COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300

(Business Address: No. Street City/Town/Province)

Mr. Jeffrey C. Lim	831-1000
(Contact Person)	(Company Telephone Number)

12 31	20-IS	04 23
Month *Day* (Fiscal Year)	(Form Type)	*Month* *Day* (Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   [✓] Preliminary Information Statement

   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

3. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **AS094-000088**

5. BIR Tax Identification Code **003-058-789**

6. **SM Corporate Offices, Bldg. A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City** **1300**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code **(632) 831-1000**

8. **April 23, 2007, 3:00 P.M., Rigodon Ballroom, Peninsula Manila Hotel, Makati Avenue corner Ayala Avenue, Makati City**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders:
   March 26, 2007

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	**9,916,437,157**

11. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes __✓__ No _______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
    Philippine Stock Exchange **Common shares**

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

ITEM 1. Date, Time And Place Of Meeting Of Security Holders

The annual stockholders' meeting of SM Prime Holdings, Inc. is scheduled to be held on April 23, 2007 at 3:00 p.m. at the Rigodon Ballroom, Peninsula Manila Hotel, Makati Avenue corner Ayala Avenue, Makati City. The complete mailing address of the principal office of the registrant is SM Corporate Offices, Building A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on March 26, 2007.

Statement that proxies are not solicited

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 26, 2007. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 9,916,437,157 shares (net of 18,857,000 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

A stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

(a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
(b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
(c) In case of merger or consolidation.

A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

(a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;
(b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and

(c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation

There are no matters to be discussed in the Annual Stockholders' Meeting which will give rise to the exercise of the dissenter's right of appraisal.

ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

N.A.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities And Principal Holders Thereof

(1) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2007

The following are the owners of SMPHI's common stock in excess of 5% of total outstanding shares:

Title of Securities	Name and Address of Record/Beneficial Owner of Common Stock and Relationship with Issuer	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**ShoeMart, Inc., *(Related Company)***[1] SM Corporate Offices, Bldg D, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	Filipino	4,742,048,245 (b)	47.73
-do-	**SM Investments Corp. *(Parent Company)***[2] SM Corporate Offices, Bldg A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	Filipino	2,117,904,564 (b)	21.32
-do-	**PCD Nominee Corp.**[3] MSE Bldg., Ayala Ave., Makati City	Filipino	2,556,761,876 (r)	25.78

[1.] *The following are the individuals holding the direct beneficial ownership of Shoemart, Inc.: Henry Sy, Sr., Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy - 5% each.*

[2.] *The following are the individuals holding the direct beneficial ownership of SM Investments Corp.: Henry Sy, Sr.-17.8%, Felicidad T. Sy-10.62%, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy-10.23% each, Harley T. Sy-10.3%,, Teresita T. Sy-10.16% and Elizabeth Sy - .07%.*

[3.] *The Hongkong and Shanghai Banking Corp. Ltd.(HSBC) and Standard Chartered Bank (SCB) - Clients' Acct. holds 2,046,703,615 shares – 20.64% and 510,058,261 shares –5.14%, respectively. HSBC and SBC normally designate the Chairman of SM Prime Holdings, Inc. to exercise the voting power for these shares.*

(2) Security Ownership of Management as of February 28, 2007

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Direct Beneficial Ownership	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	3,510,000 (b)	Voting	0.04
-do-	Jose L. Cuisia, Jr.	Filipino	197,840 (b)	Voting	0.00
-do-	Senen T. Mendiola -	Filipino	510,000 (b)	Voting	0.01
-do-	Teresita T. Sy	Filipino	864,400 (b)	Voting	0.01
-do-	Henry T. Sy, Jr.	Filipino	10,000 (b)	Voting	0.00
-do-	Hans T. Sy	Filipino	10,000 (b)	Voting	0.00
-do-	Herbert T. Sy	Filipino	309,960 (b)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,299,000 (b)	Voting	0.01
-do-	Danilo A. Alcoseba	Filipino	10,000 (b)	Voting	0.00
	All directors and executive officers as a group		6,721,200	Voting	0.07

There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of balance sheet date.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

ITEM 5. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman	Henry Sy, Sr.	Filipino	82
Vice Chairman	Jose L. Cuisia, Jr.	Filipino	63
Director and President	Hans T. Sy	Filipino	51
Director	Senen T. Mendiola	Filipino	80
Director and Executive Vice President	Teresita T. Sy	Filipino	56
Director and Executive Vice President	Henry T. Sy, Jr.	Filipino	53
Director	Herbert T. Sy	Filipino	50
Executive Vice President	Jeffrey C. Lim	Filipino	45
Senior Vice President – Treasurer	Danilo A. Alcoseba	Filipino	56
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	54
Senior Vice President – Finance	Jose T. Sio	Filipino	67
Senior Vice President – Legal and Corporate Affairs and Assistant Corporate Secretary	Corazon I. Morando	Filipino	65
Corporate Secretary	Emmanuel C. Paras	Filipino	57

Board of Directors

Henry Sy, Sr. has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman of ShoeMart Inc., SM Investments Corp., Highlands Prime, Inc. and SM Development Corp. He opened the first ShoeMart store in 1958 and has been at the fore in SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses.

