECT OF EXCHANGE RATE CHANGES ON CASHAND CASH EQUIVALENTS	**13,015,795**	(40,644)	(212,529,024)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,429,502,245)**	5,933,251,562	(4,525,130,114)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,719,718,284**	3,786,466,722	8,311,596,836
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱8,290,216,039**	₱9,719,718,284	₱3,786,466,722

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. The Parent Company and its subsidiaries (collectively referred to as "the Company") develop, conduct, operate and maintain 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. Its main sources of revenue include rent income from leases in mall and food court, cinema ticket sales and amusement income from bowling, ice skating and others.

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

The Parent Company is 21.65% and 40.96% directly-owned by SM Investments Corporation (SMIC) and SM Land, Inc. (SM Land), respectively. SM Land is a 66.89% owned subsidiary of SMIC. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

The registered office and principal place of business of the Parent Company is Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 17, 2012.

2. Basis of Preparation

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

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

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PAS and Philippine Interpretations which the Company has adopted during the year:

- PAS 24, *Related Party Disclosures (Amendment),* became effective for annual periods beginning on or after January 1, 2011.

- PAS 32, *Financial Instruments: Presentation (Amendment) – Classification of Rights Issues*, became effective for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment*), became effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments,* became effective for annual periods beginning on or after July 1, 2010.

- 2010 Improvements to PFRS (Effective 2011).

The standards or interpretations that have been adopted are deemed to have no material impact on the consolidated financial statements of the Company.

<u>Future Changes in Accounting Policies</u>

Standards and Interpretations
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective. The Company will adopt these standards and interpretations on their effective dates.

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

- PAS 12, *Income Taxes (Amendment) - Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, Investment Property, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* always be measured on a sale basis of the asset. The Company does not expect this amendment to have an impact on its consolidated financial statements.

- PAS 19, *Employee Benefits (Amendment),* will become effective for annual periods beginning on or after January 1, 2013. The numerous amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company does not expect this amendment to have any significant impact on its financial position or performance.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statements,* and PFRS 12, *Disclosure of Interest in Other Entities,* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not expect this revised standard to have any significant impact on its financial position or performance.

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

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities,* will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be applied retrospectively. The Company is currently assessing impact of the amendments to PAS 32.

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

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities,* will become effective for annual periods beginning on or after January 1, 2013. The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities;

  (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

  (c) The net amounts presented in the statement of financial position;

  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and

    ii. Amounts related to financial collateral (including cash collateral); and

  (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments to PFRS 7 are to be applied retrospectively. The Company is still in the process of assessing the impact of these amendments to its consolidated financial statements.

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 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 impairment of financial assets will be addressed. The completion of this project is expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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

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

- PFRS 12, *Disclosure of Interests in Other Entities*, will become effective for annual periods beginning on or after January 1, 2013. This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Company expects that this new standard will have no significant effect on its financial position or performance.

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. 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.

The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation will have no impact in the consolidated financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation will have no impact in the consolidated financial statements.

Basis of Consolidation

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

		Percentage of Ownership		
Company	Country of Incorporation	**2011**	2010	SM Malls Owned
First Asia Realty Development Corporation (FARDC)	Philippines	**74.19**	74.19	SM Megamall
Premier Central, Inc.	- do -	**100.00**	100.00	SM City Clark
Consolidated Prime Dev. Corp.	- do -	**100.00**	100.00	SM City Dasmariñas
Premier Southern Corp.	- do -	**100.00**	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do -	**100.00**	100.00	–
Southernpoint Properties Corp. (SPC)	- do -	**100.00**	100.00	–
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.00**	50.00	SM by the Bay
Affluent Capital Enterprises Limited (Affluent) and Subsidiaries	British Virgin Islands	**100.00**	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make) and Subsidiaries	- do -	**100.00**	100.00	SM City Jinjiang
Springfield Global Enterprises Limited (Springfield)	- do-	**100.00**	100.00	–
SM Land (China) Limited (SM Land China) and Subsidiaries	Hong Kong	**100.00**	100.00	SM Suzhou

On September 3, 2009, SM Land China acquired Alpha Star Holdings Limited (Alpha Star) from Grand China International Limited (Grand China) for ₱778 million (¥112 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land China. Alpha Star is the holding company of the Zibo property in China. No restatement of prior period was made as a result of the acquisition of Alpha Star due to immateriality. The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired additional 24,376,743 FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such non-controlling interests amounting to ₱3,384 million is accounted for as an equity transaction. Accordingly, the carrying amounts of SMPH's investment and the share of non-controlling interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

In 2009, the Parent Company acquired 6,000,000 shares of SPC which is equivalent to 100% of the total outstanding shares of SPC for a total consideration of ₱600 million.

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the BOD representing the Parent Company.

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

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statements of income and within stockholders' equity in the consolidated balance sheets, separately from equity attributable to equity holders of the parent.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Operating Lease Commitments - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company 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 ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

Rent expense amounted to ₱589 million, ₱504 million and ₱438 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 19).

Estimates and Assumptions
The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, average age of accounts and collection experience. The Company 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 impairment losses. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying amount of receivables amounted to ₱4,940 million and ₱4,189 million as of December 31, 2011 and 2010, respectively (see Note 9).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as period longer than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The Company's AFS investments amounted to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively (see Note 12).

Estimation of Useful Lives of Investment Properties. The useful life of each of the Company's investment property 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 results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any investment property would increase the recorded operating expenses and decrease investment properties.

There is no change in the estimated useful lives of investment properties in 2011 and 2010.

Impairment of Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that investment properties may be impaired. An investment property's recoverable amount is the higher of an investment property's fair value less costs to sell and its value in use. When the carrying amounts of the investment properties exceed their recoverable amounts, the investment properties are considered impaired and are written down to their recoverable amounts.

The net book value of investment properties amounted to ₱107,836 million and ₱93,940 million as of December 31, 2011 and 2010, respectively (see Note 11).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the succeeding periods. This projection is based on the Company's past and future results of operations.

Deferred tax assets amounted to ₱254 million and ₱223 million as of December 31, 2011 and 2010, respectively (see Note 16).

Pension Cost. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 21.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provisions were made in relation to these claims.

4. Summary of Significant Accounting and Financial Reporting 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 dates of acquisitions and are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial instrument 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 categorized as at fair value through profit or loss (FVPL), includes transaction costs.

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (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 the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company 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 unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on investments held for trading are included in the consolidated statements of income under the "Others - net" account. Interest income on investments held for trading is included in the consolidated statements of income under the "Interest and dividend income" account. Instruments under this category are classified as current assets if these are hold primarily for the purpose of trading or expected to be realized/settled within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Financial assets and liabilities 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 and liabilities or recognizing gains or losses on a different basis; or

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱929 million and ₱1,238 million as of December 31, 2011 and 2010, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱238 million and ₱710 million as of December 31, 2011 and 2010, respectively (see Note 21).

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 maturity is within 12 months from balance sheet date. 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.

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The aggregate carrying values of financial assets under this category amounted to ₱14,107 million and ₱14,786 million as of December 31, 2011 and 2010, respectively (see Note 21).

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

The Company has no investments classified as HTM as of December 31, 2011 and 2010.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. They 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 unrealized gain or loss on AFS investments recognized as other comprehensive income 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. Assets under this category are classified as current assets if management intends to sell these financial assets within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's investments in corporate notes and redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively (see Note 21).

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

This category includes accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The carrying values of financial liabilities under this category amounted to ₱61,412 million and ₱54,330 million as of December 31, 2011 and 2010, respectively (see Note 21).

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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.

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

Derivative Financial Instruments
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 21). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company's derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges.

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 hybrid instrument vary in a way similar to a stand-alone derivative. 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 instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Subsequent reassessment is prohibited unless there is a 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 Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 Company 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 Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company'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 Company could be required to repay.

