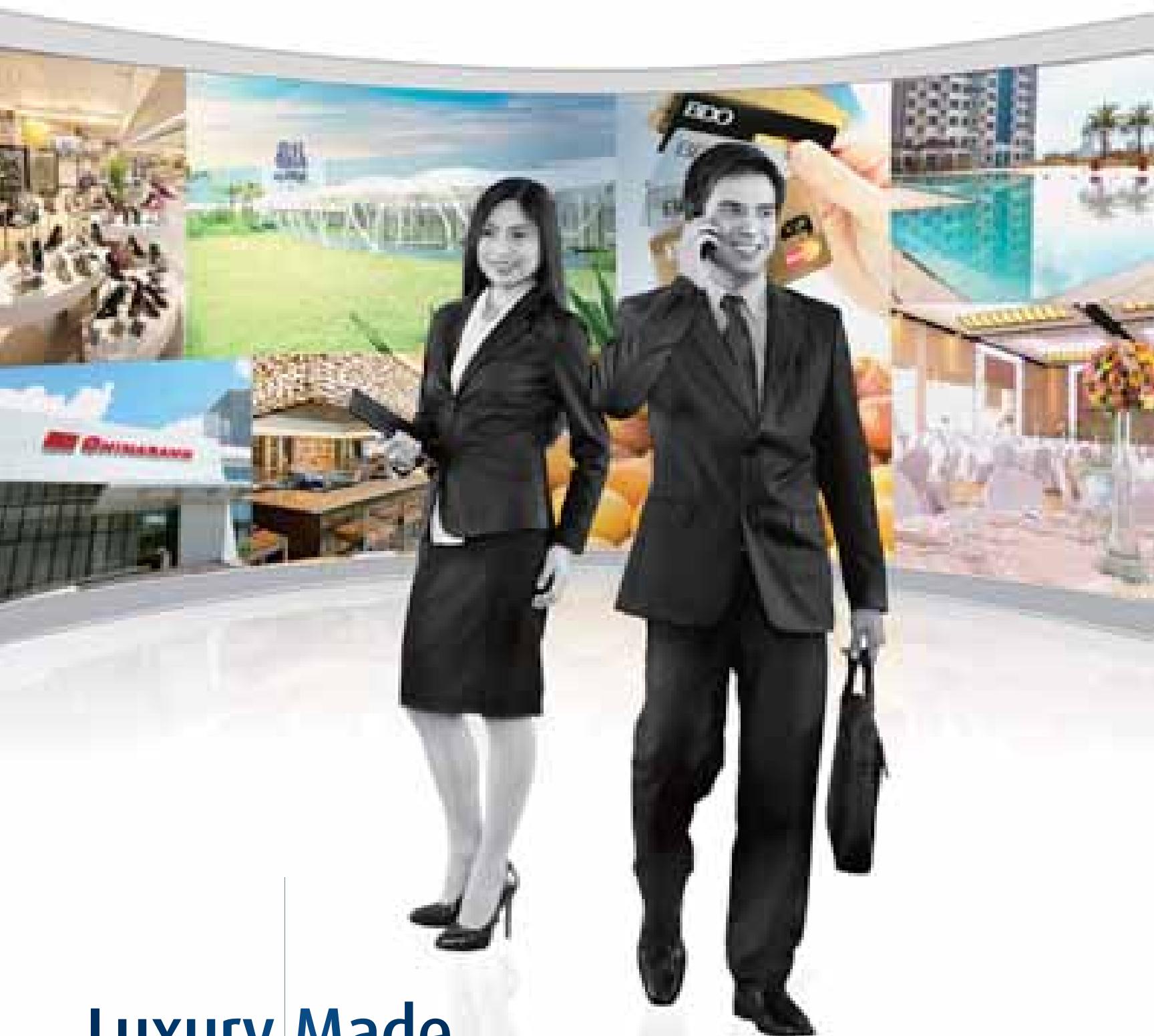




INVESTMENTS
CORPORATION

SPECIAL EDITION
INVESTOR

ANNUAL REPORT 2009



Luxury Made
Affordable BY SM

Luxury Made Affordable BY



LUXURY COMES IN MANY FORMS. It can come in beautiful packages or it may come bearing expensive labels. It can also be something more precious than anything money can buy, like the luxury of time well spent for rest, leisure, or quiet moments. It could also be a delectable, mouth-watering dish, or a treasured moment shared with loved ones. Better yet, luxury can come as unbranded yet beautifully crafted items, or living spaces made special by the feeling of being able to buy them at prices within reach; cherished even more by the thought of getting everything that's worth from one's hard-earned money.

At SM, we strive to bring luxury to all our customers. Beyond our newly designed facilities, we take our service a step further by making visits to SM stores, malls, residences, hotels, convention and leisure facilities a personal and unique experience--one that welcomes everyone, one that is memorable. It is no wonder we serve millions at SM; because, we go beyond what's ordinary—we make luxury affordable to all.

RETAIL OPERATIONS

MALL OPERATIONS

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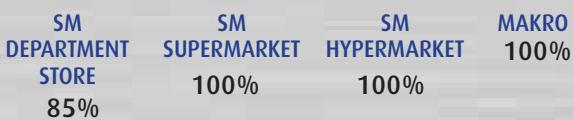
SM RETAIL, INC.

SM PRIME HOLDINGS, INC.

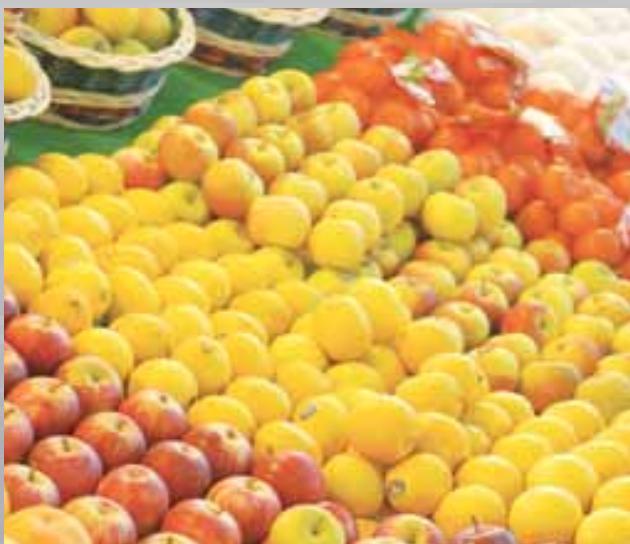
BANCO DE ORO UNIBANK

51%

46%



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



BANKING

CHINA BANKING
CORPORATION

20%

PROPERTY

HOTELS & CONVENTIONS

SM LAND, INC. **

67%

RESIDENTIAL

COMMERCIAL

LEISURE

SM
DEVELOPMENT
CORPORATION

44%

COMMERCIAL
PROPERTIES GROUP

100%

COSTA DEL
HAMILO

94%

HOTELS & CONVENTIONS
CORPORATION

100%





INVESTMENTS CORPORATION

VISION

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

MISSION

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

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

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

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

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

SPECIAL EDITION INVESTOR

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MESSAGE TO STOCKHOLDERS



HENRY SY, SR. Chairman

TERESITA SY-COSON Vice-Chairperson

HENRY SY, JR. Vice-Chairman

TO OUR FELLOW STOCKHOLDERS

The outstanding performance of the SM Group over the past year, a year touted by many to be difficult and challenging, is a testament to the group's ability to build on its strengths and reinforce its synergies.

Central to our business strategy in 2009 was broadening our reach and enlarging our core businesses, whether in retail, malls, banking, property development or hotels and conventions. In hindsight, this business approach became an antidote to crisis and our operations, which, when challenged to perform, produced better-than-expected results.

Overall, SM Investments Corporation (SMIC) registered a 14% growth in net income of Php16.0 billion for FY 2009, from Php14.0 billion in 2008. Consolidated revenues increased by 9% to Php160.1 billion from Php147.5 billion in 2008. EBITDA for the period grew 22% to Php34.2 billion, for an EBITDA margin of 21%, higher than the previous year's 19%.

The Retail group, SM Retail, Inc., which accounted for 35.3% of earnings, recorded a 27.9% increase in net income to Php4.4 billion due to gains in food and non-food businesses.

The Mall Operations group, SM Prime Holdings' net consolidated income rose by 10% to Php7 billion while revenues also grew 15 percent to Php20.5 billion last year. Shopping malls accounted for 26.1% of the SM Group's earnings.

The Banking business accounted for 27.6% of earnings. BDO reported a 173% rise in audited net income to Php6.1 billion due to operating income growth and reduced operating costs.

The Property business accounted for 11% of group earnings as its net income grew by 37% to Php2.2 billion led by the stellar performance of SM Development Corporation. Revenues from real estate operations rose by half to Php9.4 billion.

SM Hotels and Conventions, the newest addition to the SMIC group, posted a 14% growth in revenues from Php470 million in 2008 to Php537 million in 2009.

The year 2010 will see the SM Group working to widen its horizons even further.

We have programmed capital expenditures totalling Php40.6 billion, with Php17.4 billion going toward property development and Php12.1 billion toward the construction of five malls in the Philippines and one in China. A total of Php6.2 billion is earmarked for 25 retail store projects. The remaining Php4.9 billion will go toward hotels and conventions projects.

Our faith in the future remains undiminished, our commitment to the communities we serve unstinting and our confidence in ourselves and in our business partners—both here and overseas—unwavering.

As has become our custom for over half a century, we extend our sincerest gratitude to you, our valued shareholders, as well as to our officers and staff, for helping us maintain our longstanding tradition of service and excellence at SM. In solidarity, we are shaping a future that the coming generations will value and, just as important, build on.



HENRY SY, SR.
Chairman



HENRY SY, JR.
Vice-Chairman



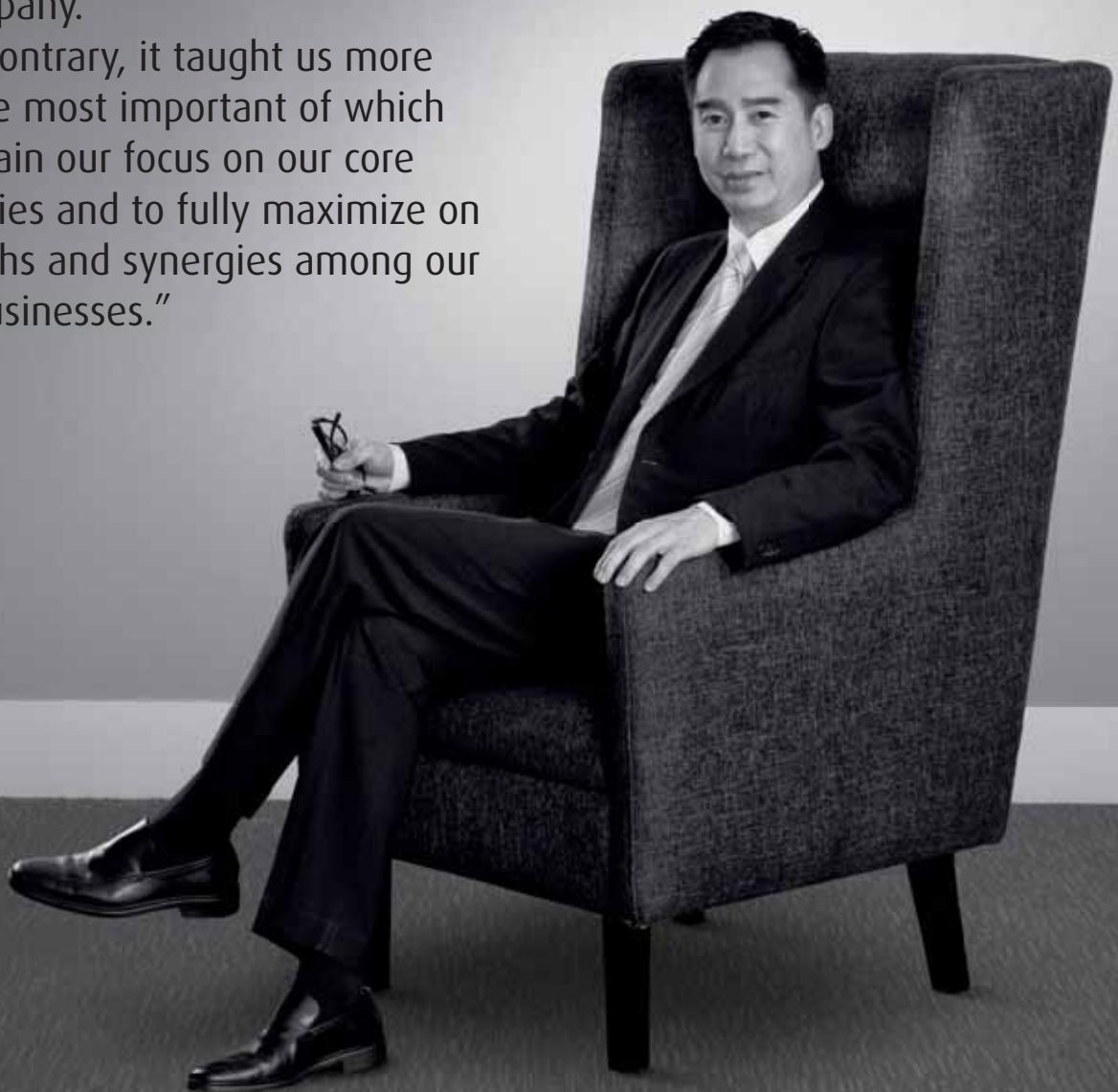
TERESITA SY-COSON
Vice-Chairperson



PRESIDENT'S REPORT

"With the company's encouraging results, it is clear that the challenges SM had to contend with in 2009 failed to dampen the vision and commitment of the company.

On the contrary, it taught us more lessons, the most important of which is to maintain our focus on our core competencies and to fully maximize on the strengths and synergies among our growing businesses."



HARLEY SY President

ALTHOUGH THE GLOBAL FINANCIAL CRISIS showed some signs of easing in many economies, the Philippines sailed through some difficult headwinds in 2009. Overall economic growth was dismal, made worse by a series of highly destructive natural calamities during the second half of 2009.

It is therefore gratifying that, in spite of all those formidable challenges, SM managed to meet its targets and achieve its goals in 2009. We attribute this to proper planning and timely execution, which led to a healthy performance of all our core businesses. The strong growth drivers were retail and residential development, while the banks came in with stronger than expected earnings.

SM's full-year 2009 net income grew 14% to Php16.0 billion, from a revenue growth of 9% to Php160.1 billion. SM's operating income increased by 30% to Php28.3 billion, resulting in a higher operating margin of 18%. EBITDA, on the other hand, rose 22% to Php34.2 billion, for an EBITDA margin of 21%, compared to 19% during the previous year.

Retail contributed the most to SM's 2009 net income with 35.3%, followed by banking with a 27.6% contribution, mall operations, with 26.1% and our emerging property business with 11%.

Our balance sheet remained very sound with a net debt-to-equity ratio of only 27%. The company's net worth increased by 11% to Php165.7 billion, while total assets increased by 17% to Php341.6 billion. This is a testament to the fact that apart from just growing our businesses, we look closely at the welfare of our investors through the enhancement of shareholder value.

Retail Operations

Our retail group showed further improvement in 2009. The non-food retail group, which is mainly the SM Department Stores, successfully implemented its focused approach to merchandising even as renovations continued to give the stores a more contemporary and upscale look and feel. On the other hand, the food group, which includes SM Supermarkets, SM SaveMore stores, SM Hypermarkets, and Makro outlets, expanded aggressively and penetrated new markets through its SaveMore format.

Consequently, the whole retail group reported a full-year 2009 net income of Php4.4 billion, for a 27.9% increase. This resulted in a higher net margin of 3.6%, from 3.0% in 2008. Total sales for the group increased 7.9% to Php123.9 billion, while EBITDA grew 17% to Php7.5 billion, for an EBITDA margin of 6.1%.

The retail group's number of stores increased by 24, bringing the total to 119 stores by the end of 2009. As a

result, SM now has 36 department stores; 26 supermarkets; 26 SaveMore branches; 19 hypermarkets; and 12 Makro outlets.

For 2010, the retail group plans to open another 15 to 20 stores with an estimated capital expenditure of Php6.0 billion.

Mall Operations

Our subsidiary and mall operator SM Prime Holdings, Inc. (SM Prime) reported a consolidated net income of Php7.0 billion in 2009 for an annual growth of 10%. This came from revenues of Php20.5 billion, which grew 15%. EBITDA expanded 14% to Php14.0 billion, for an EBITDA margin of 68%. These results include the operations of the three SM Prime malls in China.

Rental fees, which accounted for 86% of revenues, increased by 15% to Php17.7 billion, driven by the 5% increase in same store sales, coupled with the opening of new malls and the expansion of existing malls. Operating expenses for full year 2009 increased 19% to Php9.7 billion, largely due to expenses related to mall expansion. Income from operations posted a 12% growth from Php9.6 billion in 2008 to Php10.8 billion in 2009.

Last year, SM Prime opened three malls and expanded three of its existing malls, highlighted by the opening of the Sky Garden at SM North EDSA. Combined, the new malls and expansions in 2009 added 5% or 237,000 square meters (sqm) to the company's total gross floor area (GFA), bringing it to 4.5 million sqm.

For 2010, SM Prime plans to open another four malls in the Philippines. And towards the end of 2010, SM Prime is also scheduled to open SM Suzhou in China's Jiangsu province. It will be the company's fourth mall in mainland China.

By the end of this year, SM Prime will have 40 malls in the Philippines, 15 of which are in Metro Manila. The 40 malls will have a combined GFA of 4.7 million sqm.