Jose L. Cuisia, Jr.* has served as Vice Chairman of the Board of Directors of SM Prime since 1994. He is the President and Chief Executive Officer of the Philippine American Life Insurance Company, and he is concurrently Chairman of the Board of various companies within the Philamlife Group. He is also a Director of several PHINMA-managed companies. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990.

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

Hans T. Sy, President, has served as Director since 1994 and was Senior Vice President for Operations. As President, he oversees construction and operations of the SM Supermalls. He holds many key positions in the SM Group. He is First Executive Vice President of SM Investments Corporation, Executive Vice President of Shoemart, Inc. and Vice Chairman and Director of China Banking Corporation, Director of Highlands Prime, Inc., Belle Corporation and Macroasia Corporation. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

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

Teresita T. Sy has served as Director and Executive Vice President since 1994. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of BDO-Equitable PCI Bank, Vice Chairman of SM Investments Corporation and President of ShoeMart Inc. She also holds board positions in several companies within the SM Group.

Henry Sy, Jr. has served as Director since 1994 and is an Executive Vice President. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is also Vice Chairman of SM Investments Corporation, SM Development Corporation and Highlands Prime. He graduated with a management degree from De La Salle University.

Herbert T. Sy has served as Director since 1994. He holds a Bachelor's degree in management from De La Salle University. At present, he is First Executive Vice President of SM Investments Corporation, Senior Vice President of Supervalue, Inc. and Director of Shoemart, Inc. and China Banking Corporation. He is actively involved in the SM Group's supermarket and hypermarket businesses.

Members of the Board of Directors are given a standard per diem of P10,000 per meeting, except for the Chairman and Vice Chairman which are given P20,000 per meeting.

Senior Management

Jeffrey C. Lim is the Executive Vice President. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company, he worked for a multi-national company and SyCip, Gorres, Velayo & Co.

Elizabeth T. Sy, Senior Vice President for Marketing, is also involved in investor relations of the Company. She is also Treasurer of SM Investments Corporation and is also actively involved in the Group's tourism and leisure business endeavors, overseeing operations as well as other marketing and real estate activities.

Jose T. Sio, Senior Vice President for Finance, also holds key financial positions in the SM Group including Second Executive Vice President and Chief Financial Officer of SM Investments Corporation. He is also a Director of Banco de Oro Private Bank and Generali Pilipinas Holding Company as well as other companies within the SM Group. An MBA graduate of the New York University, he has worked in financial companies and was a senior partner of SyCip, Gorres, Velayo & Co.

Corazon I. Morando is the Senior Vice President for Legal and Corporate Affairs and Assistant Corporate Secretary of the Company and SM Investments Corporation. She is also Corporate Secretary of Highlands Prime, Inc and China Banking Corporation. She holds a Bachelor of Law degree from the University of the Philippines and formerly the Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

Danilo A. Alcoseba, Senior Vice-President for Treasury, holds a Bachelor's degree in Accountancy from the University of San Carlos in Cebu and has an MBA from the University of the Philippines in Diliman, Quezon City. Prior to joining the Company, he was a Consultant in SM Investments Corporation from May 2005 up to February 2007 and was also the Senior Vice-President – Head of Treasury of Chinabank from January 1989 to August 2004. At present, he is also an adviser to the Board of Directors of Chinabank.

Emmanuel C. Paras, is the Corporate Secretary of the Company and other companies in the SM Group. He is a Bachelor of Law graduate of the Ateneo de Manila and a partner of the SyCip Salazar Hernandez and Gatmaitan Law Offices.

All the Directors and executive officers of the Company, except for Mr. Danilo A. Alcoseba, have held their positions since the Company started operations in 1994. Mr. Danilo A. Alcoseba was appointed as Senior Vice-President for Treasury effective March 1, 2007.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The same set of directors will be nominated in the coming regular annual stockholders' meeting.

Aside from the Directors and Senior Officers enumerated above, there are no other employees expected to hold significant executive/officer position in the Company.

The following are directorships held by Directors and Executive Officers in other reporting companies:
Henry Sy, Sr.