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

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

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

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of income under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Assets 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 Company. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Others - net" account.

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. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the 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 and dividend 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, where the related assets and liabilities are presented gross in the consolidated balance sheets.

Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interest method.

In applying the 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 the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the combinations had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

Acquisition of Non-controlling Interests

Changes in a parent'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 and included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

Investment Properties

Investment properties represent land and land use rights, buildings, structures, equipment and improvements of the shopping malls and shopping mall complex under construction.

Investment properties, except land and shopping mall complex under construction, are measured initially at cost, including transaction costs, less accumulated depreciation and amortization and accumulated impairment in value, if any. 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.

Shopping mall complex under construction is stated at cost and includes the cost of land, construction costs, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period, provided that the carrying amount does not exceed the amount realizable from the use or sale of the asset.

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

Land use rights	40–60 years
Buildings and improvements	35 years
Building equipment, furniture, leasehold improvements 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.

Shopping mall complex under construction is not depreciated until such time that the relevant assets are completed and put into operational use.

When each major inspection is performed, the cost is recognized in the carrying amount of the investment properties as a replacement, if the recognition criteria are met.

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 year of retirement or disposal.

<u>Impairment of Nonfinancial Assets</u>
The carrying value of investment properties and other nonfinancial assets is 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 investment properties and other nonfinancial assets 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 less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

<u>Capital Stock</u>
Capital stock is measured at par value for all shares issued. When shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital account.

<u>Treasury Stock</u>
Own equity instruments which are acquired (treasury shares) are deducted from stockholders' equity and accounted for at cost. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

<u>Revenue Recognition</u>
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes. The following specific recognition criteria must also be met before revenue is recognized:

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

Cinema Ticket Sales, Others. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

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

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

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

<u>Expenses</u>
Operating and interest expenses are recognized as incurred.

<u>Pension Cost</u>
The Parent Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the 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 amount recognized as net pension asset or liability is the net of the present value of the defined benefit obligation at balance sheet date, plus any actuarial gains (less any actuarial losses) not recognized minus past service cost not yet recognized minus the fair value of plan assets at balance sheet date out of which the obligations are to be settled directly.

<u>Foreign Currency-denominated Transactions</u>
Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign Currency Translations
The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at the balance sheet date and their respective statements of income are translated at the weighted average rates for the year. The exchange differences arising on the translation are included in the consolidated statements of changes in stockholders' equity under "Cumulative translation adjustment" account. On disposal of a foreign entity, the deferred cumulative amount of exchange differences recognized in stockholders' equity relating to that particular foreign operation is recognized in profit or loss.

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

Company as Lessee. Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as 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.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. 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 rent income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions
Provisions are recognized when the Company 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 Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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

Taxes

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

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales 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 sales tax included.

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

Basic/Diluted Earnings Per Share (EPS)
Basic/Diluted EPS is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year, with retroactive adjustments for any stock dividends declared.

Geographical Segment
The Company's business of shopping mall development and operations is organized and managed separately according to geographical areas where the Company operates, namely the Philippines and China. This is the basis upon which the Company reports its primary segment information presented in Note 5 to the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to consolidated financial statements 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 in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Subsequent Events
Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Segment Information

For management purposes, operating segment is monitored through geographical location as the Company's risks and rates of return are affected predominantly by differences in economic and political environments where they operate. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

As of December 31, 2011, the Company owns forty-one (41) shopping malls in the Philippines and four shopping malls in China. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

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 operating profit or loss in the consolidated financial statements.

Inter-segment Transactions
Transfer prices between geographical segments are set on an arm's length basis similar to transactions with related parties. Such transfers are eliminated in consolidation.

Geographical Segment Data

		2011		
	Philippines	**China**	**Eliminations**	**Consolidated**
		(In Thousands)		
Revenue	**₱24,850,809**	**₱2,046,646**	**₱–**	**₱26,897,455**
Segment results:				
Income before income tax	**₱11,107,990**	**₱1,112,401**	**₱–**	**₱12,220,391**
Provision for income tax	**2,614,818**	**223,351**	**–**	**2,838,169**
Net income	**₱8,493,172**	**₱889,050**	**₱–**	**₱9,382,222**
Net income attributable to:				
Equity holders of the Parent	**₱8,166,945**	**₱889,050**	**₱–**	**₱9,055,995**
Non-controlling interests	**326,226**	**–**	**–**	**326,226**
Segment profit	**₱13,620,404**	**₱999,555**	**₱–**	**₱14,619,959**
Segment assets	**₱114,608,282**	**₱23,894,033**	**(₱9,945,935)**	**₱128,556,380**
Segment liabilities	**₱56,486,779**	**₱17,626,483**	**(₱9,903,688)**	**₱64,209,574**
Other information:				
Depreciation and amortization	**₱3,365,603**	**₱464,368**	**₱–**	**₱3,829,971**
Capital expenditures	**13,657,420**	**2,892,864**	**–**	**16,550,284**

		2010		
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱22,303,583	₱1,412,349	₱–	₱23,715,932
Segment results:				
Income before income tax	₱10,269,711	₱527,137	₱–	₱10,796,848
Provision for income tax	2,558,041	98,674	–	2,656,715
Net income	₱7,711,670	₱428,463	₱–	₱8,140,133
Net income attributable to:				
Equity holders of the Parent	₱7,427,886	₱428,462	₱–	₱7,856,348
Non-controlling interests	283,785	–	–	283,785
Segment profit	₱11,859,018	₱585,532	₱–	₱12,444,550
Segment assets	₱105,804,899	₱20,898,769	(₱10,361,155)	₱116,342,513
Segment liabilities	₱51,908,311	₱15,803,227	(₱10,318,908)	₱57,392,630
Other information:				
Depreciation and amortization	₱3,088,745	₱412,439	₱–	₱3,501,184
Capital expenditures	8,540,941	2,680,110	–	11,221,051

	2009			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱19,459,991	₱1,037,508	₱–	₱20,497,499
Segment results:				
Income before income tax	₱9,304,085	₱342,397	₱–	₱9,646,482
Provision for income tax	2,300,711	68,934	–	2,369,645
Net income	₱7,003,374	₱273,463	₱–	₱7,276,837
Net income attributable to:				
Equity holders of the Parent	₱6,749,887	₱273,463	₱–	₱7,023,350
Non-controlling interests	253,487	–	–	253,487
Segment profit	₱10,342,439	₱409,235	₱–	₱10,751,674
Segment assets	₱88,366,884	₱14,971,499	(₱5,478,303)	₱97,860,080
Segment liabilities	₱45,053,186	₱10,212,650	(₱5,436,056)	₱49,829,780
Other information:				
Depreciation and amortization	₱2,950,973	₱319,812	₱–	₱3,270,785
Capital expenditures	7,742,394	3,046,191	–	10,788,585

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks (see Note 18)	**₱2,029,711,118**	₱4,132,648,248
Temporary investments (see Note 18)	**6,260,504,921**	5,587,070,036
	₱8,290,216,039	₱9,719,718,284

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

Interest income earned from bank deposits and temporary investments amounted to ₱208 million, ₱127 million and ₱211 million for the years ended December 31, 2011, 2010 and 2009, respectively.

7. Short-term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱877 million (US$20 million) as of December 31, 2011 and 2010, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated anytime by the Company.

Interest income earned from short-term investments amounted to ₱28 million each in 2011 and 2010 and ₱6 million in 2009.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱813 million and ₱500 million as of December 31, 2011 and 2010, respectively, with yields ranging from 3.18% to 12.29%. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2012 to 2018.

Investments held for trading have mark-to-market gain amounting to ₱13 million, ₱14 million and ₱6 million in 2011, 2010 and 2009, respectively, the amounts of which are included under "Others - net" account in the consolidated statements of income. Cumulative unrealized mark-to-market gain amounted to ₱28 million and ₱15 million as of December 31, 2011 and 2010, respectively.