Banking

In 2009, the banking business recovered significantly from the adverse effects of the global financial crisis. Hence, BDO's net income rebounded to Php6.1 billion, a hefty 173% increase over its Php2.2 billion 2008 income. BDO's core business remained very strong leading to an earnings stream that is more diversified, sustainable, and less reliant on volatile trading income.

Net interest income increased by 33% to Php30.6 billion in 2009, as gross customer loans which expanded by 20% to Php472.7 billion, was complemented by the growth of low-cost deposits. Total non-interest income grew 13%, while fee-based service income, exclusive of trading income and



PRESIDENT'S REPORT

one-time gains, grew 12%. BDO's non-performing loan (NPL) ratio dipped to 3.2% from 4% as of the 4th quarter of 2008.

Similarly, China Bank reported positive results in 2009. The bank realized a net income of Php4.1 billion, which represents a 41% increase over the Php2.9 billion income recorded for the same period in 2008. This resulted in a return on equity of 15.4% in 2009, from 12% in 2008, and a return on assets of 1.9%, which is among the highest in the industry.

China Bank registered a 20.4% increase in total revenues to Php17.5 billion and better interest margins, which improved to 4.2% in 2009 from 3.8% in 2008. Fee-based revenues grew by 91.5% from Php2.1 billion to Php4.1 billion. The bank's cost efficiency ratio improved to 56.3% from 59.7% even as it opened 32 branches, moving closer to its goal of 300 branches nationwide.

We look forward to an even better year for our banks in 2010 as the economy recovers and further consolidation of their operations results in greater efficiencies.

Real Estate

SM's property business gained more traction in 2009. Revenues from real estate operations increased 50% to Php9.4 billion, while net income grew 37% to Php2.2 billion. The formidable growth came from residential arm, SM Development Corporation (SMDC), followed by the commercial properties group, and Hamilo's Pico de Loro resort project in Nasugbu, Batangas.

SMDC reported a 2009 consolidated net income of Php1.9 billion, increasing 32 times from Php56.8 million in 2008. Of the total, net income from real estate operations alone amounted to Php1.5 billion, for a 36% increase from Php1.1 billion during the same period in 2008. Consolidated revenues surged 171% Php5.7 billion, of which Php5.3 billion were derived from real estate operations, up 73% year on year.

The marked improvement was boosted by the launch of four new projects in late 2008, intensified sales activities, on time construction and completion of projects, and keener cost control efforts. It also helped that 2009 saw

a comparatively stable financial market, which allowed the company to gainfully divest much of its equity portfolio.

Growth is expected to remain robust for SMDC as it continues to deliver its promise of affordable luxury and as it launched another five projects, of which four are in Metro Manila and one is in Tagaytay.

As for Hamilo, majority of Pico de Loro's Jacana condominium cluster was completed and the units sold were transferred to their owners. The other clusters are in various stages of construction. Myna is 72% complete, while Miranda and Carola, which were both launched in November 2008, are 8% and 9% complete, respectively. Ninety-two percent of Jacana's units are sold, while pre-sales in Myna reached 90%. Those of Miranda and Carola are 46% and 16% pre-sold, respectively. The beach club in Pico de Loro is now fully operational, with the country club expected to be launched in the second half of 2010.

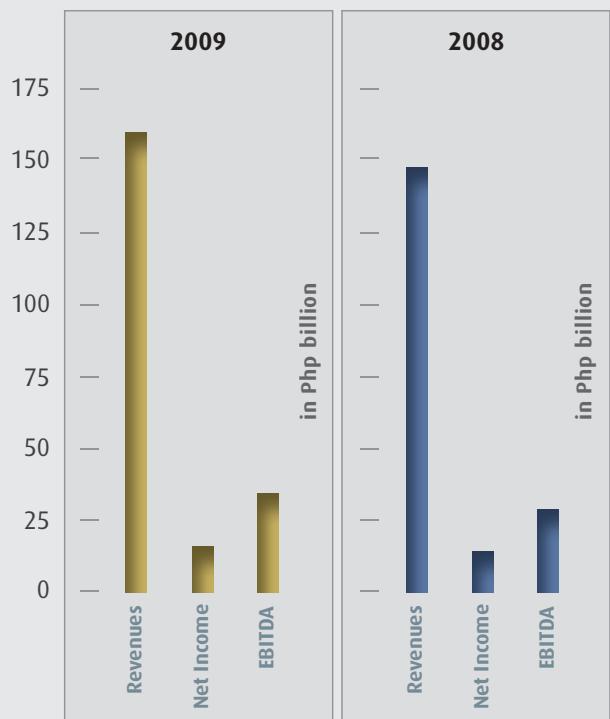
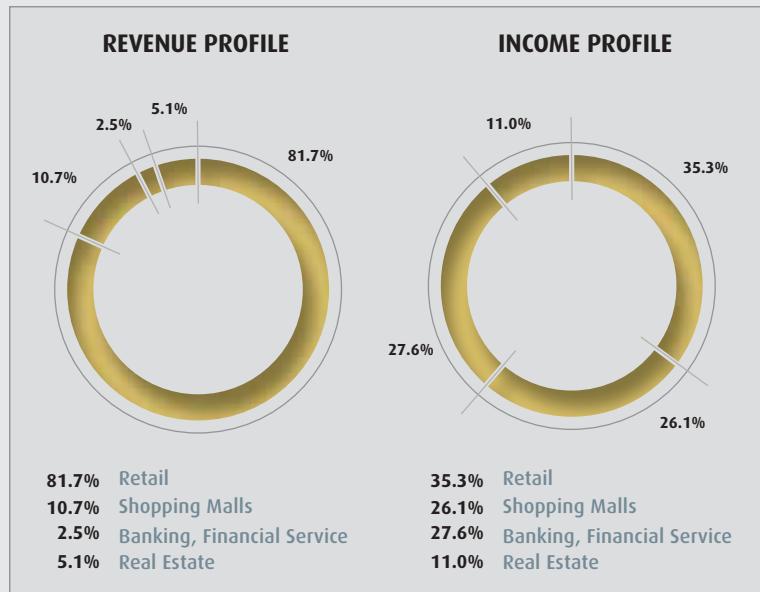
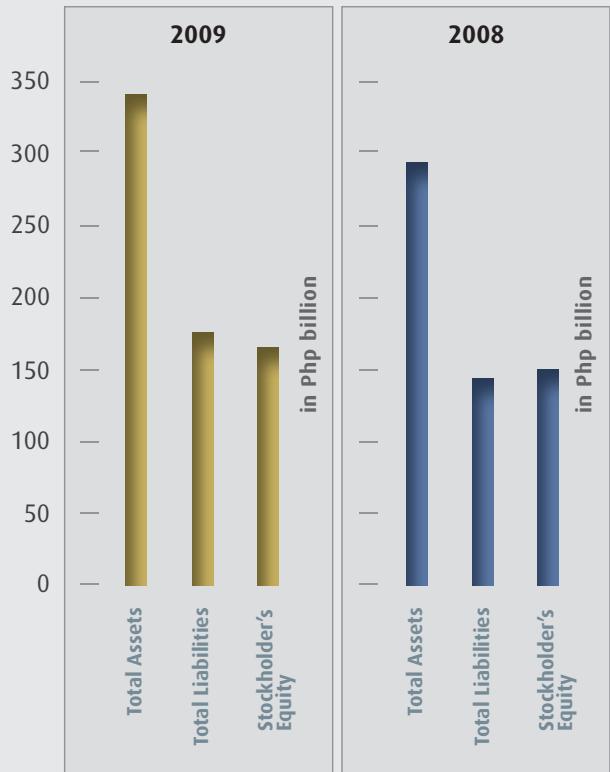
Moving forward

With these encouraging results, it is clear that the challenges SM had to contend with in 2009 failed to dampen the vision and commitment of the company. On the contrary, it taught us more lessons, the most important of which is to maintain our focus on our core competencies and to fully maximize on the strengths and synergies among our growing businesses. We remain confident that going into a new decade, we will continue to pursue valuable growth opportunities and make better use of our resources to yield optimal results for all of our stakeholders.

Thank you very much.



HARLEY SY
President



BALANCE SHEET HIGHLIGHTS		
(Php Bn)	Jan-Dec 2009	% Chg
Total Assets	341.64	17%
Current Assets	88.48	6%
Non-current Assets	253.17	21%
Current Liabilities	40.79	-30%
Non-current Liabilities	135.13	60%
Total Liabilities	175.92	23%
Stockholder's Equity	165.73	11%
Book Value per share (Php)	204.24	13%
INCOME STATEMENT HIGHLIGHTS		
(Php Bn) except EPS	Jan-Dec 2009	% Chg
Revenues	160.05	9%
Gross Profit	28.26	30%
Other Income /(Expenses)	-2.38	-271%
Net Profit Before Tax	25.88	12%
Net Income	16.03	15%
Minority Interest	5.08	50%
Basic EPS (Php)	26.23	14%
FINANCIAL RATIOS		
Current Ratio (x)	2.17	1.42
Return on Equity (%)	14%	13%
Debt/Equity Ratio (%)	49.51	45.55
Net Debt (Php Bn)	33.88	24.30
Net Debt/Equity (%)	21.79	18.82
Revenue Growth (%)	9%	19%
Net Income Growth (%)	14%	16%
Interest Cover (x)	6.20	8.10
EBITDA (Php Bn)	34.23	28.10
EBITDA Margin (%)	21%	19%
Net Margin (%)	10%	9%
REVENUE PROFILE		
Shopping Malls	10.7%	
Real Estate	5.1%	
Banking, Financial Services	2.5%	
Retail	81.7%	
INCOME PROFILE		
Shopping Malls	26.1%	
Real Estate	11.0%	
Banking, Financial Services	27.6%	
Retail	35.3%	



RETAIL OPERATIONS



SM Department Store Cubao

SM's retail business delivered positive results in 2009. Notwithstanding the natural calamities that affected the country during the second half of the year and the challenges brought about by the global financial crisis, both the non-food group, which is composed of SM Department Stores, and the food group, consisting of SM Supermarkets, SM SaveMore outlets, SM Hypermarkets, and Makro stores delivered strong earnings growth and wider net margins.



SaveMore branch at Mezza Residences

Combined, SM's two retail groups posted a net income of Php4.4 billion in 2009 for a growth of 28%, and a net margin of 3.6% compared to 3.0% in 2008. Total sales for 2009, meanwhile, reached Php124 billion, up 8% from Php115 billion during the previous year.

During the year, the non-food group undertook extensive renovation of some of its major SM Department Store branches such as Fairview, Cubao, and Pampanga, and launched a new, fresh range of brands in all product categories. In addition, the department stores enhanced their value added services by opening additional SM Business Centers, Balikbayan Kiosks, and Bills Payment Counters.

The food group, on the other hand, doubled the number of its SaveMore stores, thus aggressively expanding its reach and penetrating untapped markets. The group also introduced innovations such as faster checkout services and assigning customer assistants to guide shoppers, among others.

By the end of 2009, SM's retail business had 119 outlets nationwide, 23% more than in 2008. These were composed of 36 department stores, 26 supermarkets, 26 SaveMore branches, 19 hypermarkets, and 12 Makro branches.

In 2010, the non-food group plans to open five new department stores, while the food group intends to open 20 new stores.



JORGE T. MENDIOLA

Senior Vice President, Operations
SM Retail, Inc

HOW WOULD YOU DESCRIBE THE PERFORMANCE OF SM'S NON-FOOD RETAIL GROUP IN 2009? DID YOU ACHIEVE YOUR GOALS?

The non-food retail group posted a record sales performance in 2009. Major milestones are the Php62.0 billion in revenues with a 9% growth, the opening of three new department stores, and the successful reorganization of the Department Store into business units that allow a more holistic "Go-to-Market" approach.

WHAT CHALLENGES DID YOU HAVE TO CONTEND WITH DURING THE YEAR? HOW WERE THESE RESOLVED?

2009 was very challenging for us, given the financial difficulties affecting the global economy. The lay-offs in overseas markets impacted our branches that benefit from remittances. In the second half of 2009, two major floods that affected Luzon forced the temporary closure of some SM Department Store branches.

To mitigate the impact of the economic slowdown, aggressive marketing initiatives were put into place. New brands that catered to value-conscious shoppers were introduced. To help calamity-affected areas recover, installment payment terms for credit cards were extended and the merchandise mix was also altered to offer more cleaning and rebuilding products.

WHAT NEW INITIATIVES OR INNOVATIVE CONCEPTS WERE UNDERTAKEN IN 2009?

We committed to become a fashion store at par with global retailers. This vision drives us to improve the look and feel of our stores, the merchandise range, and our value-added services. To improve our stores' looks, three major SM Department Store branches, namely Fairview, Cubao, and Pampanga were extensively renovated. Furthermore, minor renovations also started in 50% of the stores, for improvements in internal traffic flow and merchandise displays.

To compliment the upgraded designs of the stores, a new range of brands was introduced across all categories, ensuring freshness in merchandise offerings, never before experienced on a nationwide level.

Value-added services also went into full swing in 2009, with the opening of Prestige Lounges, Business Service Centers, and Balikbayan Kiosks, all of which add convenience to the whole shopping experience. To date, we have seven Prestige Lounges, 25 Business Service Centers, and 32 Balikbayan Centers.

WHAT EXPANSION PROGRAMS DID YOU PURSUE DURING THE YEAR? HOW MUCH ADDITIONAL SELLING SPACE WAS CREATED?

The first new SM Department Store branch to open in 2009 was Naga with 5,000 square meters (sqm) followed by Rosales with 7,000 sqm and Rosario with 6,500 sqm. Thus, our total net selling area increased by 18,500 sqm to 378,033.76 sqm.

WHICH PARTICULAR MARKET SEGMENT DID YOU TARGET? HOW DID YOU ENSURE THAT YOUR MERCHANDISE MIX AND PRICE POINTS WERE GEARED TOWARDS THAT SEGMENT?

The Department Store's "Go to Market" strategy has been very consistent in targeting the middle to upper-middle markets that the SM brand has been known for. But the strategy for 2009 was to further upgrade the standards of merchandise, marketing communication, and store facilities to take the SM shopping experience to a higher level and further solidify the image of a "fashion store" for the middle class.

Our product efforts centered on the innovation of the merchandise range. This was done through the introduction of new brands and exciting lines of merchandise that are very trendy and fashion forward. To ensure freshness in the core range, style and color innovations are constantly introduced. A key consideration is that despite the innovations, price points have remained unchanged.



SM Department Store Cubao



Our product efforts centered on the innovation of the merchandise range. This was done through the introduction of new brands and exciting lines of merchandise that are very trendy and fashion forward.



Marketing communications highlighted new fashion collections and improved store facilities. Over and above traditional media, we made customers experience our new collections through special events such as fashion shows, personal make over sessions, and fashion consultations that are carried out nationwide.

Cognizant also of the market's bias for new technology, the group employed mobile marketing through SMS and Bluetooth as an innovative means of reaching our customers. This ensured that that a more intimate relationship with the target market is achieved at more points of contact.

Finally, we are investing in the right facilities and design to properly showcase our merchandise, and to expand the value-added services we offer to ensure shopping convenience.

Through all these initiatives, we have upgraded the SM shopping experience and continued to build on our customers' brand loyalty.

WHAT WOULD YOU CONSIDER AS YOUR STRONGEST SELLING POINT IN 2009?

In a year when austerity, amidst a global financial crisis, was the norm, SM Department Store offered the strongest brand mix in the market.

PRODUCT

The merchandise range had the best value proposition in both the fashion and basic styles. This was also coupled with the broadest range of merchandise found in any department store in the country.

PLACE

The stores are located in the most prime areas in the city and the quality of the facilities was consistent across first- to second-tier cities nationwide. Furthermore, when a slowdown in expansion would have been prudent, three new stores were opened to expand the reach of our brand into untapped markets.

ADVERTISING AND PROMOTIONS

Marketing communication was also stepped up to better highlight facets of the SM Department Store brand. This was partnered with a strong loyalty program that saw membership grow to four million active members.

All of these contributed greatly to strengthening the Department Store's brand mix and fortified our dominant position in the market.

WHAT CAN YOUR CLIENTS EXPECT FROM YOUR GROUP IN 2010?

Over-all, we are upbeat for 2010. Clients can expect a more robust performance from the Department Store.

This will be driven by new stores in Tarlac, San Pablo, Calamba, Marikina, and Quezon. This will make our presence stronger in Northern and Southern Luzon, as well as in high-growth suburbs in Metro Manila. We are also very delighted to see the further strengthening of our newly opened branches in Naga, Rosales, and Rosario as markets have taken to the SM shopping experience very quickly.

We will also continue to have strong growth in same store sales. We are anxious to reap the full benefit of the store renovations and upgrades that we have undertaken in 2009, as markets are pleased to see a totally new look in a store that they have become accustomed to. To date, we are seeing increases in customer traffic counts and the commensurate improvements in transactions and basket size.

HOW WOULD YOU POSITION YOUR PRODUCTS AND SERVICES IN THIS NEW DECADE?

The new decade will be about consistency and innovation.

SM Department Store is known for being consistent in its market positioning for the last half century. We have always catered to the broad market segment and will continue to do so for decades to come. We will likewise continue to be

vigilant and lookout for new products and trends that will be the next biggest hit in fashion.

For this decade however, we foresee a change in the way we communicate to our markets. This is especially true for our younger audience who move with the ever changing digital media landscape. We are therefore finding new ways of communicating through mobile applications and the web, and keeping our customers interested through new activations.