Interest income earned from investments held for trading amounted to ₱42 million, ₱13 million and ₱5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

9. Receivables

This account consists of:

	2011	2010
Rent:		
Third-party tenants	**₱2,434,700,115**	₱2,105,941,430
Related parties (see Note 18)	**1,587,324,781**	1,420,901,574
Advances to suppliers	**578,440,037**	370,314,070
Accrued interest (see Note 18)	**45,556,109**	33,293,073
Others	**294,081,144**	258,865,201
	₱4,940,102,186	₱4,189,315,348

Rent receivables generally have terms of 30-90 days.

Advances to suppliers, accrued interest and others are normally collected throughout the financial year.

The aging analysis of receivables follows:

	2011	2010
Neither past due nor impaired	**₱4,595,446,764**	₱3,944,764,764
Past due but not impaired:		
91-120 days	**44,538,728**	31,851,507
Over 120 days	**300,116,694**	212,699,077
	₱4,940,102,186	₱4,189,315,348

Receivables are assessed by management of the Company as not impaired, good and collectible.

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2011	2010
Input taxes	**₱591,293,627**	₱398,885,734
Prepaid expenses	**366,033,201**	314,094,794
Advances to contractors (see Note 11)	**151,283,101**	215,722,567
Others	**167,842,531**	175,514,387
	₱1,276,452,460	₱1,104,217,482

Prepaid expenses mainly consist of prepayments for insurance and real property taxes.

11. Investment Properties

This account consists of:

			2011		
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
Cost					
Balance at beginning of year	**₱19,524,757,159**	**₱72,278,698,603**	**₱15,707,347,346**	**₱9,817,096,213**	**₱117,327,899,321**
Additions	**2,093,747,242**	**1,625,733,325**	**626,763,170**	**12,669,351,155**	**17,015,594,892**
Transfers	**631,214,391**	**5,942,660,350**	**552,191,221**	**(7,126,065,962)**	**–**
Translation adjustments	**153,159,366**	**387,953,221**	**64,393,926**	**186,433,162**	**791,939,675**
Balance at end of year	**22,402,878,158**	**80,235,045,499**	**16,950,695,663**	**15,546,814,568**	**135,135,433,888**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**401,895,611**	**15,111,732,471**	**7,873,969,685**	**–**	**23,387,597,767**
Depreciation and amortization	**27,969,238**	**2,547,427,337**	**1,254,574,591**	**–**	**3,829,971,166**
Translation adjustments	**7,730,680**	**59,572,031**	**14,346,117**	**–**	**81,648,828**
Balance at end of year	**437,595,529**	**17,718,731,839**	**9,142,890,393**	**–**	**27,299,217,761**
Net Book Value	**₱21,965,282,629**	**₱62,516,313,660**	**₱7,807,805,270**	**₱15,546,814,568**	**₱107,836,216,127**

			2010		
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
Cost					
Balance at beginning of year	₱14,543,163,919	₱64,660,558,173	₱14,399,227,393	₱10,337,428,196	₱103,940,377,681
Additions	4,600,051,172	1,072,467,305	360,723,984	7,749,521,932	13,782,764,393
Reclassification	(40,000,000)	–	(59,738,975)	–	(99,738,975)
Transfers	477,532,899	6,671,339,375	1,030,868,446	(8,179,740,720)	–
Translation adjustments	(55,990,831)	(125,666,250)	(23,733,502)	(90,113,195)	(295,503,778)
Balance at end of year	19,524,757,159	72,278,698,603	15,707,347,346	9,817,096,213	117,327,899,321
Accumulated Depreciation and Amortization					
Balance at beginning of year	345,222,016	12,832,794,501	6,827,594,244	–	20,005,610,761
Depreciation and amortization	95,275,186	2,295,528,096	1,110,380,695	–	3,501,183,977
Reclassification	(35,684,162)	–	(55,750,198)	–	(91,434,360)
Translation adjustments	(2,917,429)	(16,590,126)	(8,255,056)	–	(27,762,611)
Balance at end of year	401,895,611	15,111,732,471	7,873,969,685	–	23,387,597,767
Net Book Value	₱19,122,861,548	₱57,166,966,132	₱7,833,377,661	₱9,817,096,213	₱93,940,301,554

Included under "Land" account are the 212,119 square meters and 223,474 square meters of real estate properties with a carrying value of ₱474 million and ₱475 million as of December 31, 2011 and 2010, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties - net" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱638 million and ₱623 million as of December 31, 2011 and 2010, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 14).

Rent income from investment properties amounted to ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱12,277 million, ₱11,271 million and ₱9,746 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The fair value of investment properties amounted to ₱218,071 million as of July 31, 2010 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. 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 as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	11.75%
Capitalization rate	8.00%
Average growth rate	6.00%

While fair value of the investment properties was not determined as of December 31, 2011, the Company's management believes that there were no conditions present in 2011 that would significantly reduce the fair value of the investment properties from that determined in 2010.

The Company's management believes that the carrying values of the newly opened malls after the date of the valuation approximate their fair values.

In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin.

In 2010, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Taguig, SM Masinag, SM Suzhou, SM Chongqing and SM Tianjin.

Shopping mall complex under construction includes cost of land amounting to ₱1,575 million and ₱1,966 million as of December 31, 2011 and 2010, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱39,240 million and ₱27,509 million as of December 31, 2011 and 2010, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱10,268 million and ₱5,745 million as of December 31, 2011 and 2010, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱54 million and ₱600 million in 2011 and 2010, respectively. Capitalization rates used were 5.71% and 6.87% in 2011 and 2010, respectively.

12. Available-for-Sale Investments

As of December 31, 2011, this account consists of investments in corporate notes issued by BDO amounting to ₱1,000 million with fixed interest rate of 6.80% (see Note 18). Investments in corporate notes are intended to meet short-term cash requirements.

As of December 31, 2010, this account consists of investments in redeemable preferred shares issued by a local entity with annual dividend rate of 8.25% and investments in corporate notes issued by BDO amounting to ₱1,000 million with fixed interest rate of 6.80% (see Note 18). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The outstanding mandatorily redeemable preferred shares as of December 31, 2010 were redeemed in 2011 at par value.

Interest income amounted to ₱68 million each in 2011, 2010 and 2009, and dividend income amounted to ₱15 million, ₱15 million and ₱133 million in 2011, 2010 and 2009, respectively.

The movements in net unrealized gain on AFS investments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**₱3,745,323**	₱2,515,239
Gain (loss) due to changes in fair value of AFS investments - net	**(3,745,323)**	1,230,084
Balance at end of year	**₱–**	₱3,745,323

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2011	2010
Trade	**₱4,914,654,211**	₱3,292,605,890
Accrued operating expenses:		
Third parties	**2,892,708,398**	1,845,539,522
Related parties (see Note 18)	**102,408,081**	93,139,679
Liability for purchased land	**1,304,436,777**	862,916,739
Accrued interest (see Notes 14 and 18)	**314,938,946**	338,463,012
Taxes payable	**203,919,456**	150,640,013
Others	**417,212,254**	213,542,467
	₱10,150,278,123	₱6,796,847,322

Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.

Accrued operating expenses mainly pertain to payables to electrical and water utility providers and accrued management fees which are normally settled throughout the financial year.

Liability for purchased land, accrued interest and taxes payable are expected to be settled throughout the financial year.

Others are normally settled throughout the financial year.