We have also had much success in developing our loyalty program into the largest in the Philippines. We plan to further strengthen it by continuing to introduce new promotional concepts. We plan to expand the program by enhancing its appeal to first-time loyalty card users as well as to younger market segments.

HOW DO YOU PLAN TO SUSTAIN YOUR GROWTH?

Growth will be sustained from existing stores and further expansion. We are conscious of our current stores' productivity and we are constantly improving on their turnover year on year. This is done through the constant introduction of new brands and styles, improvement in floor layouts, and the introduction of more display-efficient merchandise fixtures. All these have constantly contributed to continued growth in comparable store sales.

Hand in hand with the growth of current stores is the group's expansion into key tier-two cities in the Philippines, as well as the outlying areas of Metro Manila. The expansion brings the SM Department store brand to areas where SM has never been experienced in the past, and makes the brand more accessible to shoppers in Metro Manila.

HOW WILL YOU SOURCE THE FUNDS NEEDED FOR YOUR EXPANSION?

Funds for expansion will be generated internally.



DID SM'S FOOD RETAIL GROUP ATTAIN ITS OBJECTIVES IN 2009? HOW WOULD YOU DESCRIBE THE GROUP'S OVER-ALL PERFORMANCE DURING THE YEAR?

Put together, the SM Food Group's corporate performance last year was very positive and resulted in sales and earnings growth of 7% to Php70.8 billion and 25% to Php3.1 billion, respectively. Although we continue to strive for improvement, we can safely say that the combined efforts of everyone in the group contributed to attaining our goals for 2009.

THE COUNTRY WAS HARD HIT BY A SERIES OF NATURAL CALAMITIES LAST YEAR. IN ADDITION, THE GOVERNMENT IMPOSED PRICE CONTROLS ON CERTAIN BASIC GOODS

AND NECESSITIES. HOW DID THESE TWO OCCURRENCES AFFECT YOUR PERFORMANCE AND OPERATIONS?

The typhoons that struck the country affected the operations of nine SM stores, rendering them inoperable for a few weeks. But this was offset by the surge in sales of basic commodities in October from stores that are close to the affected communities, as households had to clean portions of their homes that were flooded, even as they replenished damaged goods and household items.

Regarding price controls, we fully support the government's effort to regulate the prices of basic goods during times of calamity, while we maintain competitiveness and transparency in our pricing to safeguard the welfare of the average consumer. As a matter of policy, the SM

ROBERT KWEE

Executive Vice President
SM Hypermarkets

Food Group has always been compliant with the Department of Trade and Industry (DTI) directives on price controls. And as much as we could, we even try to offer prices lower than DTI's suggested retail prices for selected items.

WHAT VALUABLE INSIGHTS OR LESSONS DID THE GROUP DERIVE FROM THE 2009 CALAMITIES?

The calamity fuelled the spirit of community (bayanihan) among the group and brought out the best in our people. We witnessed how our employees worked hard from the time we closed the stores due to the floods up to the time we cleaned up and eventually re-opened them.

We also recognize the heroism of our employees who, along with rescue teams, helped evacuate people who took refuge in our stores when Ondoy and Pepeng hit last year. The contributions of our employees in order for us to bounce back from the disaster are priceless.

During the Holy Mass that celebrated the re-opening of SM Rosales in Pangasinan, Bishop Jacinto said, "SM also now stands for Saving Men," as he acknowledged SM's contribution towards helping the community recover from the calamity, as well as its role in giving much-needed jobs to the locals.

This reinforces the fact that more than just being there for business, the SM Group is a community-based organization, which gives much back to the community.

WHAT OTHER CHALLENGES DID THE GROUP FACE IN 2009? HOW WERE THESE SURMOUNTED?

In 2009, the SM Food Group aggressively expanded by opening 21 new branches in strategic locations within Metro Manila and the provinces. As of end 2009, the group had a total of 83 stores nationwide.

A well thought of game plan, coupled with seamless execution for every branch opening,



SM Hypermarket Makati



The SM Food Group has retrofitted evolving technologies and consumption trends into its stores, all with customer convenience in mind.



facilitated the success of our expansion last year. A plan, no matter how grand, is only as good as its execution. Furthermore, we don't let complacency set in, despite our size and dominance. Competition keeps us awake and it challenges us to do better every year.

WHAT INNOVATIONS DID YOU IMPLEMENT DURING THE YEAR?

The SM Food Group has retrofitted evolving technologies and consumption trends into its stores, all with customer convenience in mind.

Our vast experience in serving millions of Filipino shoppers and years of familiarity with cashiering allowed us to continuously evolve into something better. With today's fast-paced lifestyle of many Filipinos, we have beefed up our customer service operations and ensured faster checkout services in all of our outlets. We have assigned customer assistants near our checkout counters to guide shoppers to the fastest lane where they can pay for their groceries. We also offer to escort our customers and assist them with their bags of groceries to either their private vehicles or public transport terminals.

We have also made our operational processes more efficient by developing several teams to handle our various store openings and by shortening our construction turnaround time.

HOW DID THE GROUP BENEFIT FROM THE INNOVATIONS?

Aside from improving our efficiency, the innovations made it easier for us to complete our store openings and renovations. And overall, we succeeded in delivering our promise of enjoyable and convenient shopping to our customers.

HOW MANY NEW STORES DID YOU OPEN FOR EACH FOOD RETAIL FORMAT IN 2009?

We opened 13 SaveMore outlets, two SM Supermarket branches and six SM Hypermarket stores.

WHAT ARE YOUR EXPANSION PLANS IN 2010?

Within 2010, the SM Food Group plans to add 20 more stores to its portfolio. We also plan to put up stores outside of Metro Manila. Our emphasis will be on smaller formats which is typically the SaveMore store. But regardless of store size and retail format, our direction is to expand our reach and bring the SM shopping experience closer to as many Filipinos as we can.

HOW DO YOU INTEND TO FUND YOUR EXPANSION?

Internally generated funds will be funding our expansion. On this note, the earnings from existing stores are constantly being reviewed for the possible allocation to capital expenditures.

WHERE DO YOU FORESEE THE GROUP GOING INTO THIS NEW DECADE?

The SM Food Group is set to maintain its market position as the largest supermarket chain in the country. We aim to strengthen our position as the dominant food retail establishment in the Philippines. Put simply, our mission is to be the PLACE to SHOP, the PLACE to SELL, and the PLACE to WORK.

We believe we can do this with the help of our business partners, our customers, and our employees. That and our corporate values are the main drivers for our continued success.





SM STORE LOCATIONS

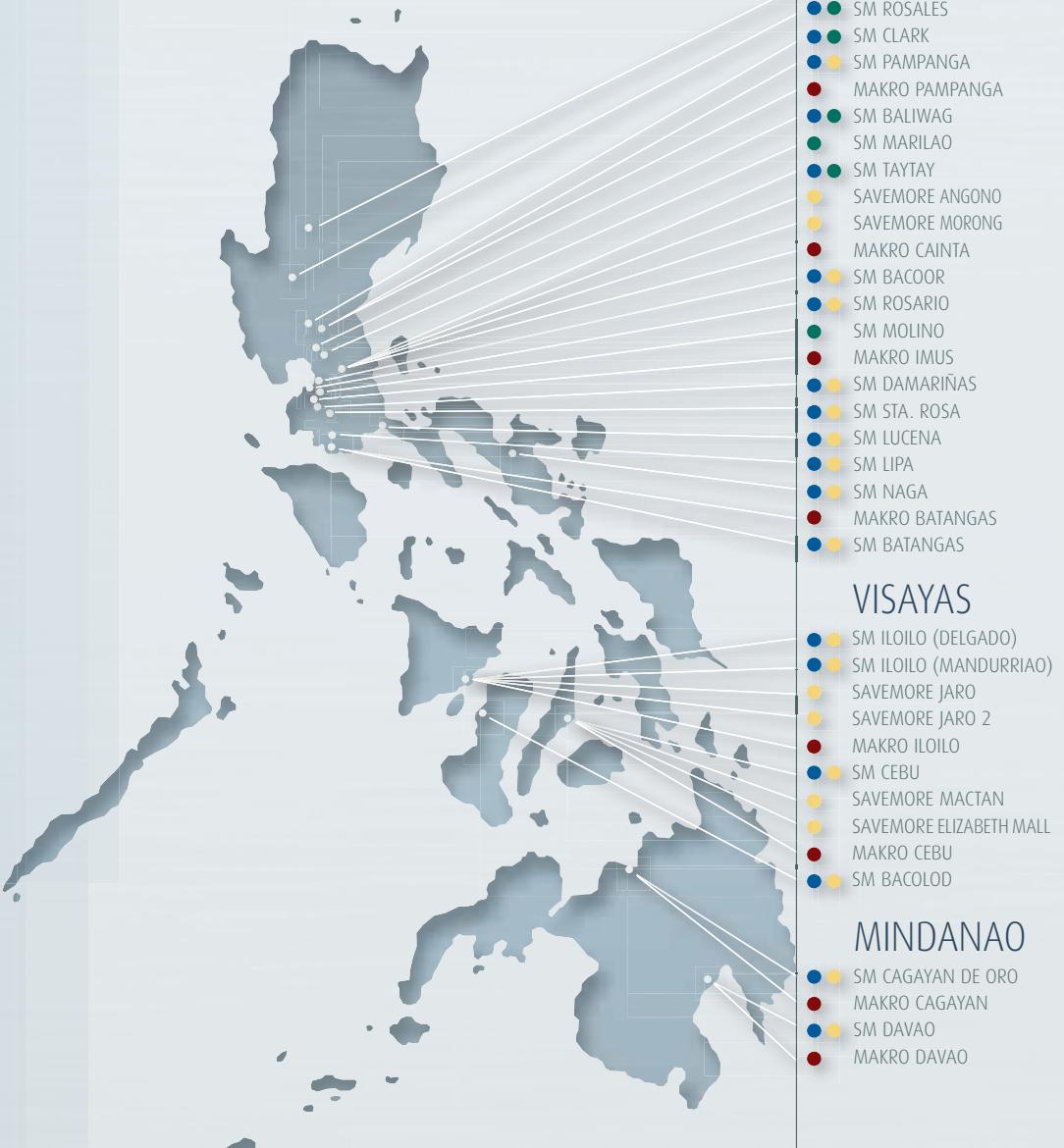
SM DEPARTMENT STORES

BRANCH	DATE OPENED
QUIAPO	NOVEMBER 1972
MAKATI	SEPTEMBER 1975
CUBAO	OCTOBER 1980
HARRISON	OCTOBER 1984
NORTH EDSA	NOVEMBER 1985
STA. MESA	SEPTEMBER 1990
ORTIGAS	JUNE 1991
CEBU	NOVEMBER 1993
LAS PIÑAS	APRIL 1995
BACOOR	JULY 1997
FAIRVIEW	OCTOBER 1997
MANDURRIA	JUNE 1999
MANILA	APRIL 2000
PAMPANGA	NOVEMBER 2000
DAVAO	NOVEMBER 2001
CAGAYAN DE ORO	NOVEMBER 2002
BICUTAN	NOVEMBER 2002
LUCENA	OCTOBER 2003
BAGUIO	NOVEMBER 2003
MARILAO	NOVEMBER 2003
DASMARIÑAS	MAY 2004
BATANGAS	NOVEMBER 2004
DELGADO	DECEMBER 2004
SAN LAZARO	JULY 2005
SUCAT	NOVEMBER 2005
STA. ROSA	FEBRUARY 2006
CLARK	MAY 2006
MALL OF ASIA	MAY 2006
LIPA	SEPTEMBER 2006
BACOLOD	MARCH 2007
TAYTAY	NOVEMBER 2007
MARIKINA	SEPTEMBER 2008
BALIWAG	DECEMBER 2008
NAGA	MAY 2009
ROSALES	MAY 2009
ROSARIO	NOVEMBER 2009

SM HYPERMARKETS

BRANCH	DATE OPENED
SUCAT	MAY 2001
BICUTAN	NOVEMBER 2002
MARILAO	NOVEMBER 2003
VALENZUELA	OCTOBER 2005
MOLINO	NOVEMBER 2005
CLARK	MAY 2006
MALL OF ASIA	MAY 2006
NORTH EDSA	JUNE 2006
PASIG	AUGUST 2006
TAYTAY	NOVEMBER 2007
MUNTINLUPA	NOVEMBER 2007
ROSALES	NOVEMBER 2008
BALIWAG	DECEMBER 2008
MANDALUYONG	MAY 2009
FAIRVIEW	JUNE 2009
MAKATI	SEPTEMBER 2009
LAS PIÑAS	OCTOBER 2009
NOVALICHES	NOVEMBER 2009
CENTRIS STATION	DECEMBER 2009

PHILIPPINE MAP



- SM Department Stores
- SM Supermarket
- SM Hypermarket
- Makro

METRO MANILA MAP



- SM Department Stores
- SM Supermarket
- SM Hypermarket
- Makro

SM SUPERMARKETS

BRANCH	DATE OPENED
NORTH EDSA	DECEMBER 1985
STA. MESA	SEPTEMBER 1990
MEGAMALL	JULY 1991
SOUTHMALL	APRIL 1995
BACOOR	APRIL 1995
FAIRVIEW	OCTOBER 1997
NORTH RECLAMATION	AUGUST 1998
MANDURRIA	JUNE 1999
MANILA	APRIL 2000
SAN FERNANDO	NOVEMBER 2000
DAVAO	NOVEMBER 2001
CAGAYAN DE ORO	NOVEMBER 2002
LUCENA	OCTOBER 2003
BAGUIO	NOVEMBER 2003
SAN LORENZO	FEBRUARY 2004
DASMARIÑAS	MAY 2004
BATANGAS	NOVEMBER 2004
DELGADO	DECEMBER 2004
SAN LAZARO	JULY 2005
STA. ROSA	FEBRUARY 2006
LIPA	SEPTEMBER 2006
BACOLOD	MARCH 2007
MARIKINA	SEPTEMBER 2008
CUBAO	DECEMBER 2008
NAGA	APRIL 2009
ROSARIO	NOVEMBER 2009

SM SAVEMORE

SAVEMORE BRANCH	DATE OPENED
JARO	OCTOBER 1998
MARIKINA	APRIL 1999
MACTAN	JUNE 2002
ELIZABETH MALL	DECEMBER 2003
FESTIVAL MALL	FEBRUARY 2004
JARO 2	AUGUST 2006
ANGONO	NOVEMBER 2006
MORONG	DECEMBER 2007
SQC, TAFT	FEBRUARY 2008
PARKMALL NAGTAHAN	MAY 2008
TANAY	OCTOBER 2008
NORTH EDSA	DECEMBER 2008
MEZZA	MARCH 2009
LAON LAAN	APRIL 2009
P. TUAZON	MAY 2009
DEL MONTE	MAY 2009
SUPER AMIGO	JULY 2009
MEGACENTER	JULY 2009
TAFT	OCTOBER 2009
BROADWAY	OCTOBER 2009
ANONAS	NOVEMBER 2009
BACOLOD	NOVEMBER 2009
NOVALICHES	DECEMBER 2009
VISAYAS AVENUE	DECEMBER 2009
SOLANO	DECEMBER 2009

MAKRO

BRANCH	DATE OPENED
CAINTA	MARCH 1996
IMUS	NOVEMBER 1996
SUCAT	MAY 1999
NORTH HARBOR	MAY 2000
CEBU	NOVEMBER 2000
DAVAO	NOVEMBER 2000
PAMPANGA	OCTOBER 2001
BATANGAS	JANUARY 2002
CAGAYAN DE ORO	NOVEMBER 2003
ILOILO	DECEMBER 2003
CUBAO	NOVEMBER 2004
LAS PIÑAS	APRIL 2005



MALL OPERATIONS



SM's mall subsidiary, SM Prime Holdings, Inc. (SM Prime), sustained its growth and achieved its goals in 2009, even if it was a time when a series of natural calamities directly affected some of its malls. Including the operations of its three malls in mainland China, SM Prime's 2009 consolidated net income grew 10% to Php7.0 billion from Php6.4 billion in 2008. Moreover, the company's revenues for 2009 increased by 15% to Php20.5 billion, from Php17.8 billion during the previous year.



In 2009, SM Prime opened three new malls, namely SM City Naga, SM Center Las Piñas, and SM City Rosario. The company also expanded SM City Rosales, SM City Fairview, and SM City North EDSA by adding the Sky Garden to the pioneering, and the country's largest, mall. The new malls and expansion projects added 237,000 square meters (sqm) to SM Prime's total gross floor area (GFA), bringing it to 4.5 million sqm.

During the second half of the year, two SM malls, namely SM City Sta. Mesa in Quezon City and SM City Rosales in Pangasinan experienced adverse flooding that prompted their temporary closure. But the dedicated efforts of the malls' management and employees ensured their sooner than

expected re-opening and brought normalcy back into the nearby communities.

For 2010, SM Prime plans to continue its growth and expansion by opening four new malls in the Philippines and one in China. Those in the country will be located at Novaliches, Quezon City; Tarlac City; and Calamba and San Pablo, both in Laguna Province. In China, it will open SM Suzhou, with a GFA of 70,000 sqm, in the province of Jiangsu.

By yearend, SM Prime will have 40 malls in the Philippines, with a combined GFA of 4.7 million sqm, and four malls in mainland China.



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

HOW WOULD YOU DESCRIBE SM PRIME'S 2009 OVER-ALL PERFORMANCE? DID YOU MEET YOUR GOALS AND OBJECTIVES?

Our financial results reinforced our belief in the strength of the Philippine economy. Its resilience translated into high foot traffic and healthy sales growth for our malls despite a more challenging environment made even more challenging by two devastating typhoons that hit Luzon. For the year, SM Prime's earnings grew 10% to Php7.0 billion, on revenue growth of 15% to Php21.0 billion. Much of this growth is derived from a mix of expansion and the improved sales of our existing tenants.