14. Long-term Debt

This account consists of:

	2011	2010
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱6,101,532,979**	₱–
Five-year, three-year and two-year bilateral loans	**1,084,929,299**	1,079,807,116
Three-year term loans	**–**	3,897,276,056
Three-year club loan	**–**	1,713,138,278
Other U.S. dollar loans	**3,030,778,585**	3,019,052,497
Philippine peso-denominated loans:		
Five-year, seven-year and ten-year corporate notes	**6,884,170,665**	5,000,000,000
Five-year floating rate notes	**4,962,413,247**	–
Five-year and ten-year corporate notes	**4,960,399,612**	4,958,173,719
Five-year, seven-year and ten-year fixed rate notes	**1,985,674,872**	2,969,868,110
Five-year floating rate notes	**–**	2,985,437,634
Other bank loans	**7,161,770,104**	9,734,160,361
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**2,177,495,800**	2,216,223,600
Three-year loan	**1,299,441,045**	–
Five-year loan	**422,323,230**	398,124,000
Eight-year loan	**277,388,000**	763,071,000
Philippine peso-denominated loans -		
Five-year bilateral loan	**544,291,291**	108,917,440
	40,892,608,729	38,843,249,811
Less current portion	**799,086,409**	766,703,000
	₱40,093,522,320	₱38,076,546,811

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$145 million unsecured loans out of a US$270 million facility obtained as of December 31, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US$125 million was fully drawn on January 12, 2012 (see Notes 20 and 21).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million and ₱6 million in 2010 and 2009, respectively (see Notes 20 and 21). The remaining balance of US$25 million will mature on November 20, 2013.

U.S. Dollar-denominated Three-Year Term Loans
The US$90 million unsecured loans were obtained in April and May 2009. The loans bear interest rates based on LIBOR plus spread, with a bullet maturity on March 23, 2012. The loan was prepaid on May 16, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 20 and 21).

U.S. Dollar-denominated Three-Year Club Loan
The US$40 million unsecured loans were drawn on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012. A portion of the loans amounting to US$20 million was prepaid on May 9, 2011 and the balance of US$20 million was prepaid on July 28, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 20 and 21).

Other U.S. Dollar Loans
This account consists of the following:

- US$30 million and a US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 20 and 21).
- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013. The loan was prepaid on January 13, 2012 (see Notes 20 and 21).
- US$20 million three-year bilateral unsecured loan obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012. The loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 20).

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 amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 20).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 20).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 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 20).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000 million was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4 million (see Notes 20 and 21).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan amounting to ₱1,000 million and ₱3,000 million was prepaid on December 20, 2010 and March 18, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱3 million in 2010 and ₱6 million in 2011 (see Note 20).

Other Bank Loans
This account consists of the following:

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015 (see Notes 20 and 21).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 20).

- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million. The loans bear an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 and October 16, 2012, respectively. The Company prepaid the ₱830 million loan on April 13, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 20).

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin. The loan was prepaid on October 17, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Notes 20 and 21).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%. The loan was prepaid on March 3, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Note 20).

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 20).

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.210% in 2011 and 5.184% 2010 (see Note 20).

China Yuan Renminbi-denominated Three-Year Loan
This represents a three-year loan obtained on March 28, 2011 amounting to ¥250 million to finance the construction of shopping malls. Partial drawdown amounting to ¥187 million was made as of December 31, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears an interest rate of 6.655% in 2011 (see Note 20).

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown amounting to ¥60 million and ¥0.90 million was made in 2010 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.201% in 2011 and 5.598% in 2010 (see Note 20).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.345% in 2011 and 5.346% 2010 (see Note 20).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 11).

Philippine Peso-denominated Five-Year Bilateral Loans

This account consists of the following:

- Five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱16 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

The re-pricing frequencies of floating rate loans range from three to six months.

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, 2011 and 2010, the Company is in compliance with the terms of its loan covenants.

Debt Issuance Costs
The movements in unamortized debt issuance costs in 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**₱263,713,789**	₱255,565,332
Additions	**393,909,193**	128,934,570
Amortization	**(199,778,636)**	(120,786,113)
Balance at end of year	**₱457,844,346**	₱263,713,789

Amortization of debt issuance costs is recognized in the consolidated statements of income under "Others - net" account.

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

Year	Amount
2012	₱799,086,409
2013	2,646,912,817
2014	9,609,270,619
2015	12,715,683,230
2016	12,865,460,000
2017 to 2021	2,714,040,000
	₱41,350,453,075

15. Stockholders' Equity

Capital Stock
The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares are 13,917,800,067 shares as of December 31, 2011 and 2010.

The following summarizes the information on the Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50

The Company declared stock dividends in 2007, 1996 and 1995. The total number of shareholders is 2,567 and 2,627 as of December 31, 2011 and 2010, respectively.

Additional Paid-in Capital
The movements in "Additional paid-in capital - net" account in the consolidated balance sheets are as follows:

	2011	2010
Balance at beginning of year	**₱8,219,067,298**	₱2,375,440,999
Additional issuance of shares	**–**	5,843,626,299
Balance at end of year	**₱8,219,067,298**	₱8,219,067,298

International Placement of Shares
On October 14, 2010, the Parent Company has undergone an international placement of its shares to raise capital to finance strategic expansion programs in the Philippines and in China as well as for general working capital.

In connection with the international placement of its shares, the Parent Company engaged into a Placement Agreement with SM Land (the Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the "Joint Bookrunners") on October 14, 2010. As stated in the Placement Agreement, SM Land shall sell its 570 million SMPH Common Shares (the "Sale Shares") with a par value of ₱1 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, the Parent Company likewise entered into a Subscription Agreement with SM Land. As stated in the Subscription Agreement, SM Land will not directly receive any proceeds from the International Placement, but instead SM Land has conditionally agreed to subscribe for, and the Parent Company has conditionally agreed to issue, out of its authorized but unissued capital stock, new SMPH common shares in an amount equal to the aggregate number of the Sale Shares sold by SM Land in the International Placement 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 570 million SMPH common shares. Likewise, SM Land subscribed for and the Parent Company issued to SM Land the same number of new SMPH common shares. The proceeds of ₱6,414 million, net of transaction costs capitalized, add up to the capital of the Parent Company.

Unrealized Gain on Available-for-Sale Investments and Cumulative Translation Adjustment
The tax effects relating to each component of other comprehensive income are as follows:

	2011			2010		
	Before Tax Amount	**Tax Benefit**	**Net-of-tax Amount**	Before Tax Amount	Tax Expense	Net-of-tax Amount
Unrealized gain (loss) on AFS investments	**(₱4,161,471)**	**₱416,148**	**(₱3,745,323)**	₱1,366,760	(₱136,676)	₱1,230,084
Cumulative translation adjustment	**282,958,497**	**–**	**282,958,497**	(91,770,374)	–	(91,770,374)
	₱278,797,026	**₱416,148**	**₱279,213,174**	(₱90,403,614)	(₱136,676)	(₱90,540,290)

Retained Earnings
The retained earnings account is restricted for the payment of dividends to the extent of ₱5,214 million and ₱4,729 million as of December 31, 2011 and 2010, respectively, representing the cost of shares held in treasury (₱101 million in 2011 and 2010) and accumulated equity in net earnings of the subsidiaries totaling ₱5,113 million and ₱4,628 million as of December 31, 2011 and 2010, respectively. The accumulated equity in net earnings of the subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

Treasury Stock
Treasury stock, totaling 18,857,000 shares, is stated at acquisition cost.

16. Income Tax

The components of deferred tax assets and liabilities are as follows:

	2011	2010
Deferred tax assets -		
Unrealized foreign exchange losses and others	**₱254,132,999**	₱223,266,010
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,258,514,789**	₱1,322,799,401

On November 26, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 16-2008 which implemented the provisions of Republic Act 9504 on optional standard deduction (OSD). This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the years ended December 31, 2011, 2010 and 2009, the Company opted to use OSD in computing their taxable income.