WHICH SM MALLS WERE AFFECTED BY THE SERIES OF NATURAL CALAMITIES THAT HIT THE COUNTRY IN 2009?

There were only two malls that were seriously affected: SM City Rosales in Pangasinan and the basement of SM City Sta. Mesa in Manila. We had to temporarily close the entire SM City Rosales and the basement level of SM City Sta. Mesa. While earlier estimates gave us three to six months of work before we could re-open the malls, we worked harder and re-opened them in less than two months of cleaning and refurbishing, just in time for the Christmas

holidays. It was the best service we could give not just to our customers, but more so, to our employees and those of our tenants, who depend on the malls for livelihood; and to the community which needed a semblance of normalcy after such devastation.

HOW MUCH IMPACT DID IT HAVE ON THE COMPANY'S PERFORMANCE AND OPERATIONS?

Since the two malls were closed for just two months, they had no significant impact on the company's performance and operations, having been sufficiently insured, even for business

SM City Fairview Annex





We now incorporate our collective experience from the typhoons into the planning of our new malls, particularly the structures' elevation, the location of key equipment, and other important considerations.



disruption. Rental revenues from some tenants also surged in October as those affected by the typhoons did their own cleaning, refurbishing, and re-stocking.

WHAT STEPS DID YOU TAKE TO ENSURE THAT THE Affected MALLS WOULD RESUME NORMAL OPERATIONS IN THE SHORTEST POSSIBLE TIME?

Beyond the numbers, we took it upon ourselves to ensure that there was minimal downtime. Thus, we reallocated key resources and formed a task force that focused solely on ensuring that the affected malls would open at the soonest possible time. We commend our people who managed to re-open them in less than two months ahead of the Christmas season. We understand that a significant portion of our tenants' revenues come in during this time and we wanted them to benefit from that. More importantly, we felt the urgency to restore normalcy and much-needed jobs.

WHAT LESSONS DID SM PRIME LEARN AFTER GOING THROUGH SUCH A CRISIS?

We now incorporate our collective experience from the typhoons into the planning of our new malls, particularly the structures' elevation, the location of key equipment, and other important considerations. Likewise, we have also enhanced our emergency preparedness and crisis management by re-training our people, our tenants, and the agency personnel inside the malls.

HOW MANY NEW MALLS OPENED AND HOW MANY WERE EXPANDED IN 2009?

We opened three new malls and expanded three existing malls.

WHAT INNOVATIVE FEATURES DID THE NEW MALLS AND MALL EXPANSIONS HAVE?

The three new malls we opened in 2009 are in line with our business strategy of further establishing our presence and our name as a

full service provider in the communities we are located. Their formats are smaller in size and niched more towards residential communities. Also in 2009, we again expanded SM North Edsa by opening the Sky Garden.

WHAT ARE YOUR 2010 EXPANSION PLANS? WHERE WILL YOU SOURCE THE NEEDED FUNDS?

In 2010, our target is to open four new malls. These will be located in Calamba, Laguna; Novaliches, Quezon City; Tarlac City, Tarlac; and San Pablo, Laguna. These new malls will add 234,228 sqm to our total GFA. By the end of 2010, SM Prime will have 40 malls in the country, with a total combined GFA of 4.7 million sqm. The new malls will be funded through internally generated cash and external debt.

HOW WERE YOUR OPERATIONS IN CHINA? ARE ALL THREE MALLS PROFITABLE NOW?

The three malls in China are doing well. In October 2009, we unveiled SM Xiamen's expansion through its Lifestyle Wing, which added 110,000 sqm of GFA. In terms of occupancy, SM Xiamen is 100% occupied and 54% of the new wing is already lease-awarded. SM Jinjiang, on the other hand, is 91% occupied, while SM Chengdu is 82% leased out.

In terms of profitability, the operating margins of SM Xiamen and SM Jinjiang are already comparable with those of our Philippine malls. SM Chengdu, on the other hand, is expected to be in the black within 2010.

WHAT ARE SM PRIME'S IMMEDIATE AND MEDIUM-TERM PLANS FOR THE SM MALLS IN CHINA?

Moving forward, our target is to open one mall per year in China over the next three years. This may be increased to two malls each year, which would then bring our total number of malls in China to ten by 2014. We are also exploring the possibility of publicly listing these malls overseas.

We, however, have yet to determine the size and timing of, and the requisite number of malls for, the listing.

WHERE WILL YOUR NEXT MALL IN CHINA BE LOCATED?

We will open SM Suzhou located in Jiangsu Province in the fourth quarter of 2010. Suzhou is a city with 6.3 million people. The mall will have a GFA of 70,000 sqm. Like the first three cities wherein we developed malls, Suzhou is an emerging city with a market profile that is fast expanding in terms of spending capacity, making it an ideal location for an SM supermall.

WHAT ARE YOUR PLANS GIVEN THE RECENT ENACTMENT OF THE REAL ESTATE INVESTMENT TRUST ACT (REIT)?

This is something that we are seriously considering to enable us to unlock the values of our mall assets, secure an additional source of capital and ultimately create value for our shareholders. We believe that an SM Prime REIT, a REIT sponsored by the leading owner, operator and developer of shopping malls in the Philippines, offers a compelling story that will attract investors' interest.

WHAT IS YOUR OUTLOOK IN 2010?

Given the current global situation, our plan to open a total of four new malls in 2010 only affirms our belief in always looking at things from a long-term perspective. We remain confident on the resiliency of consumer spending and the long-term prospects of both the Philippines and China. We are optimistic that the coming Philippine elections and the steady inflows of OFW remittances will continue to drive our tenants' sales. Nevertheless, we are always closely monitoring the situation and we are prepared to adjust our programs as the need arises.



2009 New Malls & Expansions



2009 was a challenging year for SM Prime Holdings, Inc. (SM Prime), specifically toward the latter part of the year when two devastating typhoons inundated many parts of Luzon. But that didn't stop SM Prime from fulfilling its expansion program for the year which brought its total number of malls to 36 by the end of the year, with a total gross floor area (GFA) of 4.5 million square meters (sqm). The total number of tenants has likewise grown from 9,960 in 2008 to almost 12,000 in 2009.



SM Prime opened three new malls in 2009. These are SM City Naga, the first in the Bicol region, SM Center Las Piñas in Metro Manila, and SM City Rosario in the province of Cavite. SM City Naga has a GFA of 70,569 sqm with over 180 tenants offering a diverse range of products and services. Following SM City Naga, SM Prime opened SM Center Las Piñas with a GFA of 32,387 sqm and 111 tenants. SM Center Las Piñas is the second SM mall in Las Piñas after SM Southmall which opened in 1995. Completing the list of new malls in 2009 was SM City Rosario with a GFA of 57,559 sqm and 144 tenants.

Furthermore, SM Prime expanded three existing malls, namely, SM City North Edsa and SM City Fairview, both in Quezon City and SM City Rosales in the province of Pangasinan. The latter, together with SM Sta. Mesa, underwent an unscheduled restoration due to damages from massive flooding in their areas. SM Prime's commitment to bring the operations of the two malls back to normalcy the soonest

possible time led to a shorter-than-expected reopening, just in time for employees and tenants to be productive and for customers to enjoy the Christmas season.

2009 saw the unveiling of SM City North Edsa's three latest major offerings, namely the Sky Garden, the Sky Dome, and the IMAX Theater. All three now add more lustre and luxury to SM's very first mall. "Our three new facilities in SM City North EDSA make use of cutting-edge technology and are meant to give our valued customers a mall experience that they have never before encountered in other malls," explains Mr. Hans T. Sy, president of SM Prime.



SM MALL LOCATIONS

PROVINCIAL

MALL	DATE OPENED
Address	Gross Floor Area (In sqm.)
CEBU North Reclamation Area, Cebu City	NOVEMBER 1993 265,832 sqm.
BACOOR Tirana Highway corner Aguinaldo Highway, Bacoor, Cavite	JULY 1997 116,892 sqm.
ILOILO Benigno Aquino Avenue Diversion Road, Manduriao, Iloilo City.	JUNE 1999 101,735 sqm.
PAMPANGA Brgy. San Jose, City of San Fernando Pampanga	NOVEMBER 2000 148,127 sqm.
DAVAO Quimpo Blvd. corner Tulip Drive Ecoland, Matina, Davao City	NOVEMBER 2001 75,440 sqm.
CAGAYAN DE ORO Masterson Avenue corner Coranvia Carmen, Cagayan de Oro	NOVEMBER 2002 86,355 sqm.
LUCENA Dalahican Road cor. Maharlika Highway, Lucena City	OCTOBER 2003 78,655 sqm.
BAGUIO Luneta Hill, Upper Session Road Baguio City	NOVEMBER 2003 105,331 sqm.
MARILAO McArthur Highway, Brgy. Lias Marilao, Bulacan	NOVEMBER 2003 88,654 sqm.
DASMAÑAS Barrio Pala-pala, Dasmariñas, Cavite	MAY 2004 79,792 sqm.
BATANGAS Pallocan West, Batangas City	NOVEMBER 2004 76,819 sqm.
MOLINO Brgy. Molino, Bacoor , Cavite City	NOVEMBER 2005 48,710 sqm.
STA. ROSA Barrio Tagapo, Sta. Rosa, Laguna	FEBRUARY 2006 79,325 sqm.
CLARK M.A. Roxas Highway, Clark Special Economic Zone Angeles City, Pampanga	MAY 2006 98,824 sqm.
LIPA Ayala Highway, Lipa City , Batangas	SEPTEMBER 2006 79,832 sqm.
BACOLOD Rizal St., Bacolod City, Negros Occidental	MARCH 2007 61,413 sqm.
TAYTAY Manila East Road, Brgy. Dolores Taytay, Rizal	NOVEMBER 2007 91,920 sqm.
ROSALES Brgy. Carmen East, Rosales Pangasinan	NOVEMBER 2008 60,989 sqm.
BALIWAG Brgy. Pagala, Baliwag, Bulacan	DECEMBER 2008 61,554 sqm.
NAGA CBD II, Brgy. Triangulo, Naga City	MAY 2009 70,569 sqm.
ROSARIO Brgy. Tejero, Rosario, Cavite	NOVEMBER 2009 57,559 sqm.

PHILIPPINE MAP



Luzon

SM BAGUIO
SM ROSALES
SM CLARK
SM PAMPANGA
SM BALIWAG
SM MARILAO
SM TAYTAY
SM BACOOR
SM ROSARIO
SM MOLINO
SM DAMARIÑAS
SM STA. ROSA
SM LUCENA
SM LIPA
SM NAGA
SM BATANGAS

VISAYAS

SM ILOILO
SM BACOLOD
SM CEBU

MINDANAO

SM CAGAYAN DE ORO
SM DAVAO

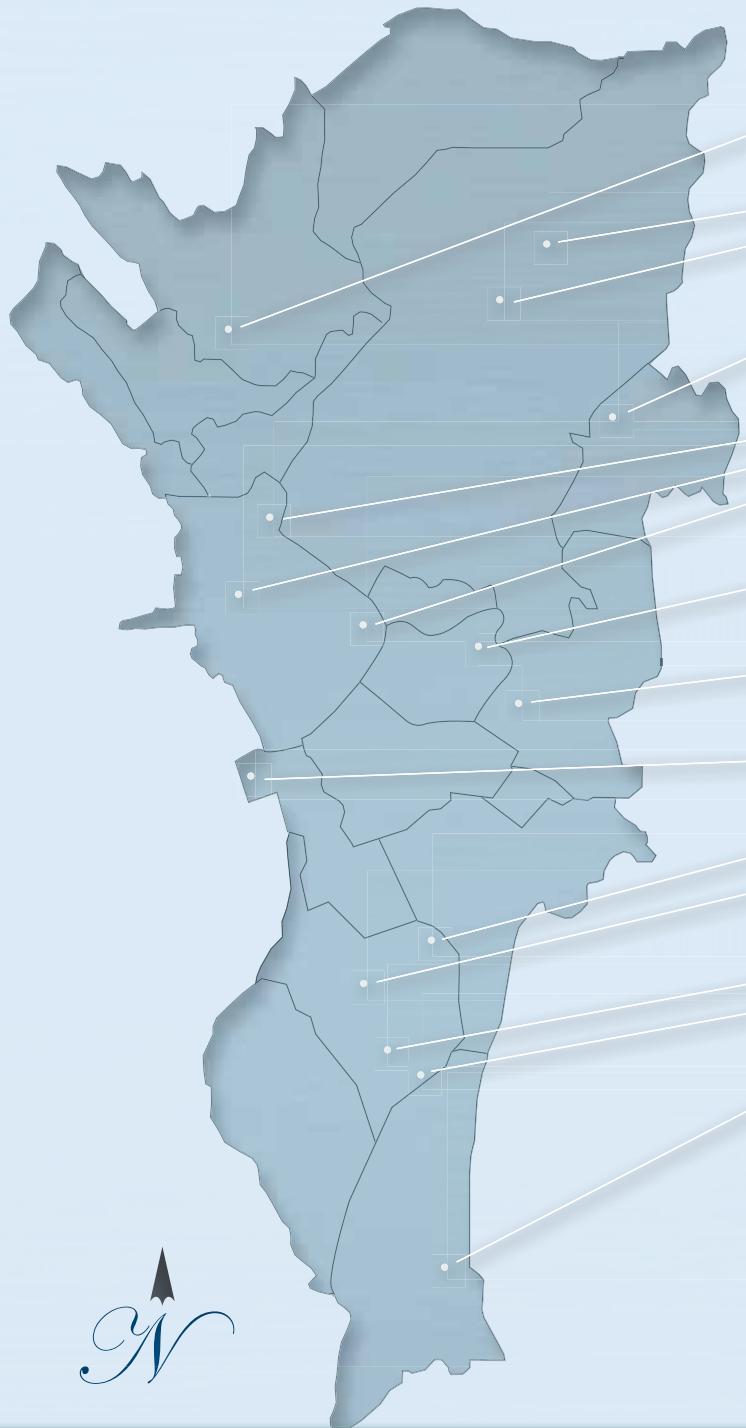


MALL TRIVIA

36
Malls Nationwide

4.5 million sqm.
Total Gross Floor Area

METRO MANILA MAP



VALENZUELA CITY
SM VALENZUELA

QUEZON CITY
SM FAIRVIEW
SM CITY NORTH EDSA

MARIKINA CITY
SM MARIKINA

MANILA
SM SAN LAZARO
SM MANILA
SM STA. MESA

MANDALUYONG CITY
SM MEGAMALL

PASIG CITY
SM PASIG

PASAY CITY
SM MALL OF ASIA

PARAÑAQUE CITY
SM BICUTAN
SM SUCAT

LAS PIÑAS CITY
SM LAS PIÑAS
SM SOUTH MALL

MUNTINLUPA CITY
SM MUNTINLUPA

METRO MANILA

MALL	DATE OPENED	Address	Gross Floor Area (in sqm.)
SM CITY NORTH EDSA	NOVEMBER 1985	EDSA corner North Avenue Quezon City	424,691 sqm.
STA. MESA	SEPTEMBER 1990	Magsaysay Avenue corner Araneta Avenue, Sta. Mesa, Manila	133,327 sqm.
MEGAMALL	JUNE 1991	EDSA corner Julia Vargas Avenue Ortigas Center, Mandaluyong City	346,789 sqm.
SOUTHMALL	APRIL 1995	Alabang Zapote Road Las Piñas City	205,120 sqm.
FAIRVIEW	OCTOBER 1997	Quirino Highway corner Regalado Avenue Greater Lagro, Fairview, Quezon City	182,795 sqm.
MANILA	APRIL 2000	Concepcion Avenue corner Arroceros and San Marcelino Sts., Manila	166,554 sqm.
SUCAT	JULY 2001	Sucat Road Parañaque City	98,106 sqm.
BICUTAN	NOVEMBER 2002	Doña Soledad Avenue corner West Service Road, Parañaque City	112,737 sqm.
SAN LAZARO	JULY 2005	Cor. Felix Huertas St. and A. H. Lacson Ext., Sta. Cruz, Manila	178,516 sqm.
VALENZUELA	OCTOBER 2005	McArthur Highway Brgy. Karuhatan, Valenzuela City	70,616 sqm.
MALL OF ASIA	MAY 2006	SM Central Business Park J.W. Diokno Blvd., Pasay City	406,961 sqm.
PASIG	AUGUST 2006	Frontera Verde Ortigas, Pasig City	29,017 sqm.
MUNTINLUPA	NOVEMBER 2007	Manila South Road, Brgy. Tunasan Muntinlupa City	53,986 sqm.
MARIKINA	SEPTEMBER 2008	Marcos Highway, Brgy. Calumpang Marikina City	122,067 sqm.
LAS PIÑAS	OCTOBER 2009	Brgy. Talon, Pamplona Las Piñas	32,387 sqm.

11,957
Mall Tenants

366
Food Court Tenants

208
Movie Screens

150
Bowling Lanes

32,253
Free Parking Slots

1,242
Food Tenants

2
Ice Skating Rinks

131,666
Cinema Seats

53,272
Parking Slots

2.5 million
Average Daily Pedestrian Count



BANKING



With the difficulties brought about by the global financial crisis out of the way, the banking industry significantly recovered in 2009. Consequently, the two banks in SM's portfolio, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) posted robust gains.



BDO posted a net income of Php6.1 billion, surging 173% from its 2008 income of Php2.2 billion. Its net interest income reached Php30.6 billion, for a 33% growth, year-on-year. Gross customer loans amounted to Php472.7 billion, which represents a growth of 20%. The bank's non-performing loan ratio went down to 3.2% from 4% during the previous period. In terms of total assets, BDO maintained its top position among the country's major commercial banks.

In the same light, China Bank performed well during the year. It reported a net income of Php4.1 billion, growing

by 41% over the Php2.9 billion attained in 2008. Consequently, China Bank's return on equity reached 15.4% during the year and its return on assets stood at 1.9%. These are among the highest rates in the industry. Total revenues rose by 20.4% to Php17.5 billion.

BDO ended the year with 707 branches, while China bank had 247.



NESTOR V. TAN

President
BDO Unibank, Inc.

HOW WELL DID BDO PERFORM IN 2009? WAS IT ABLE TO MEET ITS TARGETS?

Overall, BDO turned in a solid performance in 2009. We grew our net income to Php6.1 billion in 2009, surpassing the Php5.5 billion guidance for the year as well as the Php2.2 billion income in 2008. We not only met our targets but also grew faster than industry in most key measures, particularly loans, deposits, net interest income and fee-based income. Our earnings were also well diversified and driven by our core businesses. We are now less reliant on volatile trading gains compared to the major players in the industry.

TO WHICH FACTORS WOULD YOU ATTRIBUTE THE POSITIVE RESULTS TURNED IN BY BDO?

The top line strength is a validation of the business case behind our merger with Equitable PCI. We are realizing the benefits of scale and a strengthened business franchise across most business lines. These merger synergies have allowed us to post industry - leading growth numbers in almost all business lines.

The expected synergies on cost and service efficiency should become more apparent as we complete the second phase of our integration. This focuses on our operating infrastructure, capacity requirements and process efficiencies. We expect this to lead to the stabilization of operating costs and an improvement in the cost-income ratios moving forward.

IS THE GLOBAL RECESSION STILL AFFECTING THE PHILIPPINE BANKING INDUSTRY IN GENERAL, AND SPECIFICALLY BDO?

While the global recession admittedly affected the Philippines through a

slowdown in exports and manufacturing activity, the local banking system has so far remained resilient. Going forward, with increasing signs of global economic recovery, domestic banks should benefit from the expected pick up in credit demand as business sentiment improves and domestic activity expands.

We believe BDO will be well-placed to take advantage of this recovery. We have a healthy balance sheet, competitive business lines and one of the best distribution networks in the country.

WHAT OTHER CHALLENGES DID YOU HAVE TO CONTEND WITH DURING THE YEAR AND HOW WERE YOU ABLE TO ADDRESS THEM?

The major challenge for the industry in 2009 was how to cope with the lingering effects of the 2008 financial crisis. We were faced with a weak economic environment, tight liquidity and a potential deterioration in asset quality. We had to take a defensive and conservative stance in our treasury and lending activities which in turn affected our earnings during the first semester of the year. Fortunately for us, non-performing loan (NPL) ratios remained benign and economic optimism gradually returned during the second half of the year.

WERE YOUR OPERATIONS AFFECTED BY THE TYPHOONS THAT HIT SEVERAL CITIES IN METRO MANILA AND NORTHERN LUZON?

There were brief disruptions in service in affected areas, but these were quickly brought back to normal operations. Fortunately, the typhoons did not have a material impact on the Bank's operations and performance.

HOW DID YOU COPE AND WHAT LESSONS DID YOU LEARN FROM THOSE INCIDENTS?

I think it all starts with having an effective plan for disaster recovery and business continuity. Our officers and staff knew what to do and how to handle the situation. For starters, we were able to ensure continued operations of our IT-dependent functions like our call center, ATM network and electronic banking channels. Then, we were quick to employ our "buddy branch" system, allowing depositors and clients to transact with "buddy" branches of the typhoon-affected branches. In terms of remediation, we were able to mobilize in such a short notice our construction and repair crew to get the affected branches in working order in a matter of days.

One factor that we cannot over-emphasize is the attitude and commitment of our officers and staff. Despite the constraints and impact of the typhoons on their personal lives, they still reported for work and resumed normal branch operations. Where appropriate, they did clean-ups and quickly reopened their branch or helped the different branches in need of additional manpower. No amount of planning or technology can replace that.

WHAT ARE YOUR EXPECTATIONS FOR THE BANK IN 2010?

We expect the Bank to do better in 2010. Most of the integration cost and investments in the combined entity are now behind us. We expect to fully realize the benefits of scale on cost, risk management and product capabilities.

On the business development side, we expect to attain moderate loan growth while sustaining the robust expansion in our low-cost deposits. Our fee-based service businesses should also deliver steady growth.



Our objective is always to put our customers in the forefront of our business, always finding ways to meet their expectations and to make banking a convenient and pleasant experience for them.



WHAT WILL YOUR CORE BUSINESS STRATEGIES BE?

Our core business strategies have not changed over the years and are focused on four major points:

- Generating a steady and diversified earnings stream through focused loan growth, improved market mix and higher recurring service fee income.
- Sustaining low cost funding through the stable expansion in low-cost deposits and the strategic deployment of branch licenses.
- Achieving operating efficiency through effective cost and process management, strategic deployment of technology and an adequate and tested disaster recovery plan.
- Improving asset quality through continued vigilance against potential delinquencies, conservative provisioning policies, and reduction in non-earning assets.

Our emphasis has always been sustainable profits and shareholder value over the long-term.

WILL THERE BE INNOVATIONS IN YOUR PRODUCTS AND SERVICES THAT WILL BE IMPLEMENTED IN 2010?

Yes, there will be innovations implemented in 2010 in line with the continuing upgrades in our products, information technology infrastructure and operating processes. We believe innovation is best done in small incremental steps. Our objective is always to put our customers in the forefront of our business, always finding ways to meet their expectations and to make banking a convenient and pleasant experience for them.

HOW MANY NEW BRANCHES DO YOU EXPECT TO OPEN DURING THE YEAR?

We hope to deploy about 40 remaining branch licenses within the year.

DO YOU EXPECT TO MAINTAIN THE BANK'S POSITION AS THE BIGGEST IN THE COUNTRY IN TERMS OF ASSETS?

We have always maintained that size is never the objective for us. This is simply a by-product of doing what we do relatively well. Growth naturally follows when you are able to meet the needs of your clients.

HOW DO YOU VIEW THE BANKING INDUSTRY IN THIS NEW DECADE?

We see continuing change and evolution in the industry this decade. We see four key drivers to this:

- consolidation brought about by increasing competition and cost of regulatory changes
- disintermediation as traditional borrowers go directly to the capital markets
- market shift as the manufacturing base erodes further and are replaced by small business traders and niche manufacturers
- growing importance of the informal economy such as the micro business and the OFW market.

Given this, we hope that BDO's size and scale will allow it to competitively position itself for the expanding markets and emerging opportunities in the industry.





BC CHINABANK

PETER S. DEE

President and CEO
China Banking Corporation

HOW WOULD YOU CHARACTERIZE CHINA BANK'S PERFORMANCE IN 2009? DID THE BANK MEET ITS OBJECTIVES?

The year 2009 saw China Bank sustain its track record of being among the industry's best in profitability, cost efficiency and financial strength – and gained international recognition for consistently delivering value to shareholders. This performance was achieved even as the bank was in the midst of its most rapid network expansion in its history, laying the foundation for future sustained profitability and growth.

The recovery in world financial markets due to fiscal stimulus from governments and very accommodative stance by central banks provided a benign environment for recovery in the balance sheets and financial performance of banking systems around the world.

China Bank posted P 4.10 billion net income in 2009, a 41% jump from the previous year. China Bank continued to be among the most profitable banks in the country in terms of return on equity (15.36%) and return on assets (1.90%). Our net interest margin remained among the healthiest in the industry, owing to the sustained healthy growth in our low-cost deposits. We continued to be among the most cost-efficient banks in terms of cost to income ratio and cost to average assets, somewhat remarkable considering that we are in the midst of our most rapid network expansion in China Bank history.

Total assets grew to P 234.04 billion, P 25.49 billion or 12.2% above the year-end 2008 level. The year 2009 saw industry loans growth relatively flat as the capital markets absorbed the corporate bond issuances that would otherwise have landed on the banking system's loan books. Although China Bank gross loan portfolio declined year-on-year by 2.18% to P102.83 billion, average loans grew by 10% due to higher loans volume from corporate and

consumer sectors. Intensive monitoring at the Management and Board level led to a reduction in nonperforming loans by almost P 1.5 billion, lowering the NPL ratio to 4.16% from 5.14% last year. Loan loss coverage, or the ratio of reserves to nonperforming loans, improved further from 88.06% to 119.54%.

China Bank's financial position remains solid with total capital funds of P30.37 billion, translating to a Tier 1 capital adequacy ratio (CAR) of 11.92% and total CAR of 12.80%. As a result of our strong financials, Fitch Ratings again affirmed China Bank's financial strength rating of "AA-" on the National credit rating scale, among the highest rating in the industry.

China Bank sustained profitability and delivery of superior shareholder returns was recognized internationally, as it was cited by US-based management consulting firm Stern Stewart & Company as one of the top 100 listed companies in ASEAN in terms of delivering shareholder value for the period 2002-2008. It was one of only 11 Philippine companies and one of two Philippine banks to be included in the ASEAN Relative Wealth Index.

DID THE GLOBAL FINANCIAL CRISIS STILL AFFECT THE BANKING SECTOR LAST YEAR? IF SO, HOW DID CHINA BANK COPE?

Last year was a recovery year, as reflected in the banking industry's profitability rebounding from the very low base in 2008. The repercussions of the global crisis continued to be felt in the first half of the year, both from its direct effects as well as the impact of the policy responses from both fiscal and monetary authorities. The monetary response in terms of liquidity boost and lower interest rates pushed down government securities yields to record low levels at the shorter maturities, while concerns about the fiscal deficits incurred for the stimulus programs to counter the recessionary impact of the crisis prevented

yields on the longer maturities from going down – a classic yield curve steepening effect. The downward pressure on securities and loan rates was quite significant, but was adequately compensated by a corresponding lower cost of funds, achieved thru lower cost of borrowed funds and thru a higher CASA to deposit ratio. This allowed us to maintain our net interest margins at a level still among the best in the industry.

WHAT OTHER CHALLENGES DID THE BANK FACE IN 2009 AND HOW WERE YOU ABLE TO OVERCOME THEM?

At the outset of the global financial crisis, there was near unanimity among multilateral agencies, credit rating agencies, and regional analysts that the Philippine banking sector will see a worsening of asset quality that would have led to rising credit-related losses eroding profitability – as exports markets were seen to collapse and overseas workers remittances were expected to drop as unemployment in developed markets rise. In addition, natural calamities such as Typhoon Ondoy and Typhoon Pepeng which hit the country within weeks wreaked damage and hardship to millions of people, leading to fears of adverse impact on bank loan portfolios. The actual results for the industry disproved the initially pessimistic projections. China Bank's asset quality indicators improved significantly during the year, down by almost P 1.5 billion in absolute amount, and with the NPL ratio improving from 5.14% to 4.16% coupled with the loan loss cover ratio exceeding 100%.

WHAT CORE BUSINESS STRATEGIES WILL YOU PURSUE IN 2010?

As China Bank embarks on its new 5-year business plan, it will continue to pursue the core strategies contained in the previous 3-year plans. The centerpiece of the plan is of course the full implementation of the most rapid network

“ China Bank is not only your banker, but the RIGHT partner. Indeed, Your Success is Our Business.” “

expansion in China Bank's 90-year history, both for China Bank and ChinaBank Savings. China Bank will continue to expand and diversify its revenue sources, broaden its distribution channels, maximize total customer relationship, and strengthen the organization for better competitiveness.

Sustaining our low-cost deposit generation is crucial to maintaining a healthy net interest margin through a lower average cost of funds. The role of fee-based business in revenue diversification has become more critical, as contributions from bancassurance, private banking, remittances, trade finance and foreign exchange transactions are expected to grow. A stronger focus on loans quality to further reduce NPLs, coupled with more than adequate loan loss cover of at least 100% will be maintained.

Overall, the Bank will continue to be a bastion of financial strength and prudence while delivering superior returns to the shareholders.

WHAT INNOVATIONS DO YOU PLAN TO IMPLEMENT IN 2010?

China Bank's innovation initiatives will be driven by two major considerations – one, the ability to meet customers' needs and expectations thru the full range of products and services in a highly responsive and cost-effective way and two, to put in place a highly robust set of platforms to enable the handling of accelerated growth in transaction volumes from the various businesses. Apart from the substantial capital expenditures allotted for the branch expansion, about half of the capital expenditure budget for 2010 will be invested in key infrastructure projects such as the acquisition of a new core banking system, asset-liability system (ALM), ATM/card management system, a new phone banking /call center software, servers upgrade and enhancements to our cash management platform to include supply chain functionalities. In addition, the year will also

see the continued implementation of ongoing projects such as the Reuters platform for the Treasury system, business intelligence/customer relationship module, new remittance system and full roll out of the browser-based tellering system for China Bank and ChinaBank Savings.

HOW MANY NEW BRANCHES WILL BE OPENED DURING THE YEAR?

The new five-year plan calls for a combined branch network of 400 branches by 2014 for both China Bank and ChinaBank Savings. For 2009, the network grew to 247, for a growth of 32 branches -- 27 for the parent bank and 5 for the savings bank.

For 2010, the expansion plan calls for opening of 40 new branches —30 in the parent bank, and 10 from ChinaBank Savings. This will bring the total China Bank branch network to 287, while the ATM network will grow from 374 to 393.

HOW HAVE YOUR MERGERS IN THE RECENT PAST BEEN AFFECTING YOUR PERFORMANCE?

The acquisition of Manila Bank with its 75 branch licenses presented a couple of strategic opportunities. One, it fast tracked the Bank's branch expansion program to a higher trajectory from 200 to 300 branches. As the incremental business contribution of the bigger network was kicking into place, the network goal was upgraded to 400 branches.

Two, ChinaBank Savings provides the platform for a sharper focus on the retail/consumer market and serves as the Bank's "laboratory" for new products and services and marketing approaches.

HOW WILL CHINA BANK POSITION ITSELF IN THIS NEW DECADE?

As China Bank celebrates its 90th year of service in 2010, the current decade is a



significant last leg before its centenary. China Bank will continue its efforts to be the best bank for its customers. The timelessness of its Mission Statement continues to apply, that "we will be a primary catalyst for the creation of wealth for our customers, driven by a desire to help them succeed, through a highly motivated team of competent and empowered professionals, guided by in-depth knowledge of their needs and supported by leading-edge technology." It is only thru the successful implementation of this mission that China Bank can remain a key player in the industry, growing to meet and exceed our customers' expectations, and in the process delivering superior returns to our shareholders.

The Bank will continue to pursue organizational improvements to become a customer-centric organization and becoming the primary banker to our customers, clearly identifying market segments and strengthening customer relationships, offering complete financial solutions and redesigning processes around the customer, leading to a heightened emotional bond with the customer through a unique customer experience.

This mission underlies the current China Bank advertising and branding campaign. China Bank is not only your banker, but the RIGHT partner. Indeed, Your Success is Our Business.



PROPERTY



Sun Coral Cafe, Pico de Loro Beach Club in Nasugbu, Batangas

The three segments of SM's property group namely commercial, residential, and tourism, sustained its growth and expansion in 2009. The group's 2009 revenues from real estate operations alone amounted to Php9.4 billion, 50% more than the Php6.3 billion registered in 2008.



Sea Residences

The group's impressive growth came mainly from its residential arm, SM Development Corporation (SMDC), which realized robust earnings on the back of enhanced sales initiatives, prompt construction completion, and new projects during the year. This was followed by the commercial properties segment and the tourism resort project known as Pico de Loro, which is in Nasugbu, Batangas.

SMDC launched five new residential condominiums in 2009, bringing its total number of projects to 12, with four more scheduled to be unveiled in 2010. The commercial properties segment, on the other hand, broke ground during the year for TwoE-Com Center, a BPO (business process

outsourcing) – IT (information technology) building at the Mall of Asia Complex (MOA Complex) in Pasay City. Currently under construction at the MOA Complex are the ferry terminal to Pico de Loro and SMDC's showroom pavilion. In the pipeline at the complex are a sports arena and parking structures.

The progress in Pico de Loro in Nasugbu, Batangas saw the completion of Jacana, which is one of its four condominium clusters inside the scenic beach cove. The three other clusters, namely the Myna, Miranda, and Carola, are 72%, 8%, and 9% completed, respectively. The Pico de Loro Beach Club is now fully constructed and operational, while the country club is set to be launched in the second half of 2010.



ROGELIO R. CABUÑAG

President
SM Development Corporation

HOW DID SMDC PERFORM IN 2009? DID THE COMPANY ATTAIN ITS OBJECTIVES?

With the current economic and business climate, we were pleasantly surprised by our 2009 performance. We have significantly exceeded our financial targets during the year.

ARE YOUR EXISTING PROJECTS ON-TRACK IN TERMS OF COMPLETION?

Due to the calamities that hit Metro Manila toward the end of the year, we encountered very minor delays in our construction activities. Overall, however, we were able to recover and stay on track with our commitments to our customers. In addition, flood damage was zero.

WHAT WERE THE NEW PROJECTS THAT THE COMPANY LAUNCHED IN 2009?

There were five new projects. They are the Princeton Residences beside the Gilmore Station of LRT-2 in Quezon City; the Sun Residences near the Welcome Rotonda in Quezon City; the Jazz Residences along Jupiter Street, near Bel Air in Makati City; the Light Residences along EDSA, beside the Boni Avenue Station of the MRT, and the Wind Residences in scenic Tagaytay City.