The reconciliation of statutory tax rate to effective tax rates are as follows:

	2011	2010	2009
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(0.9)**	(0.7)	(1.3)
Change in enacted tax rates and others	**(5.9)**	(4.7)	(4.1)
Effective tax rates	**23.2%**	24.6%	24.6%

17. Pension Cost

The following tables summarize the components of the Company's pension plan:

Net Pension Cost

	2011	2010	2009
Current service cost	**₱4,987,201**	₱2,904,989	₱1,633,774
Interest cost on benefit obligation	**4,290,823**	3,690,383	1,864,154
Expected return on plan assets	**(3,606,172)**	(2,282,117)	(1,295,123)
Net actuarial loss recognized	**398,518**	5,811,580	77,448
Effect on asset limit	**–**	1,950	–
Net pension cost	**₱6,070,370**	₱10,126,785	₱2,280,253
Actual return on plan assets	**₱4,908,807**	₱8,559,473	₱3,131,449

Net Pension Asset

	2011	2010
Defined benefit obligation	**₱83,590,852**	₱54,108,736
Fair value of plan assets	**(70,979,267)**	(54,135,272)
Unfunded obligation (excess plan assets)	**12,611,585**	(26,536)
Unrecognized net actuarial losses	**(35,473,482)**	(16,970,543)
Net pension asset	**(₱22,861,897)**	(₱16,997,079)

The changes in the present value of the defined benefit obligation are as follows:

	2011	2010	2009
Balance at beginning of year	**₱54,108,736**	₱32,745,187	₱18,098,581
Current service cost	**4,987,201**	2,904,989	1,633,774
Interest cost on benefit obligation	**4,290,823**	3,690,383	1,864,154
Transfer to the plan	**–**	3,043,452	1,547,751
Benefits paid	**–**	(72,195)	–
Actuarial losses on obligation	**20,204,092**	11,796,920	9,600,927
Balance at end of year	**₱83,590,852**	₱54,108,736	₱32,745,187

The changes in the fair value of plan assets are as follows:

	2011	2010	2009
Balance at beginning of year	**₱54,135,272**	₱30,494,754	₱15,807,447
Expected return on plan assets	**3,606,172**	2,282,117	1,295,123
Transfer to the plan	**–**	3,043,452	1,547,751
Benefits paid	**–**	(72,195)	–
Contributions	**11,935,188**	12,109,788	10,008,107
Actuarial gains	**1,302,635**	6,277,356	1,836,326
Balance at end of year	**₱70,979,267**	₱54,135,272	₱30,494,754

The Company expects to contribute ₱12 million to its defined benefit pension plan in 2012.

The plan assets are composed mainly of cash and cash equivalents (40%), investments in government securities (53%) and other similar debt instruments (7%).

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2011	2010	2009
Discount rate	**7.1%**	7.9%	11.3%
Expected rate of return on plan assets	**6.0%**	6.0%	6.0%
Future salary increases	**10.0%**	11.0%	11.0%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period within which the obligation is to be settled.

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

	2011	2010	2009	2008	2007
Defined benefit obligation	**₱83,590,852**	₱54,108,736	₱32,745,187	₱18,098,581	₱24,632,241
Plan assets	**70,979,267**	54,135,272	30,494,754	15,807,447	7,706,515
Deficit (excess plan assets)	**12,611,585**	(26,536)	2,250,433	2,291,134	16,925,726
Experience adjustments on plan liabilities	**18,221,688**	(5,496,062)	9,761,099	(1,426,249)	1,895,714
Experience adjustment on plan assets	**1,302,635**	6,277,356	1,836,326	(1,197,299)	56,146

18. Related Party Transactions

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2011 and 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individuals or corporate entities.

The significant related party transactions entered into by the Company with its ultimate parent company and affiliates and the amounts included in the consolidated financial statements with respect to such transactions follow:

a. The Company has existing lease agreements with its affiliates, the SM Retail Group and SM Banking Group. Total rent income amounted to ₱7,280 million, ₱6,664 million and ₱5,996 million in 2011, 2010 and 2009, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,587 million and ₱1,421 million as of December 31, 2011 and 2010, respectively.

b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Costs and expenses" account in the consolidated statements of income, amounted to ₱226 million, ₱205 million and ₱179 million in 2011, 2010 and 2009, respectively. Rent payable to SMIC and SM Land included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱18 million and ₱35 million as of December 31, 2011 and 2010, respectively.

c. The Company pays management fees to its affiliates, Shopping Center Management Corporation, West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under "Costs and expenses" account in the consolidated statements of income, amounted to ₱795 million, ₱647 million and ₱596 million in 2011, 2010 and 2009, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱84 million and ₱58 million as of December 31, 2011 and 2010, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group and SMIC. Cash and cash equivalents, short-term investments and investments held for trading amounted to ₱5,584 million and ₱7,125 million as of December 31, 2011 and 2010, respectively. Interest income amounted to ₱241 million, ₱155 million and ₱203 million in 2011, 2010 and 2009, respectively. Accrued interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱35 million and ₱17 million as of December 31, 2011 and 2010, respectively.

e. As of December 31, 2011 and 2010, the outstanding long-term debt from the SM Banking Group and SMIC amounted to ₱698 million and ₱1,529 million, respectively. Advances from SMIC, included under "Other noncurrent liabilities" account in the consolidated balance sheets, amounting to ₱2,000 million was prepaid in November 2010. Interest expense amounted to ₱65 million, ₱249 million and ₱141 million in 2011, 2010 and 2009, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱12 million and ₱23 million as of December 31, 2011 and 2010, respectively.

f. AFS investments include investments in corporate notes issued by BDO amounting to ₱1,000 million as of December 31, 2011 and 2010. Interest income amounted to ₱68 million each in 2011 and 2010 and ₱192 million in 2009. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱6 million as of December 31, 2011 and 2010.

g. The SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 158,727 square meters, 19,952 square meters and 33,440 square meters, respectively, as of December 31, 2011, and 170,082 square meters, 19,952 square meters and 33,440 square meters, respectively, as of December 31, 2010. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.

h. The total compensation paid to key management personnel of the Company amounted to ₱32 million, ₱28 million and ₱23 million in 2011, 2010 and 2009, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

19. Lease Agreements

The Company's lease agreements with its tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated with reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Rent income amounted to ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company also leases certain parcels of land where some of its 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. Rent payments are generally computed based on a certain percentage of the Company's gross rent income or a certain fixed amount, whichever is higher.

The minimum lease payables under the noncancellable operating leases as of December 31 are as follows:

	2011	2010
Within one year	**₱528,633,843**	₱373,895,101
After one year but not more than five years	**2,261,559,579**	1,737,602,922
After five years	**12,562,692,996**	7,814,374,137
	₱15,352,886,418	₱9,925,872,160

Rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱589 million, ₱504 million and ₱438 million for the years ended December 31, 2011, 2010 and 2009, respectively.

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, short-term investments, investments held for trading, accrued interest and other receivables, AFS investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as rent receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally interest rate swaps, cross currency 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 Company's operations and its sources of finance (see Note 21).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. 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. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 6, 8, 12 and 14.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2011 and 2010, after taking into account the effect of interest rate swaps, approximately 50% and 53% respectively, of the Company's long-term borrowings are at a fixed rate of interest (see Note 21).

Interest Rate Risk Table

The Company's long-term debt, presented by maturity profile, are as follows:

	2011								
	1-<2 Years	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**5-<6 Years**	**>6 Years**	**Total**	**Unamortized Debt Issuance Costs**	**Carrying Value**
Fixed Rate									
Philippine peso-denominated corporate notes	**₱25,550,000**	**₱25,550,000**	**₱3,697,800,000**	**₱1,097,300,000**	**₱8,660,000**	**₱1,914,040,000**	**₱6,768,900,000**	**(₱39,878,468)**	**₱6,729,021,532**
Interest rate	**5.79%–8.40%**	**5.79%–8.40%**	**5.79%–8.40%**	**5.79%–6.65%**	**5.89%–6.65%**	**5.89%–10.11%**			
Philippine peso-denominated fixed rate notes	**₱990,000**	**₱990,000**	**₱990,000**	**₱1,194,060,000**	**₱–**	**₱800,000,000**	**1,997,030,000**	**(11,355,128)**	**1,985,674,872**
Interest rate	**9.60%**	**9.60%**	**9.60%**	**9.60%**		**9.85%**			
Other bank loans	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,200,000,000**	**₱–**	**1,200,000,000**	**(6,327,316)**	**1,193,672,684**
Interest rate					**9.75%**				
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$–**	**$–**	**$145,000,000**	**$–**	**6,356,800,000**	**(255,267,021)**	**6,101,532,979**
Interest rate					**LIBOR+spread**				
U.S. dollar-denominated bilateral loans	**$–**	**$25,000,000**	**$–**	**$–**	**$–**	**$–**	**1,096,000,000**	**(11,070,701)**	**1,084,929,299**
Interest rate		**LIBOR+spread**							
Other U.S. dollar loans	**$–**	**$20,000,000**	**$–**	**$50,000,000**	**$–**	**$–**	**3,068,800,000**	**(38,021,415)**	**3,030,778,585**
Interest rate		**LIBOR+spread**		**LIBOR+spread**					
Philippine peso-denominated corporate notes	**₱50,300,000**	**₱50,300,000**	**₱248,800,000**	**₱4,800,000,000**	**₱–**	**₱–**	**5,149,400,000**	**(33,851,255)**	**5,115,548,745**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**					
Philippine peso-denominated five-year floating rate notes	**₱50,000,000**	**₱50,000,000**	**₱50,000,000**	**₱50,000,000**	**₱4,800,000,000**	**₱–**	**5,000,000,000**	**(37,586,753)**	**4,962,413,247**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**				
Philippine peso-denominated five-year bilateral loans	**₱46,875,000**	**₱–**	**₱–**	**₱–**	**₱500,000,000**	**₱–**	**546,875,000**	**(2,583,709)**	**544,291,291**
Interest rate	**PDST-F+margin%**				**PDST-F+margin%**				
Other bank loans	**₱10,000,000**	**₱10,000,000**	**₱3,010,000,000**	**₱2,960,000,000**	**₱–**	**₱–**	**5,990,000,000**	**(21,902,580)**	**5,968,097,420**
Interest rate	**PDST-F+margin%**	**PHIREF+margin%**	**PDST-F+margin%**	**PDST-F+margin%**					
China yuan renminbi-denominated loans	**¥88,738,000**	**¥77,476,000**	**¥375,168,446**	**¥60,900,000**	**¥–**	**¥–**	**4,176,648,075**	**–**	**4,176,648,075**
Interest rate	**6.20%–6.65%**	**6.20%–6.65%**	**6.20%–6.65%**	**6.20%–6.65%**					
							₱41,350,453,075	**(₱457,844,346)**	**₱40,892,608,729**

	2010								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	₱25,550,000	₱25,550,000	₱25,550,000	₱3,697,800,000	₱1,097,300,000	₱1,922,700,000	₱6,794,450,000	(₱34,537,230)	₱6,759,912,770
Interest rate	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱5,990,000	₱5,990,000	₱980,990,000	₱990,000	₱1,994,060,000	₱–	2,988,020,000	(18,151,890)	2,969,868,110
Interest rate	9.31%–9.60%	9.31%–9.60%	9.31%–9.60%	9.60%	9.60%–9.85%				
Other bank loans	–	–	1,000,000,000	–	–	1,200,000,000	2,200,000,000	(11,312,327)	2,188,687,673
Interest rate			7.18%			9.75%			
Floating Rate									
U.S. dollar-denominated three-year term loans	$–	$90,000,000	$–	$–	$–	$–	3,945,600,000	(48,323,944)	3,897,276,056
Interest rate		LIBOR+spread							
U.S. dollar-denominated bilateral loans	$–	$–	$25,000,000	$–	$–	$–	1,096,000,000	(16,192,884)	1,079,807,116
Interest rate			LIBOR+spread						
U.S. dollar-denominated three-year club loan	$–	$40,000,000	$–	$–	$–	$–	1,753,600,000	(40,461,722)	1,713,138,278
Interest rate		LIBOR+spread							
Other U.S. dollar loans	$–	$20,000,000	$20,000,000	$–	$30,000,000	$–	3,068,800,000	(49,747,503)	3,019,052,497
Interest rate		LIBOR+spread	LIBOR+spread		LIBOR+spread				
Philippine peso-denominated corporate notes	₱30,300,000	₱30,300,000	₱30,300,000	₱228,800,000	₱2,880,000,000	₱–	3,199,700,000	(1,439,051)	3,198,260,949
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Philippine peso-denominated five-year floating rate notes	₱2,000,000	₱2,992,000,000	₱–	₱–	₱–	₱–	2,994,000,000	(8,562,366)	2,985,437,634
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated five-year bilateral loans	₱62,500,000	₱46,875,000	₱–	₱–	₱–	₱–	109,375,000	(457,560)	108,917,440
Interest rate	PDST-F+margin%	PDST-F+margin%							
Other bank loans	₱10,000,000	₱840,000,000	₱760,000,000	₱3,010,000,000	₱2,960,000,000	₱–	7,580,000,000	(34,527,312)	7,545,472,688
Interest rate	PDST-F+margin%	PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%				
China yuan renminbi-denominated five-year loan	¥20,000,000	¥30,000,000	¥40,000,000	¥244,000,000	¥–	¥–	2,216,223,600	–	2,216,223,600
Interest rate	5.18%	5.18%	5.18%	5.18%					
China yuan renminbi-denominated eight-year loan	¥75,000,000	¥40,000,000	¥–	¥–	¥–	¥–	763,071,000	–	763,071,000
Interest rate	5.35%	5.35%							
China yuan renminbi-denominated five-year loan	¥–	¥10,000,000	¥25,000,000	¥25,000,000	¥–	¥–	398,124,000	–	398,124,000
Interest rate		5.60%	5.60%	5.60%					
							₱39,106,963,600	(₱263,713,789)	₱38,843,249,811

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 Company's income before income tax. The impact on the Company's equity, due to changes in fair value of AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
2011	**100**	**(₱47,083,030)**
	50	**(23,541,515)**
	(100)	**47,083,030**
	(50)	**23,541,515**
2010	100	(₱60,891,132)
	50	(30,445,566)
	(100)	60,891,132
	(50)	30,445,566

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To manage its foreign currency risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, cross-currency swaps, 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 (see Note 21).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱10,350 million (US$236 million) and ₱10,808 million (US$246 million), respectively, as of December 31, 2011, and ₱9,653 million (US$220 million) and ₱10,090 million (US$230 million), respectively, as of December 31, 2010.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rate used was ₱43.84 to US$1.00, the Philippine peso to U.S. dollar exchange rate as of December 31, 2011 and 2010.

The following table demonstrates the sensitivity to a reasonably possible change in ₱/US$ exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2011	**₱1.50**	**₱3,910,844**
	1.00	**2,607,229**
	(1.50)	**(3,910,844)**
	(1.00)	**(2,607,229)**
2010	₱1.50	₱3,738,035
	1.00	2,492,024
	(1.50)	(3,738,035)
	(1.00)	(2,492,024)

Credit Risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 21.