HOW DID THE MARKET REACT TO YOUR NEW PROJECTS?

Overall, the reception was strong and positive. We are greatly encouraged by this development and this gave us a solid platform to pursue our expansion program.

GIVEN THAT YOU NOW HAVE 12 EXISTING PROJECTS, IS THERE ENOUGH DEMAND FOR FURTHER EXPANSION IN THE COMING YEARS?

The housing backlog and demand in the country is still huge, despite our ongoing projects enjoying very brisk sales. We believe that given this situation, the demand for our housing units will be steady and sustainable, notwithstanding the competition.

HOW WILL THE COMPANY POSITION ITSELF IN 2010?

Our business focus shall continue to be on the mid-range market, with emphasis on five-star quality housing at affordable prices. On top of this, new product derivatives will be expanded to broaden the market even further.

WHAT OTHER PROJECTS WILL BE LAUNCHED IN 2010?

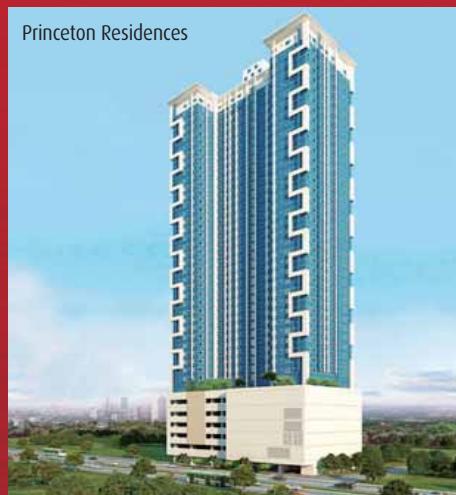
We plan to launch four additional projects under the SM Residences brand. Also, as mentioned above, there are definite plans to further broaden our product offering that will cater to a specific market niche.

HOW MUCH WILL THESE PROJECTS COST?

Our estimated cost will still be in the vicinity of Php1.0 billion to Php2.0 billion per project. Thus, in total, it would be in the range of Php4.0 billion to Php8.0 billion.

HOW WILL THEY BE FUNDED?

Generally, funding will be coming from internally generated funds. Our bank facilities will just be tapped for short-term requirements as and when needed.





Five-star quality, yet affordable, housing shall be the core principle of our business strategy and this will be complemented strongly by the excellent location and timely delivery of units.



WILL SMDC EMBARK ON MORE PROJECTS OUTSIDE METRO MANILA?

We already have one in Tagaytay City, which is the Wind Residences. We shall continue to explore interesting cities in other parts of the country, but focus will remain in Metro Manila.

WHAT WILL BE YOUR BUSINESS STRATEGY IN THE MEDIUM TERM?

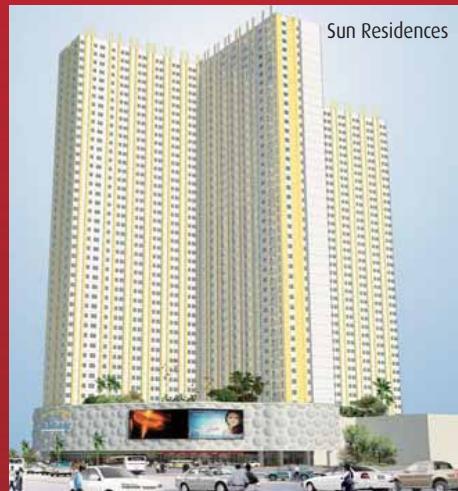
"Five-star quality, yet affordable, housing" shall be the core principle of our business strategy and this will be complemented strongly by the excellent location and timely delivery of units. Along this line, scheduled project launches will be pursued and coordinated properly.



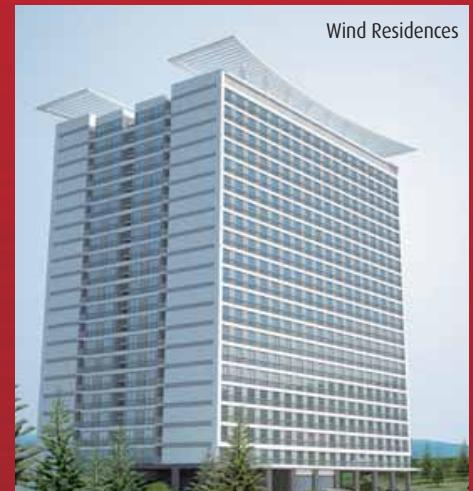
Chateau Elysée



Jazz Residences



Sun Residences



Wind Residences



PROJECT UPDATE



CHATEAU ELYSÉE



the beat goes on

An Update On SM Residences

BERKELEY RESIDENCES



MEZZA RESIDENCES



LINDENWOOD RESIDENCES



GRASS RESIDENCES



FIELD RESIDENCES



SEA RESIDENCES

2

009 saw SM Development Corporation's (SMDC) seven ongoing projects, which are all under the SM Residences brand, continue their progress in both construction and unit sales. Hardly skipping a beat, key elements of the projects were on schedule and within specified targets.

SMDC president Roger R. Cabuñag explains, "The company's existing projects fared well during the year. Completion of the projects' various phases was on-track and proceeded seamlessly, with no major delays or overruns despite very serious weather systems that hit Metro Manila in the third quarter of the year. In addition, the projects enjoyed very brisk market uptake, a clear testament to the trust and confidence that buyers place on the SM brand."

SMDC's initial foray into property development, **Chateau Elysée**, has as of end-2009, fully constructed five of its six clusters. Started in April 2003, Chateau Elysee is a six-cluster, mid-rise 'condoville' project in Parañaque City, near SM City Bicutan. Out of its 2,232 units available for sale, 84% or 1,872 units have already been sold. It has a gross floor area (GFA) of approximately 95,000 square meters (sqm).

Mezza Residences, which was launched in February 2006 is a four-tower condominium project right in front of SM City Sta. Mesa in Quezon City. It has a GFA of about 131,000 sqm. Mezza is now 100% completed with 94% of its 2,332 total units sold. Mezza residents also enjoy the convenience of having a large retail area that includes a SaveMore branch at the ground level.

SMDC's only residential subdivision project, **Lindenwood Residences**, is also fully complete. Started in September 2006, it is located in Muntinlupa City near the SLEX (South Luzon Expressway). It offers its residents amenities such as

a clubhouse, swimming pool, and a basketball court, among others. As of the same period, 116 of its lots have been sold.

Another SMDC residential condominium project in Quezon City is **Berkeley Residences**, which broke ground in January 2008. Berkeley is located along Katipunan Avenue, directly in front of Miriam College and very near the University of the Philippines – Diliman and the Ateneo de Manila University – Loyola Heights campus. With a GFA of 56,700 sqm, it is 63% complete with a 95% sales take up for its 1,280 units.

Grass Residences also in Quezon City was unveiled in March 2008, it has a GFA of roughly 202,000 sqm and is just behind the SM's first and now the country's largest shopping mall, SM City North EDSA. Of its three high-rise towers, Tower 1 is 58% completed, while Tower 3 is 1% completed as of end December 2009. Its Tower 2 has yet to start construction. Of the 3,973 units available for sale from Towers 1 and 3, 80% has been sold.

Sea Residences, which started only in December 2008 is among SMDC's best sellers. Sea and its six buildings are being built just across the Mall of Asia Complex, with half of its units facing the famous Manila Bay and the other half facing the Makati Skyline. It has a GFA of 134,000 sqm. Sea's buildings A and B are 38% complete while buildings C and E are 4% complete. Of the 2,088 units that are available for sale, 69% has already been sold.

The seventh ongoing project, the **Field Residences**, is likewise a residential condominium project that was launched in late 2008. It is in Parañaque City, near SM City Sucat. Ten towers will be built in phases and the whole project will have a GFA of 170,200 sqm. Its first tower is 95% completed and has sold 542 units out of 676 units available for sale, for an 80% sales take up rate.



JOSEFINO C. LUCAS

Executive Vice President
SM Land, Inc.

COMMERCIAL PROPERTIES

HOW WOULD YOU DESCRIBE THE PERFORMANCE OF SM'S COMMERCIAL PROPERTIES GROUP IN 2009? DID THE GROUP MEET ITS TARGETS?

The group was on track in meeting its targets. Projects previously launched and developed contributed to recurring rental income increase, as the portfolio of BPO office spaces went up from the previous year. Pre-leasing and strong take-up of spaces prior to completion ensured immediate rental flows upon project completion. Non-core income producing assets, i.e. land leases and mixed building types made up for the balance of rental revenues.

WHAT WERE THE PROJECTS THAT THE GROUP LAUNCHED IN 2009? HOW IS THEIR PROGRESS THUS FAR?

On-going in the Mall of Asia Complex is the construction of TwoEcomCenter, the second of four BPO-IT buildings in the IT Zone. In the entertainment zone, to break ground is the sports arena. Adjunct buildings and facilities will be constructed such as a showroom pavilion for SM's residential projects, and parking structures. The completion of the SM Ferry Terminal that will service Hamilo Coast slated by yearend.

WHAT OTHER PROJECTS ARE IN THE PIPELINE?

Several stand-alone buildings are being developed in selected well-populated areas of Metro-Manila that will house SaveMore stores as principal tenant. These short turnaround projects enable the commercial properties group to realize guaranteed leases and rental income quickly. It is also working closely with SMDC on the

leasing and management of commercial components attached to the company's condominium projects. For the office sector, the group is reviewing sites for BPO buildings outside of Metro-Manila, which are adjacent to SM Malls or in preferred outsourcing locations where the next SM Cyber buildings can be developed.

WHERE WILL YOU SOURCE THE FUNDING FOR THESE PROJECTS?

Financing will come from internally generated funds and loans.

WHAT ARE YOUR OVERALL EXPECTATIONS FOR THE GROUP IN 2010?

We expect the year to continue yielding positive results and surpass last year's performance. The projects that will be completed in 2010 will bring in additional recurring revenues and increase the size of the group's commercial portfolio. It will also be a busy period for expansion and construction thus ensuring growth for succeeding years.

WHAT BUSINESS STRATEGY WILL YOU PURSUE DURING THE YEAR?

Focus is on project delivery and on initiatives that grow the business. The main objective

is to increase the group's market share of office space by sustaining building activity in the IT zone for BPOs at the Mall of Asia Complex and in acquiring new sites in secondary cities for its smaller office templates.

HOW WILL YOU POSITION THE MALL OF ASIA COMPLEX IN 2010?

MOA is positioned as a premier entertainment and business district; the complex houses one of the largest malls in the world with BPO offices and tourism oriented establishments, the only such district located in front of historic Manila Bay. This will be heightened by new projects in 2010.

WHAT ARE YOUR VIEWS ABOUT THE PROPERTY SECTOR IN THIS NEW DECADE?

It will continue to be driven by domestic economic growth. Rising employment means growing demand for office space, which for the BPO industry, augurs well for commercial projects. Sustained OFW remittances support housing expansion and fuel consumer spending, boosting retail development nationwide. As the world economy recovers, the rebound bodes well for our own economy.



TWO E-COM



As a resort community and destination place, Hamilo Coast's Pico de Loro development will become a byword for an active leisure lifestyle experience.



HAMILO COAST

HOW WAS THE 2009 PERFORMANCE OF SM'S HAMILO COAST?

Revenues grew by about 55%, as more units were booked with the completion of the first cluster of Jacana condos. Net income correspondingly increased while reservation sales for units and club shares were sustained.

WHAT IS THE STATUS OF THE VARIOUS PROJECTS WITHIN HAMILO?

Jacana units were turned over from November 2009 as unit owners requested to stay in Pico de Loro over the holidays. For Myna, completion and turnover is slated this March. As scheduled, the Pico de Loro Beach and Country Club main building will open within the year. This signals the start of full operations of the Club. The construction of the Carola and Miranda condo clusters is in full swing, while the Azurea Hotel is now on its sixth level.

Pico de Loro has taken form and is now home to its first batch of unit owners. Supporting infrastructure are in place such as power, water, and road systems. Before yearend, the lagoon promenade will be complete and will become the central feature of the condos.

Before yearend, the Hamilo ferry terminal facility will be operational, paving the way for alternative access by sea from SM's Mall of Asia Complex.

WHAT CHALLENGES CAME YOUR WAY IN 2009 AND WHAT STEPS DID YOU TAKE TO OVERCOME THEM?

The spill-over effects of the global credit crunch may have dented demand for leisure market products. This appears more evident for international sales rather than domestic. Nevertheless, the local market took up the

slack. Sales and marketing efforts focused on identified niches by area and industry. By the fourth quarter, however, the typhoons hitting the country negatively affected planned sales initiatives and schedules, resulting in deferrals of buyers' commitments.

Despite these, visits and buyers' interests increased in December. Operations and sales worked on delivering the yearend site programs to sustain the momentum.

WHAT CAN CLIENTS EXPECT FROM HAMILO IN 2010?

Clients will see a fully functioning Beach and Country Club and partake of a complete resort experience characterized by a high level of service and amenities. Unit buyers of condos will see this as they move into their respective units. Although a portion of the area remains a construction site with work on Carola-Miranda and Hotel Azurea continuing, a thriving beachfront community will be gradually evolving. As a resort community and destination place, Hamilo Coast's Pico de Loro development will become a byword for an active leisure lifestyle experience. A variety of sports and outdoor recreation activities will be introduced and enhanced yearly.

WHAT INITIATIVES WILL YOU UNDERTAKE TO ATTRACT MORE POTENTIAL CLIENTS AND TOURISTS INTO THE AREA?

We will introduce new developments that offer more choices at different price points. In so doing, new areas outside of Pico de Loro will be transformed into different types of neighbourhoods, but with the same value proposition of living in a unique water-oriented, lifestyle-leisure coastal community. The completion of the hotel, opening of the sea ferry service from MOAC to Hamilo, and the Cavite-Nasugbu Batangas road links will cut travel time from Metro Manila.



WHAT DISTINGUISHES HAMILO FROM OTHER SIMILAR DEVELOPMENTS NEARBY?

The property itself is unique, the 13 coves and long coastline, the hills, and mountains that traverse the land from North to South are breathtaking. We'd like to think that the plans and improvements we are doing complement and enhance these assets. There is yet no comparable development to Hamilo Coast that we can mention.

ARE THERE PLANS TO START DEVELOPING THE OTHER COVES IN HAMILO?

Yes, subject to certain parameters apart from financial feasibility. We need to consider carrying capacities and the beach quality of the coves, accessibility, and natural protection from adverse weather conditions. We will select the right coves and appropriate proper branding and design themes as we carefully assess the market.

WHAT IS YOUR PROGNOSIS FOR THE COUNTRY'S TOURISM INDUSTRY DURING THIS NEW DECADE?

In a decade, provided the country makes the right steps politically, economically, and socially, tourism should grow tremendously due to a very strong domestic-driven market. The private sector and entrepreneurs will continue to pursue what they started in the country because they clearly see the wave coming.



HOTELS AND CONVENTIONS



Radisson Blu Hotel Cebu

In early 2009, the hotels and convention group was spun off into a fifth, separate core business of SM. It is tasked to develop and manage the hotel and convention portfolio of SM. To achieve its successful transition, the group implemented a program that aims to strengthen its corporate organization and resources. Thus, it focused mostly on building and strengthening the organization, in order to prepare the group for the work and opportunities ahead.



Taal Vista Hotel in Tagaytay

SM Hotels already operates the Taal Vista Hotel at Tagaytay City and the Beach and Country Club of Pico de Loro Cove at Hamilo Coast in Nasugbu, Batangas.

SM also now dominates the convention business with the SMX Convention Center at the Mall of Asia Complex, the Megatrade Hall at SM Megamall, and the Cebu Trade Hall at SM City Cebu. Put together, they hold the largest share in the country's convention industry.

SM Hotels continues to oversee the construction and completion of its 400-room, five-star Radisson Blu Hotel Cebu, which is strategically located right beside SM City Cebu. The

hotel is scheduled to open in the latter part of 2010. The group is also working on the design and development of another 400-room, five-star hotel to be built at the Mall of Asia Complex to complement the SMX Convention Center, as well as the prototype for a chain of 150-room designer hotels that will be built within the mall complexes of the SM Group throughout the country.

In the Immediate future, the group intends to put up the Azurea, which is a 150-room upmarket hotel also at the Pico de Loro cove.



CHRISTINA A. BAUTISTA

Vice President, Business Development
SM Hotels and Conventions Corp.

EARLY IN 2009, THE HOTELS AND CONVENTIONS GROUP WAS SPUN OFF AS A FIFTH CORE BUSINESS OF SM. AS SUCH, WHAT CHALLENGES DID YOU HAVE TO CONTEND WITH DURING THE YEAR AND HOW DID YOU MANAGE THEM?

With all of its activities and wide range of ongoing projects, the challenge for SM Hotels has been to seamlessly transition into and integrate the management of all its different operating units into one cohesive management group. To achieve this, SM Hotels has embarked on an aggressive program to strengthen the group's corporate organization and resources.

The SM Hotels and Conventions Group's vision is to be a prime mover in the hotel and convention segment of the real estate industry, which we believe has significant growth potential in the Philippines. Given its presence in strategic locations throughout the country, SM is uniquely positioned to capitalize on this and help spur tourism and convention activities. As such, SM Hotels is tasked to develop and manage the hotel and convention portfolio for the SM Group.

SM Hotels already operates the Taal Vista Hotel at Tagaytay City and the Beach and Country Club of Pico de Loro Cove at Hamilo Coast in Nasugbu, Batangas. We also operate the SM Group's convention business, which includes the SMX Convention Center at the Mall of Asia Complex, the Megatrade Hall at SM Megamall and Cebu Trade Hall at SM City Cebu. Combined, these control the largest market share of the convention industry in the Philippines today.