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

Credit Quality of Financial Assets
The credit quality of financial assets is determined by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to financial assets with counterparties who are not expected by the Company 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, 2011 and 2010, the credit quality of the Company's financial assets is as follows:

	2011			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱8,252,825,018**	**₱–**	**₱–**	**₱8,252,825,018**
Short-term investments	**876,800,000**	**–**	**–**	**876,800,000**
Receivables from:				
Rent	**–**	**3,677,369,474**	**344,655,422**	**4,022,024,896**
Accrued interest	**45,556,109**	**–**	**–**	**45,556,109**
Advances to suppliers and others	**–**	**872,521,181**	**–**	**872,521,181**
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	**812,953,412**	**–**	**–**	**812,953,412**
Derivative assets	**115,618,680**	**–**	**–**	**115,618,680**
AFS Investments				
Debt securities	**1,000,000,000**	**–**	**–**	**1,000,000,000**
	₱11,103,753,219	**₱4,549,890,655**	**₱344,655,422**	**₱15,998,299,296**

**Excluding cash on hand amounting to ₱37 million.*

	2010			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱9,690,188,157	₱–	₱–	₱9,690,188,157
Short-term investments	876,800,000	–	–	876,800,000
Receivables from:				
Rent	–	3,282,292,420	244,550,584	3,526,843,004
Accrued interest	33,293,073	–	–	33,293,073
Advances to suppliers and others	–	629,179,271	–	629,179,271
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	500,134,177	–	–	500,134,177
Derivative assets	738,228,976	–	–	738,228,976
AFS Investments				
Debt securities	1,104,161,471	–	–	1,104,161,471
	₱12,942,805,854	₱3,911,471,691	₱244,550,584	₱17,098,828,129

**Excluding cash on hand amounting to ₱30 million.*

Liquidity Risk
The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through evaluation of projected and actual cash flow information. Liquidity risk arises from the possibility that the Company 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 Company's financial assets, which have maturity of less than 12 months and used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to ₱8,290 million, ₱877 million and ₱813 million, respectively, as of December 31, 2011, and ₱9,720 million, ₱877 million and ₱500 million, respectively, as of December 31, 2010. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2011			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities*	**₱9,946,358,667**	**₱–**	**₱–**	**₱9,946,358,667**
Long-term debt (including current portion)	**2,619,975,153**	**43,266,421,430**	**3,277,656,190**	**49,164,052,773**
Derivative liabilities - interest rate swaps	**415,077,453**	**58,758,533**	**–**	**473,835,986**
Tenants' deposits	**–**	**7,467,302,387**	**–**	**7,467,302,387**
Liability for purchased land	**–**	**1,551,018,812**	**–**	**1,551,018,812**
Other noncurrent liabilities*	**–**	**1,554,479,555**	**–**	**1,554,479,555**
	₱12,981,411,273	**₱53,897,980,717**	**₱3,277,656,190**	**₱70,157,048,180**

**Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱204 million and ₱474 million, respectively.*

	2010			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	₱6,646,207,309	₱–	₱–	₱6,646,207,309
Long-term debt (including current portion)	2,691,093,533	39,907,704,664	4,833,260,283	47,432,058,480
Derivative liabilities:				
Interest rate swaps	113,820,244	51,097,163	–	164,917,407
Forward currency contracts	97,132,488	–	–	97,132,488
Tenants' deposits	–	6,465,889,827	–	6,465,889,827
Liability for purchased land	–	1,618,695,982	–	1,618,695,982
Other noncurrent liabilities*	–	756,379,096	–	756,379,096
	₱9,548,253,574	₱48,799,766,732	₱4,833,260,283	₱63,181,280,589

**Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱151 million and ₱475 million, respectively.*

Capital Management
Capital includes equity attributable to equity holders of the parent.

The primary objective of the Company'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 Company 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 Company may adjust the dividend payment to shareholders, payoff existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is interest-bearing debt divided by total capital plus interest-bearing debt and net interest-bearing debt divided by total capital plus net interest-bearing debt. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents, short-term investments, investments held for trading and AFS investments.

As of December 31, 2011 and 2010, the Company's gearing ratios are as follows:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2011	2010
Current portion of long-term debt	**₱799,086,409**	₱766,703,000
Long-term debt - net of current portion	**40,093,522,320**	38,076,546,811
Total interest-bearing debt (a)	**40,892,608,729**	38,843,249,811
Total equity attributable to equity holders of the Parent	**63,773,661,498**	58,191,167,414
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱104,666,270,227**	₱97,034,417,225
Gearing ratio (a/b)	**39%**	40%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2011	2010
Current portion of long-term debt	**₱799,086,409**	₱766,703,000
Long-term debt - net of current portion	**40,093,522,320**	38,076,546,811
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(10,979,969,451)**	(12,200,813,932)
Total net interest-bearing debt (a)	**29,912,639,278**	26,642,435,879
Total equity attributable to equity holders of the Parent	**63,773,661,498**	58,191,167,414
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱93,686,300,776**	₱84,833,603,293
Gearing ratio (a/b)	**32%**	31%

21. Financial Instruments

Fair Values
The table below presents a comparison of the carrying amounts and fair values of the Company's financial instruments by category and by class as of December 31:

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱8,290,216,039**	**₱8,290,216,039**	₱9,719,718,284	₱9,719,718,284
Short-term investments	**876,800,000**	**876,800,000**	876,800,000	876,800,000
Receivables from:				
Rent	**4,022,024,896**	**4,022,024,896**	3,526,843,004	3,526,843,004
Accrued interest	**45,556,109**	**45,556,109**	33,293,073	33,293,073
Advances to suppliers and others	**872,521,181**	**872,521,181**	629,179,271	629,179,271
	14,107,118,225	**14,107,118,225**	14,785,833,632	14,785,833,632
Financial assets at FVPL:				
Investments held for trading - corporate and government bonds	**812,953,412**	**812,953,412**	500,134,177	500,134,177
Derivative assets	**115,618,680**	**115,618,680**	738,228,976	738,228,976
	928,572,092	**928,572,092**	1,238,363,153	1,238,363,153
AFS investments -				
Debt securities	**1,000,000,000**	**1,000,000,000**	1,104,161,471	1,104,161,471
	₱16,035,690,317	**₱16,035,690,317**	₱17,128,358,256	₱17,128,358,256
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱237,979,926**	**₱237,979,926**	₱709,909,803	₱709,909,803
Other financial liabilities:				
Accounts payable and other current liabilities*	**9,946,358,667**	**9,946,358,667**	6,646,207,309	6,646,207,309
Long-term debt (including current portion)	**40,892,608,729**	**42,561,503,623**	38,843,249,811	40,451,280,851
Tenants' deposits	**7,467,302,387**	**7,285,378,046**	6,465,889,827	6,195,895,322
Liability for purchased land	**1,551,018,812**	**1,520,654,214**	1,618,695,982	1,554,002,638
Other noncurrent liabilities*	**1,554,479,555**	**1,524,047,205**	756,379,096	726,149,396
	61,411,768,150	**62,837,941,755**	54,330,422,025	55,573,535,516
	₱61,649,748,076	**₱63,075,921,681**	₱55,040,331,828	₱56,283,445,319

**Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱204 million and ₱474 million, respectively, as of December 31, 2011, and ₱151 million and ₱475 million, respectively, as of December 31, 2010.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents and Short-term Investments. The carrying amounts approximate fair values due to the short-term nature of the instruments.

Receivables. The net carrying value approximates the fair value due to the short-term maturities of the receivables.

Investments Held for Trading. The fair values are based on quoted market prices of the instruments at balance sheet date.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at balance sheet date. For investments where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. Discount rate used was 6.21% as of December 31, 2011. Discount rates used range from 3.31% to 4.33% as of December 31, 2010.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Accounts Payable and Other Current Liabilities. The carrying values reported in the consolidated balance sheets approximate the fair values due to the short-term maturities of these liabilities.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.67% to 6.36% as of December 31, 2011, and 2.30% to 7.12% as of December 31, 2010.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rates used range from 1.98% to 6.32% as of December 31, 2011, and 1.94% to 3.55% as of December 31, 2010.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.97% to 3.67% as of December 31, 2011, and 3.40% to 4.41% as of December 31, 2010.