HOW WOULD YOU DESCRIBE THE PERFORMANCE OF SM HOTELS IN 2009?

By and large, 2009 was a transition year for SM Hotels. It was focused mostly on reorganization, reengineering, and regrouping in order to gear up for the work and opportunities ahead.

Nonetheless, we posted a 14% growth in revenues for the hotel and convention business, from Php470 million in 2008 to Php537 million in 2009. Revenues from the convention business, which grew 8% to Php280 million, accounted for 52% of the total, while revenues from Taal Vista Hotel, which increased by 21% to Php257 million, accounted for the rest.

We expect this profile to change significantly when the second hotel, the 400-room Radisson Blu Hotel in Cebu, opens in the second half of 2010.

HOW IS THE CONVENTION BUSINESS DOING, PARTICULARLY SMX CONVENTION CENTER? WHAT WAS THE PROFILE OF THE EVENTS HELD THERE IN 2009?

After only two years in operation, the SMX Convention Center has become the favored choice for major international and local events in the Philippines because of its size, modern amenities, well-maintained facilities, and strategic location.

The number of events grew by 35% in 2009 compared to that of the previous year. The number of event attendees also went up by 15% and surpassed the mark of one million guests.

Events at SMX were primarily those from trade associations and corporate accounts. Held for both sector representatives, as well as the general public, were major industry trade shows

and exhibits on furniture, construction, architecture, computers, travel and tourism, and dental equipment, to mention a few. Meetings, conferences, and national sales conventions were also held for telecommunication companies, BPO's, car manufacturers and dealers, and consumer product manufacturers and distributors. Meanwhile, December was very busy, as SMX has become the preferred venue for several large corporate Christmas parties, each with about 5,000 to 7,000 guests.

Among the highlights of the year happened in November when SMX was graced by over 3,000 local and overseas Chinese delegates who attended the World Chinese Entrepreneurs Congress, its first time to be held in Manila.

SMX has also evolved into becoming an alternative venue for wedding receptions, baptismal celebrations, birthday parties, and other social gatherings. Of late, SMX has also proven to be a lucrative concert venue.

HOW IS TAAL VISTA HOTEL PERFORMING, PARTICULARLY AFTER OPENING THE NEW WING?

In 2009, Taal Vista Hotel posted its highest sales growth since 2006 with a 46% increase to Php80.5 million, while net income surged by almost 42% to Php5.8 million.

The strong performance of Taal Vista was driven by the opening of its new wing in late 2008. Its well-appointed guestrooms and function rooms, particularly the Grand Ballroom, which is the largest in Tagaytay City, boosted occupancy levels as well as food and beverage revenues. With all these, Taal Vista has reinforced its landmark image in Tagaytay and is in a very good position and location, being close enough to Metro

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The Group's vision is to be a prime mover in the hotel and convention segment of the real estate industry, which we believe has significant growth potential in the Philippines.

”

Manila, to attract an expected growing number of tourists and capture the ever increasing M.I.C.E. (meetings, incentive travel, conventions, and exhibitions) business in the area.

WHAT IS THE LATEST ON RADISSON BLU HOTEL CEBU?

The hotel will open within the second half of 2010 under the Carlson group's leading, full-service Radisson brand. This hotel brings to Cebu a hospitality experience that will be truly world-class. The hotel will have 400 rooms, 10 function rooms, two ballrooms, a spa and fitness center, an inviting lobby lounge, accompanied by a stunning all-day dining restaurant. The 1,200 square meter main ballroom is a venue eagerly anticipated by Cebuanos.

Situated beside SM City Cebu, this 5-star Hotel will be operated by Carlson Hotels, a leading global hotel company with more than 1,060 properties in 77 countries. Aside from "Radisson", its other brands include the Regent®, Park Plaza®, Country Inns & Suites By Carlson, and Park Inn®. The 65 Radisson properties in the Asia Pacific consist of 28 hotels in operation and another 37 hotels in the pipeline, including the Radisson Blu Hotel in Cebu.

WILL THERE BE NEW PROJECTS THAT WILL BE LAUNCHED IN 2010?

Yes, we have quite a number for the year. In the second quarter of 2010, SM Hotels will make available the "Lofts at Pico de Loro". The loft units will provide room accommodations to Pico de Loro Beach and Country Club members and their guests, pending the completion of the 150-room resort hotel in 2011.

We also have an ongoing project at Pico de Loro in Hamilo, which is a 154-room designer hotel. The hotel will open its doors to club members and guests by the first quarter of 2011.

During the second half, construction of the first prototype 150-room boutique hotel and convention facility is expected to begin. In addition, we will break ground for the 400-room five-star hotel at the Mall of Asia Complex to complement the SMX Convention Center.

HOW WILL THESE PROJECTS BE FUNDED?

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

HOW WILL YOU POSITION SM HOTELS IN THIS NEW DECADE?

We envision SM Hotels to be at the forefront of developing properties that would spearhead the growth of the tourism and convention sectors throughout the Philippines.

The SM Group began the development of malls throughout the Philippines. We would like to complement that vision of building complete destinations to SM Group's offerings nationwide by providing an affordable designer hotel and convention property to the mall complex.



Taal Vista Hotel in Tagaytay



SPOTLIGHT



JOSE T. SIO

Executive Vice President/
Chief Financial Officer
SM INVESTMENT CORPORATION



"A CFO must at all times protect the company's assets and minimize its risks, maximize the value and potential of those assets, both tangible and non-tangible, and enhance shareholder value."

– Jose T. Sio

*Left to Right: Hans T. Sy, Elizabeth T. Sy, Jose T. Sio, Henry Sy, Sr.,
Teresita Sy-Coson, Harley T. Sy*

TWIN WINS for SM's CFO

JOSE T. SIO BAGS TWO AWARDS IN 2009

SM Investments Corporation (SM) executive vice president and chief financial officer (CFO) Jose T. Sio garnered two prestigious awards last year, adding further honor and distinction not just to his long list of achievements, but more so to SM. Mr. Sio received the CFO of the Year award from two respected entities in the finance industry, namely the Financial Executives Institute of the Philippines (Finex) and the Hong Kong-based finance publication, The Asset.

In November 2009, the board of judges of the Finex award, in tandem with Dutch bank ING, unanimously voted Mr. Sio for his important and critical role as CFO in today's fast changing, complex, and evolving global financial landscape by conferring on him their CFO of the Year award. The Finex-ING award seeks to place in the spotlight among peers and colleagues the Philippine CFO, in this case Mr. Sio, who has the characteristics and qualities needed in effectively managing wealth in the new economy.

In receiving the award, Mr. Sio said, "Today, the CFO is on the center stage and no longer in the backroom. Together with the CEO (chief executive officer), the CFO should be in the frontline serving as the company's 'go to' guy."

Shortly after the Finex award, The Asset honored Mr. Sio with its inaugural CFO of the Year award for 2009. The Asset is a leading and prestigious finance publication in Asia, known for providing analyses on and insights into top companies in the region.

As with the Finex board of judges, The Asset's board of editors unanimously voted for Mr. Sio. Their decision was based on the following criteria: the CFO's work, especially over the course of the past 12 months; important milestones achieved during the period; steps he undertook to better manage a company's finance and treasury functions that proved to be transformational; his approach and philosophy to finance and treasury; and the adoption of best-in-class market practices.

According to The Asset, "The board of editors recognized Mr. Jose T. Sio's overall financing approach and philosophy, and how SM has weathered the (global financial) crisis better than most, with the landmark success of the US\$500.0



million corporate bond issue and the Php10.0 billion domestic bond issue. In addition, cognizant of Mr. Jose T. Sio's success in communicating to investors, as exemplified in SM's top ranking in The Asset Corporate Awards 2009, the board voted unanimously to honor him for this inaugural recognition."

The Asset also said that its board believes that Mr. Sio's dedicated approach should serve as an especially thoughtful role model for other CFOs in the region, who also aspire to embrace the best financing practices for their organization.

Asked what the key responsibilities of a chief financial officer are today, Mr. Sio responded, "A CFO must at all times protect the company's assets and minimize its risks, maximize the value and potential of those assets, both tangible and non-tangible, and enhance shareholder value."

Mr. Sio is a certified public accountant, with a master's degree in Business Administration from the New York University in the United States. As SM's CFO, Mr. Sio was instrumental in the numerous milestones achieved by the company, which include its momentous initial public offering in 2005, the epic merger of its two banking subsidiaries Banco De Oro and Equitable PCI Bank in 2006, and its successful issue of peso and dollar bonds from 2007 to 2009, among others.

Mr. Sio has received a number of other awards and recognition from various entities. In 1997, he was named by Global Finance, an international magazine published in the United States, as one of "Global Finance's 1997 CFO Superstars." In 2000, he was cited among the best international finance executives in "The Asia 500: Leaders of the New Century," published by Baron's Who's Who based in Irvine, California. His alma mater, the University of San Agustin in Iloilo City has honored him with its most outstanding alumnus award. He has also been featured in a cover story of CFO Asia magazine.



CORPORATE GOVERNANCE

SM Investments Corporation made significant headway in its efforts to improve its corporate governance practices in 2009. While the platform for the company's corporate governance remains embodied in its Manual on Corporate Governance and Code of Ethics, SMIC embarked on several initiatives to further strengthen its corporate governance culture.

POLICIES

In 2008, SMIC initiated the implementation of policies on acceptance of gifts from business partners, insider trading and placement of advertisements. In 2009, SMIC continued to move forward with its corporate governance policies by revising its Code of Ethics and adopting guidelines on travel sponsored by business partners and on the Anti Money Laundering Law.

Revised Code of Ethics

In March 2009, SMIC revised its Code of Ethics. The Code serves as a guiding principle for the company's directors, officers and employees in the performance of their duties and responsibilities, and in their business transactions with investors, creditors, customers, contractors, suppliers, regulators and the public. The Code reflects the company's mission, vision and values statement.

The salient provisions of the Code pertain to compliance and integrity, relationship with business partners, employee welfare, shareholder rights and protection of company information. Specifically, the Code governs reporting of suspected or actual fraudulent or dishonest acts, acceptance of gifts from business partners, conflict of interest, confidentiality of vital business information, and insider trading.

Guidelines on Travel Sponsored by Business Partners

In August 2009, SMIC issued guidelines on travel sponsored by business partners. The term "business partners" refers to contractors, suppliers, banks and other entities engaged in business with SMIC. The guidelines lay down specific rules to govern travel by SMIC officers and employees for business purposes, such as to attend trade shows or exhibits or for exposure to new products and innovations.

Guidelines on the Anti Money Laundering Law

In May 2009, the company issued Anti Money Laundering Law guidelines for its property group. The guidelines establish rules on the acceptance

of payment for purchases of real property projects and stress the importance of know-your-client procedures. The guidelines are consistent with the provisions of the Anti Money Laundering Law and its implementing rules and regulations.

Related Party Transactions

SMIC practises full disclosure of related-party transactions. The nature, extent and amount of transactions with related parties are disclosed in the company's financial statements and quarterly and annual reports to the SEC and PSE. The financial statements and reports are also available in the website and readily accessible to the public. The company ensures that all related-party transactions are conducted on an arms' length basis and based on prevailing market rates.

BOARD OF DIRECTORS

The company has two independent directors and adopts the definition of independence in the Securities Regulation Code. The company considers as an independent director one who, except for his director's fees and minimal qualifying shares, 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.

Committee Charters

In July 2009, the Compensation and Remuneration and the Nomination Committees of the SMIC Board of Directors adopted their respective committee charters. The Charters identify the Committees' composition, roles and responsibilities, as culled from the company's Manual on Corporate Governance. The Charters also include administrative provisions on the conduct of proceedings and reporting to the Board and Committee advisors.

The Audit and Corporate Governance Committee already has an existing charter. The major provisions of the Charter are summarized in the Audit and Corporate Governance

Committee Report in the Annual Report. The Committee Report also highlights the duties and responsibilities, as well as principal activities, of the Committee for the past year.

Evaluation of the Board and President

The Board conducted an annual self-evaluation and an evaluation of the President. The evaluation involved a rating of the performance of the director, the Board and the President for the past year. The evaluation was based on the duties and responsibilities of the Board and the President under the company's Manual on Corporate Governance and By-Laws.

The evaluation also included a rating of the support services provided to the Board, such as the quality and timing of information given to the Board, and the frequency and conduct of meetings. The directors were also requested to identify trainings, programs or any other assistance they may need in the performance of their duties as director. The results of the evaluation were presented to the Board and the President.

DISCLOSURE AND TRANSPARENCY

In line with its thrust to give shareholders and the public access to timely and relevant information, SMIC re-launched an improved website in 2009. The website is regularly updated and now contains a separate corporate governance section. This section provides information on the company's corporate governance policies, projects and other matters required under the Corporate Governance Scorecard, including the attendance of directors in Board and Board Committee meetings. (Please visit SMIC's website at www.sminvestments.com to access the certification on the record of attendance of the members of the board for 2009.)

The company also remains committed to fully comply with the disclosure and reporting requirements of the SEC and PSE. In addition, the company conducts regular briefings and meetings with investors, analysts and the press to keep them updated on the company's various

projects and financial and operational results. The presentation materials at these briefings, as well as the company's SEC and PSE reports, may be viewed and downloaded from the website.

ORIENTATIONS AND TRAININGS

SMIC conducted several orientations and trainings in 2009 with the end in view of increasing the awareness of the organization on corporate governance and its importance in the company's operations.

After the approval of the revised Code of Ethics, SMIC drilled it down to the employees through a series of orientations. The orientations aimed to inform employees of their rights and obligations under the Code, as well as to enlighten them on the principles and best practices on business ethics.

SMIC also conducted seminars on the Anti Money Laundering Law for its finance and sales staff in the property group . The seminars provided an overview of the requirements and prohibitions under the law that apply to real estate transactions. Participants were also given advice on what they can do to avoid money laundering. Key officers of the company also attended the Anti-Money Laundering Seminar conducted by Atty. Vicente S. Aquino, Executive Director of the Anti-Money Laundering Council.

Further, corporate governance has been included in the Human Resources Department's Corporate Orientation Program for new employees and the Re-Orientation Program for employees who have been employed with the company for five years or more. This serves to introduce the employees to the SM platform of governance and the various components of corporate governance in the business, including business ethics, risk management and corporate social responsibility.

SMIC's Vice President for Investor Relations, Corazon Guidote, and Vice President for Corporate Governance, Atty. Jewel Austria, attended the Institute of Corporate Directors (ICD) Professional Directors Program. The five-day program aims to instill in corporate officers a commitment to enhance the long-term value of their companies through the observance of corporate governance principles, ethics and social responsibility.

Key officers and top management also took part in the ICD's Orientation on the Corporate Governance Scorecards of the SM Group conducted by Dr. Jesus Estanislao.

EXTERNAL PROJECTS

SMIC attended the ICD's General Information Session on the 2008 Corporate Governance Scorecard. SMIC

also participated in the first Investors and Publicly Listed Companies Corporate Governance Forum-Dialogue sponsored by the ICD.

SMIC also took part in a survey conducted by the Asian Institute of Management (AIM) on Corporate Governance trends in the 100 Largest Publicly Listed Companies. SMIC likewise participated in a lecture in AIM on Asian Family Corporations: Governance in the 21st Century.

Further, the SM Group sponsored and participated in the Organization for Economic Cooperation and Development 10th Asian Roundtable on Corporate Governance. The three-day session focused on the advancements that have been made in corporate governance, the current initiatives being pursued, and commitments of what will be undertaken in the years to come.

SMIC also participated in the Asian Investors' Forum held in September 2009 and sponsored by the ICD. This dialogue between investors and publicly-listed companies focused on moving beyond compliance with corporate governance rules and regulations, and delivering business results through a corporate governance framework.

CITATIONS

In 2009, SMIC received the Corporate Governance Asia Annual Recognition Awards, for the third year in a row. Corporate Governance Asia is the only journal currently specializing in corporate governance in the region. The annual recognition award recognizes Asian companies that demonstrate excellence in corporate governance and uphold the continuing commitment to the development of corporate governance through Asian values and spirit.

The Asset, one of Asia's leading finance monthly publications, also awarded SMIC with the Platinum Award, the highest recognition given for all-around excellence in financial performance, management, corporate governance, corporate social responsibility, and investor relations. Twenty Asian companies received the prestigious award, with only three companies reigning from the Philippines.

PLANS FOR 2010

In 2010, SMIC plans to keep pace with best practices in corporate governance through the further development of policies and projects and the conduct of orientation and training programs, as may be necessary for the business. SMIC also remains committed to support the initiatives of public and private institutions that seek to improve corporate governance standards. Currently, the

Company is revising its Manual on Corporate Governance to comply with the SEC Revised Code of Corporate Governance .

INVESTOR RELATIONS ACTIVITIES

The SM Investments Corporation - Investor Relations Department (SM-IR) conducted various activities during the year to address the diverse requirements of both domestic and international investors in fixed income and equity alike. These include the timely and factual disclosure of material company information to regulators and the public through official press releases, analyst and media briefings, and domestic and international roadshows.

In April 2009, SM-IR organized and staged the annual stockholders' meeting of SM and two of its listed subsidiaries, namely SM Development Corporation (SMDC) and SM Prime Holdings, Inc. (SM Prime). A press and analyst briefing followed each stockholders' meeting.

SM-IR also held analyst briefings to discuss interim financial results of SM. The first half 2009 results briefing was held in August, while that for the third quarter of the year was held in November. Analysts and members of the media were invited to the two events, during which senior SM executives were in attendance to explain the performance of the company's various core businesses and to answer questions from the participants

During the year, SM executive vice president and chief finance officer Jose T. Sio, SM executive director Gregory L. Domingo, and SM vice president and SM-IR head Corazon P. Guidote went on non-deal roadshows abroad to meet with institutional investors and to provide them with updates on SM's performance, plans, and programs. In February 2009, the SM roadshow team visited Singapore and Hong Kong, where they met with 21 investment and asset management firms. In October 2009, the team proceeded to the U.K. and the United States, and met with 27 institutions. The team also held 26 domestic one-on-one meetings and three telephone conferences with investment companies at SM's head office in Pasay City.

In June 2009, the team embarked on a domestic deal roadshow, which brought them to Manila, Davao, and Cebu to introduce SM's Php10 billion retail bond issue to investors. In September 2009, a telephone conference with foreign investors was also held for the US\$500 million bond issue.



Another Year of Caring and Sharing

A LOOK AT SM FOUNDATION'S
2009 ACCOMPLISHMENTS

In 2009, SM Foundation, Inc. sustained its progress and achievements in all of its advocacies. The Foundation was once again able to eagerly and wholeheartedly provide opportunities and extend much-needed assistance to the underprivileged and those in distress. The severe natural calamities that beset certain areas of the Philippines during the second half of the year heightened the importance of the Foundation's efforts to extend much-needed assistance and care. It therefore responded with increased vigor and dedication.

Beyond its regular programs, the Foundation immediately put into action its disaster relief program, Operation Tulong Express, to aid the victims of Typhoons Ondoy and Pepeng. Partnering with various member companies of the SM Group, non-government organizations, national government agencies, and local government units, the Foundation extended assistance to approximately 40,000 families. It also conducted ad hoc medical missions in affected areas with more than 15,000 flood and typhoon victims provided with free medicines, medical check-up, and treatment.

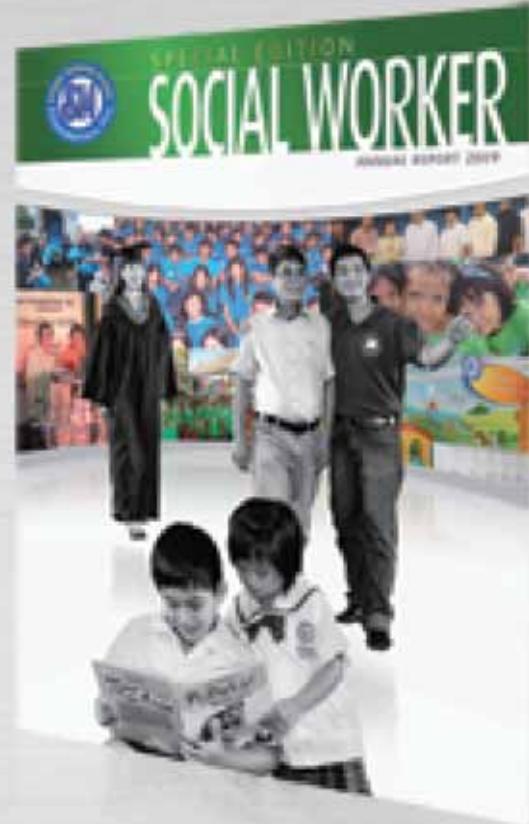
To further enhance SM Foundation's ability to gather more resources for its relief operations, donation booths were established in all SM malls nationwide. The booths proved to be a convenient and efficient system for mall goers to help out during those trying times. Several SM subsidiaries and affiliates also gave generous donations for the victims, both in cash and in kind.

Looking at its regular, non-calamity related activities and advocacies; the Foundation provided the same fervor and genuine commitment to help.

SM Foundation's education advocacy - college scholarship program increased its number of scholars to 800 in 2009 from 602 during the previous year. For school year 2009-2010, 120 Foundation scholars are set to complete their college education in major courses such as accountancy, education, information technology, and engineering. After 16 years, the program has transformed 1,075 financially challenged high school students into esteemed college graduates, and all are currently gainfully employed.

Likewise, as part of its education advocacy, the Foundation in 2009 constructed seven school buildings and donated these to various schools in Pampanga, Bacolod, Davao, and Baguio. In addition, two more school buildings were constructed in partnership with SM Prime Holdings, Inc., and another in partnership with Deutsche Bank.

For SM Foundation's health advocacy, the achievements are no less heartening. The Foundation successfully implemented the Gamot Para Sa Kapwa Health Missions and the Felicidad Sy Wellness Centers



program. In 2009, 84 health and medical missions were staged in many parts of the country, benefiting more than 70,000 indigent patients.

The Felicidad Sy Wellness Centers program, on the other hand, rehabilitated 10 government-owned and run health centers that were in various states of disrepair. The centers, which are located in Metro Manila, Bulacan, Pampanga, Naga, and Iloilo are now in prime condition, effectively providing improved health care, rehabilitation, and recuperation services for the sick, children, and the elderly.

As for the Foundation's Mall-based Outreach Program, it continued to execute its four quarterly projects. These initiatives are the Share Your Extras campaign, the Donate-A-Book drive, the Gamot Para Sa Kapwa program, and the Share A Toy - Make A Child Happy. The Share Your Extras was able to collect clothes, furniture, and other household items, which were donated to close to 10,000 families or approximately 50,000 individuals. Donate-A-Book, on the other hand, collected more than 170,000 books, which were distributed to 1,554 public schools and libraries. The Gamot Para Sa Kapwa program collected more than Php1.5 million worth of various medicines, and the Share A Toy - Make A Child Happy project benefitted 11,000 indigent children.

The Foundation's livelihood advocacy under the Kabalikat sa Kabuhayan trained a total of 1,259 farmers in 2009. This is a skills enhancement and training program offered for free to farmers who are interested in more efficient and effective ways of planting high-yield vegetables, which are in turn sold in SM stores.

Finally, the Foundation's religious and community program donated approximately Php6.7 million in 2009 to more than 40 Catholic parishes, church organizations, and educational institutions all over the country.

All these programs came to be with the sheer dedication and generosity of SM Foundation officers, co-workers, volunteers, and partner institutions.

So much done, yet so much more work awaits SM Foundation. Its commitment grows ever stronger, backed by the resources and the people not just of the Foundation, but the whole SM group of companies. Together, they are steadfast in growing the Foundation's advocacies to empower, to build, to care, to teach, and to lift the spirits of the downtrodden.



GROUP AWARDS AND CITATIONS

SM INVESTMENTS CORPORATION

Finance Asia

Best Investor Relations (4th)
Best Corporate Social Responsibility (3rd)
Best Committed to a Strong Dividend Policy (6th)

The Asset

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

International Association of Business Communicators (IABC) Philippines

Philippine Quill Award of Merit for SM's Serving Millions Campaign

Corporate Governance Asia

One of the recipients of the Corporate Governance Annual Recognition Awards

45th Anvil Awards

Award of Excellence for SM Investments Corporation 2008 Annual Report
Award of Merit for One SM: Vision Launch

BDO

Alpha Southeast Asia

Best Cash Management Bank in the Philippines (July/August issue)
Best Investment Bank in the Philippines-BDO Capital
Best Bond House in the Philippines (July/August issue)-BDO Capital
Best Private Wealth Management House-BDO Private Bank
Best Debt Bond Deal of the Year in Southeast Asia (Dec. 17)

Asiamoney

Best Country Deal for the Philippines (February issue)-BDO Capital
2009 Best Domestic Provider of Local Currency Products (Structured Currency Products) May issue
Best Debt House in the Philippines-BDO Capital
Best Domestic Provider of FX Services in the Philippines (September issue)

Corporate Governance Asia

One of the recipients of the Corporate Governance Annual Recognition Awards (February issue)

Euromoney

Best Local Private Bank (February issue)-BDO Private Bank

Finance Asia

Among the Best Managed Companies in the Philippines (June issue)
Best Investment Bank in the Philippines (July issue)
Best Equity House in the Philippines (July issue)
Best Private Bank in the Philippines-BDO Private Bank

The Asset

Rising Star Cash Management Bank in the Philippines
Best Wealth Management House in the Philippines-BDO Private Bank

Wall Street Journal Asia's 200 Most Admired Companies

Among the region's and the Philippines' Best Managed Companies (Rank 7 among the Filipino Companies)

Lafferty Group

Best Premium Credit Card in the Philippines for AMEX Platinum Credit Card

MasterCard's Hall of Fame Southeast Asia

Best Cardholder Promo Award-BDO Credit Cards



CHINA BANKING CORPORATION

ASEAN 100 Relative wealth added index
Among the 100 best performing companies throughout Southeast Asia

Bureau of Treasury

Among the 10 Best Performing Government Securities Eligible Dealers (GSED)

SM DEVELOPMENT CORPORATION

Management Association of the Philippines
Best Annual Report 2008-Finalist

Business Mirror-Stern Stewart and Company
Citation for ranking in Stern Stewart and Company's ASEAN 100 Relative Wealth-Added Index for creating wealth for its shareholders.

SM PRIME HOLDINGS, INC.

ASEAN 100 Relative wealth added index
Among the 100 best performing companies throughout Southeast Asia

Philippine Retailers Association

SM Megamall- Shopping Center of the Year

Don Emilio Abello Energy Efficiency Awards:Energy Conservation

SM City North Edsa
SM City Bicutan
SM City Clark
SM City Pampanga
SM City Iloilo
SM City San Lazaro
SM City Sucat
SM City Sta. Mesa

Sunny Awards 2009 (Solar-UIP)

Best New Location - SM Cinema Naga
Best Metro Manila Location non-35mm- SM Mall of Asia IMAX
Best Provincial Location - SM Cinema Cebu
Smartest Renovation Award - IMAX Theater SM North Edsa-Digital
Prompt Payment Award Manila - SM Cinema
Prompt Payment Award Provincial - SM Cinema
Prompt Booking Award - SM Cinema
Marathon Booking Award - SM Cinema Megamall
Marketing Material Maximization Award - SM Cinema
Exhibitor of the Year - SM Cinema

Quezon City's Best Premier Business Taxpayers

SM City North Edsa
SM City Fairview
SM City Sta. Mesa

Department of Health

Citation given to SM Supermalls for setting up breastfeeding stations in SM malls nationwide

45th Anvil Awards

Award of Excellence for SM Supermalls' Program for Persons with Disabilities (PWDs)
Award of Merit for SM Supermalls' Breastfeeding Committee Program

HIGHLANDS PRIME, INC.

Management Association of the Philippines
Best Annual Report 2008-Finalist

SM RETAIL

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

Federation of Asia Pacific Retailers Association
Country Awards as the Philippines' Top Retailer

* Formally accepted as the Philippine representative to the prestigious International Association of Department Stores on October 2009 in Paris, France.

45th Anvil Awards

Award of Excellence for the SM Generations Book



SM FACES

BOARD OF DIRECTORS



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

HENRY SY, SR.
Chairman



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

TERESITA SY-COSON
Vice Chairperson



HENRY T. SY, JR. is the Vice Chairman of SMIC. He is also the Vice Chairman of SM Development Corporation and Highlands Prime, Inc., and Director of SM Prime Holdings Inc. and Banco de Oro Unibank, Inc. He is responsible for the real estate acquisitions and development activities of the SM Group under SM Land, Inc., which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from De La Salle University.

HENRY T. SY, JR.
Vice Chairman



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

HARLEY T. SY
Director



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

JOSE T. SIO
Director



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

GREGORY L. DOMINGO Executive Director



VICENTE S. PEREZ, JR. * is an Independent Director of SMIC. His career has ranged from international banker, debt trader, investment bank partner, private equity investor to cabinet secretary. He is president of Alternergy Partners, a renewable power company focused in emerging countries, chairman of Merritt Partners, an energy advisory firm, and chairman of Ten Knots Philippines, the holding company of El Nido Resorts. He was the youngest and longest serving Secretary of the Department of Energy. He served as Undersecretary for Industry and Investments at the Department of Trade and Industry and Managing Head of the Board of Investments. Currently, Mr. Perez is Vice Chairman of the National Renewable Energy Board (NREB). He is Chairman of WWF Philippines and was recently elected to the Board of Trustees of WWF-International. Mr. Perez is a member of the advisory board of the Center for Business and the Environment at Yale University. He obtained his master's degree in Business Administration from the Wharton School of the University of Pennsylvania, and his bachelor's degree in Business Economics from the University of the Philippines.

VICENTE S. PEREZ, JR. Independent Director



AH DOO LIM *, a Singaporean, is currently the Director and Chairman of the Audit Committee of Sembcorp Marine Ltd., a world leading rig builder in the offshore marine and engineering sector and of GP Industries Ltd, Singapore. He is also a Director of EDB Investments Pte Ltd., investment arm of the Singapore Economic Development Board. He obtained a degree in Engineering from Queen Mary College, University of London in 1971 and a Master's Degree in Business Administration from Cranfield School of Management, England in 1976.

AH DOO LIM Independent Director

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

BOARD COMMITTEES

Audit and Corporate Governance Committee

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

Nomination Committee

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

Advisers to the Board of Directors

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

Compliance Officers

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

Corporate Information Officers

Jose T. Sio	Corporate Information Officer
Ma. Ruby Li. Cano	Alternate Corporate Information Officer
Atty. Emmanuel C. Paras	Alternate Corporate Information Officer

Compensation or Remuneration Committee

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



FACES

EXECUTIVE OFFICERS



HARLEY T. SY
President



JOSE T. SIO
Executive Vice President/
Chief Finance Officer



ELIZABETH ANNE C. UYCHACO
Senior Vice President
Corporate Services



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



EMMANUEL C. PARAS
Corporate Secretary



MARIANNE M. GUERRERO
Senior Vice President
Legal Department



EPITACIO B. BORCELIS, JR.
Vice President
Legal Department



MARIA CRISTINA R. OPINION
Senior Vice President
IT



MA. RUBY LL. CANO
Senior Vice President/
Financial Controller



GRACE F. ROQUE
Vice President
Finance



CECILIA R. PATRICIO
Vice President
Corporate Tax



MONINA S. LASALA
Vice President
Human Resources



MILA C. DUNGOG
Vice President
IT Audit



CORAZON P. GUIDOTE
Vice President
Investor Relations



JEWEL F. AUSTRIA
Vice President
Corporate Governance



HERBERT T. SY
President
SM Supermarkets



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



ROBERT KWEE
Executive Vice President
SM Hypermarkets



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

SM INVESTMENTS CORPORATE EXECUTIVES

RETAIL OPERATIONS

MAIL OPERATIONS



HANS T. SY
President
SM Prime Holdings, Inc.



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



ANNIE S. GARCIA
President
Shopping Center Management
Corporation



TERESITA SY-COSON
Chairperson
BDO Unibank, Inc.



NESTOR V. TAN
President
BDO Unibank, Inc.



JESUS A. JACINTO
Vice Chairman
BDO Unibank, Inc.

BANKING



GILBERT U. DEE
Chairman
China Banking Corporation



PETER S. DEE
President and CEO
China Banking Corporation



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



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



ROGELIO R. CABUÑAG
President
SM Development Corporation



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



ELIZABETH T. SY
President
SM Hotels and Conventions Corp.



CHRISTINA A. BAUTISTA
Vice President, Business Development
SM Hotels and Conventions Corp.



JOSE B. AMANTOY, JR.
First Vice President
SM Land, Inc.



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



CARLOS V. CHIKIAMCO
Vice President
SM Land, Inc.



CHRISTOPHE CHATRON-MICHAUD
Senior Vice President, Operations
SM Hotels and Conventions Corp.



NESTOR OMAR T. ARCE-IGNACIO
Senior Vice President
Design and Construction
SM Hotels and Conventions Corp.



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



JOSE P. SY, JR.
Vice President, Property
Management
SM Land, Inc.



JOSELITO M. DEMILLO
Vice President, Treasury
SM Land, Inc.



GERALDINE MARIE G. TEVES
Vice President, Sales and Marketing
SM Hotels and Conventions Corp.

PROPERTY

HOTELS AND CONVENTIONS

INVESTOR

COMPANY HEADQUARTERS

SM Investments Corporation
One E-com Center, 10th Floor, Harbor Drive
Mall of Asia Complex, CBP-1A, Pasay City
1300 Philippines

LEGAL COUNSEL

Andres Marcelo Padernal Guerrero
& Paras Law Offices
Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan
Law Offices
Villaraza & Angango Law Offices
Tan Acut and Lopez
Yorac Arroyo Chua Caedo
& Coronel Law Firm

EXTERNAL AUDITOR

SyCip, Gorres, Velayo & Co. CPAs

BANKERS

Allied Banking Corporation
Australian New Zealand Bank (ANZ)
Banco De Oro Unibank, Inc.
Bank of Commerce
Bank of the Philippine Islands
Bank of Tokyo - Mitsubishi UFJ
Barclays Bank
China Banking Corporation
Citibank, N.A.
Credit Suisse
Deutsche Bank, A.G.
Hongkong and Shanghai Bank
ING Bank, N.V.
JP Morgan Chase Bank, N.A.
Land Bank of the Philippines
Metropolitan Bank & Trust Company
Philippine National Bank
Rizal Commercial Banking Corp.
Security Bank
Standard Chartered Bank
Union Bank

STOCKHOLDER INQUIRIES

SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Stock Transfer Service, Inc.
Unit 34-D Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.
Tel. (632) 403.2410; 403.2412; 403.3433 Fax (632) 403.2414

SEC Form 17-A

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

Institutional Investor Inquiries

SM Investments Corporation welcomes inquiries from analysts, the financial community, and institutional investors.

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