Fair Value Hierarchy

The Company 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;

Level 2: Those involving 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); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Company's financial instruments carried at fair value as of December 31, 2011 and 2010 based on Levels 1 and 2:

	2011		2010	
	Level 1	**Level 2**	Level 1	Level 2
Financial Assets				
Financial assets at FVPL:				
Investments held for trading - corporate and government bonds	**₱812,953,412**	**₱–**	₱500,134,177	₱–
Derivative assets	**–**	**115,618,680**	–	738,228,976
	812,953,412	**115,618,680**	500,134,177	738,228,976
AFS investments:				
Corporate notes - quoted	**–**	**1,000,000,000**	–	1,000,000,000
Redeemable preferred shares - unquoted	**–**	**–**	–	104,161,471
	₱812,953,412	**₱1,115,618,680**	₱500,134,177	₱1,842,390,447
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱237,979,926**	₱–	₱709,909,803

During the years ended December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial instruments classified under Level 3.

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates primarily to long-term floating rate debt obligations and manage its foreign currency risk, the Company entered into various derivative transactions such as interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options.

The table below shows information on the Company's interest rate swaps presented by maturity profile.

	2011		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$145,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	**2.91%–3.28%**
Outstanding notional amount	**$50,000,000**	**$50,000,000**	**$50,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.18%–3.53%**	**3.18%–3.53%**	**3.18%–3.53%**
Outstanding notional amount	**$25,000,000**	**$25,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**4.10%**	**4.10%**	
Outstanding notional amount	**$20,000,000**	**$20,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.41%**	**3.41%**	
Fixed-Floating			
Outstanding notional amount	**₱980,000,000**	**₱970,000,000**	**₱960,000,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱980,000,000**	**₱970,000,000**	**₱960,000,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
Floating-Fixed			
Outstanding notional amount	$30,000,000	$30,000,000	$30,000,000
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	$40,000,000	$40,000,000	$–
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	$20,000,000	$20,000,000	$20,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	$115,000,000	$115,000,000	$25,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	4.10%– 5.40%	4.10%– 5.40%	4.10%
Outstanding notional amount	₱750,000,000	₱750,000,000	₱750,000,000
Receive-floating rate	3 months PHIREF+margin%	3 months PHIREF+margin%	3 months PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-Floating			
Outstanding notional amount	₱1,000,000,000	₱980,000,000	₱970,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000,000	₱980,000,000	₱970,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%
Outstanding notional amount	₱985,000,000	₱980,000,000	₱975,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST- F+margin%	3MPDST- F+margin%	3MPDST- F+margin%

Interest Rate Swaps. In 2011, the Parent Company entered into US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 14). As of December 31, 2011, the floating to fixed interest rate swaps have aggregate negative fair value of ₱142 million.

The Parent Company also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 14). As of December 31, 2011, the floating to fixed interest rate swaps has negative fair value of ₱15 million.

In 2010, the Parent Company entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 14). As of December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱38 million and positive fair value of ₱20 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 14). As of December 31, 2011 and 2010, these swaps have positive fair values of ₱116 million and ₱87 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, the Parent Company 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 14). As of December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱6 million. On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company 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 14). As of December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱3 million and ₱2 million, respectively.

In 2009, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$145 million. Under these agreements, the Parent Company effectively converts the floating rate US$30 million two-year bilateral loan, US$90 million three-year term loan and US$25 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 14). The Parent Company preterminated the US$30 million swap on November 30, 2010 and the US$90 million swap on May 16, 2011. Fair value changes from the preterminated swaps recognized in the consolidated statements of comprehensive income amounted to ₱9 million loss in 2011 and ₱6 million gain in 2010. As of December 31, 2011 and 2010, the outstanding floating to fixed interest rate swaps has negative fair values of ₱40 million and ₱130 million, respectively.

Also in 2009, the Parent Company entered into Philippine peso interest rate swap agreement with notional amount of ₱750 million. Under the agreement, the Parent Company 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 14). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱30 million. On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan.

In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million with repayment of ₱5 million every anniversary. Under these agreements, the Parent Company 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 14). As of December 31, 2010, the fixed to floating interest rate swaps have positive fair values of ₱90 million. On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱27 million loss in 2011.

Cross Currency Swaps. In 2004, the Parent Company entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, the Parent Company 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 14). Fair value changes from these cross currency swaps recognized in the consolidated statements of income amounted to ₱185 million gain in 2009.

Foreign Currency Options. In 2010, the Parent Company simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. The Parent Company combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, the Parent Company, on a net-settlement basis, will buy U.S. dollar (US$) and sell Philippine peso (₱) 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, the Parent Company, 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, the Parent Company entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38 million. Under the option contracts, at each expiry date, the Parent Company compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, the Parent Company, on a net-settlement basis, will buy US$ 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, the Parent Company, 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 million gain in 2009.

Non-deliverable Forwards. In 2011, 2010 and 2009, the Parent Company entered into sell ₱ and buy US$ forward contracts. It also entered into sell US$ and buy ₱ with the same aggregate notional amount. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱480 million gain in 2011, ₱165 million gain in 2010 and ₱23 million gain in 2009. The Parent Company recognized derivative asset and derivative liability amounting to ₱541 million and ₱288 million as of December 31, 2010 and 2009, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments as of December 31 are as follows:

	2011	2010
Balance at beginning of year	**₱28,319,173**	(₱31,593,331)
Net changes in fair value during the year	**236,485,791**	161,117,267
Less fair value of settled derivatives	**(387,166,210)**	(101,204,763)
Balance at end of year	**(₱122,361,246)**	₱28,319,173

In 2011, the net changes in fair value amounting to ₱236 million comprise of interest paid amounting to ₱22 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱258 million, which is included under "Others-net" account in the consolidated statements of income.

In 2010, the net changes in fair value amounting to ₱161 million comprise of interest paid amounting to ₱71 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱232 million, which is included under "Others-net" account in the consolidated statements of income.

In 2009, the net changes in fair value amounting to ₱129 million comprise of net interest paid on the swaps amounting to ₱319 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱190 million, which is included under "Others-net" account in the consolidated statements of income.

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2011	2010
Derivative assets	**₱115,618,680**	₱738,228,976
Derivative liabilities	**(237,979,926)**	(709,909,803)
	(₱122,361,246)	₱28,319,173

22. Basic/Diluted EPS Computation

Basic/diluted EPS is computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent (a)	**₱9,055,995,525**	₱7,856,348,789	₱7,023,350,225
Common shares issued at beginning of year	**13,917,800,067**	13,348,191,367	13,348,191,367
Weighted average number of shares issued in equity placement (see Note 15)	**–**	118,668,479	–
Common shares issued at end of year	**13,917,800,067**	13,466,859,846	13,348,191,367
Less treasury stock	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**13,898,943,067**	13,448,002,846	13,329,334,367
Earnings per share (a/b)	**₱0.652**	₱0.584	₱0.527

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Asia United Bank
Australia and New Zealand Banking Group Limited
Banco De Oro Unibank, Inc.
Bank of the Philippine Islands
Barclays Bank PLC
China Banking Corporation
Chinatrust (Philippines) Commercial Bank Corporation
Citibank, N.A.
Credit Agricole CIB
Deutsche Bank AG Manila Branch
Development Bank of the Philippines
First Metro Investment Corporation
ING Bank
JP Morgan Chase Bank
Land Bank of the Philippines
Maybank Group
Metropolitan Bank & Trust Company
Mega International Commercial Bank
Mizuho Corporate Bank, Ltd.
Philippine Business Bank
Philippine National Bank
Rizal Commercial Banking Corporation
Security Bank Corporation
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation
Union Bank of the Philippines

Stockholder Inquiries
SM Prime Holdings, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "SMPH".

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