Name of Corporation	***Position***

Name of Corporation	*Position*
SM Investments Corporation.	Chairman
Highlands Prime, Inc..	Chairman
SM Development Corporation	Chairman
SM-Keppel Land, Inc..	Chairman
China Banking Corporation..	Honorary Chairman
BDO-Equitable PCI Bank..	Chairman Emeritus

Jose L. Cuisia, Jr.

Name of Corporation	*Position*
The Philippine American Life & General Co. (Philamlife).	President/ CEO/ Director
Philam Plans, Inc...	Chairman
Philam Care Health Systems, Inc.	Chairman
Philam Asset Management, Inc......................................	Chairman
Bacnotan Consolidated Industries, Inc...........................	Director
Investment Capital Corporation of the Philippines...	Director
Union Galvasteel Corporation..	Director
Holcim Philippines, Inc. (formerly Union Cement Corp.)...	Director
Bauang Private Power Corporation................................	Director
Philam Properties Corporation..	Chairman

Henry T. Sy, Jr.

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

Name of Corporation	*Position*
Belle Corporation...	Director/ Vice Chairman
SM Investments Corporation..	Director/Vice Chairman

Teresita T. Sy

Name of Corporation	*Position*
BDO-Equitable PCI Bank	Chairman
SM Investments Corp.	Director/Vice Chairman

Hans T. Sy

Name of Corporation	*Position*
Belle Corporation	Director
SM Development Corporation	Director
China Banking Corporation	Director/ Vice Chairman
Highlands Prime, Inc.	Director
SM Investments Corporation.	First Executive Vice President

Herbert T. Sy

Name of Corporation	*Position*
SM Investments Corporation	First Executive Vice President
China Banking Corporation	Director

Jose T. Sio

SM Investments Corp.	Director/Second Executive Vice President

Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director or any member of senior management of the Company:

(a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
(b) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
(c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
(d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated
a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
(e) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

The Nomination Committee created by the Board under its Corporate Governance Manual nominated the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Henry Sy, Sr.
Jose L. Cuisia, Jr.
Teresita T. Sy
Henry T. Sy, Jr.
Hans T. Sy
Herbert T. Sy
Senen T. Mendiola

Mr. Jeffrey C. Lim nominated to the Board for inclusion in the Final List of Candidates for Independent Director the following stockholder:

Jose L. Cuisia, Jr.

The following will be nominated as officers at the Organizational meeting of the Board of Directors:

Henry Sy, Sr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman
Hans T. Sy	-	President
Jeffrey C. Lim	-	Executive Vice President
Corazon I. Morando	-	Senior Vice President-Legal and Corporate Affairs and Assistant Corporate Secretary
Elizabeth T. Sy	-	Senior Vice President-Marketing
Danilo A. Alcoseba	-	Senior Vice President-Treasurer
Christopher S. Bautista	-	Internal Audit Head
Emmanuel C. Paras	-	Corporate Secretary

Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita Sy, Elizabeth Sy, Henry Sy, Jr., Hans Sy, Herbert Sy and Harley Sy. All other directors and officers are not related either by consanguinity or affinity.

ITEM 6. Compensation of Directors and Executive Officers

Aside from regular standard per diems, all directors do not receive regular annual salaries from the Company. The following are the top five executive officers:

Name and Position		Salary	Bonus
1. Hans T. Sy President			
2. Jeffrey C. Lim Executive Vice-President			
3. Jose T. Sio SVP – Finance			
4. Corazon I. Morando SVP - Legal and Corporate Affairs			
Summary Compensation Table Aggregate compensation paid to all officers and directors as a group unnamed	Year 2007	₱14,000,000	₱25,000,000
(estimate)			
	2006	12,650,000	22,800,000
	2005	9,600,000	18,200,000
	2004	7,350,000	11,450,000

Certain officers of the Company are seconded from SM Investments Corporation.

ITEM 7. Certain Relationships and Related Transactions

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved or had or will have a direct or indirect material interest.

Please refer to Note 19 of the attached 2006 consolidated financial statements.

ITEM 8. Independent Public Accountants

Sycip, Gorres, Velayo & Company is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled annual stockholders' meeting. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to Memorandum Circular No. 8 Series of 2003 (Rotation of External Auditors), the Company engaged Ms. Melinda G. Manto of SGV & Co starting year 2006. Previously, the Company engaged Mr. Joel M. Sebastian of SGV & Co for the examination of the Company's financial statements from 2001 up to 2005.

The Company and its subsidiaries paid SGV & Co P1 million for external audit services for each of the years 2006 and 2005. There were no other professional services rendered by SGV & Co during the period. Tax consultancy services are secured from other entities other than the external auditor.

The Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The BOD and the stockholders approve the Audit Committee's recommendation.

ITEM 9. Employee Compensation Plans
There are no existing or planned stock options.

C. FINANCIAL AND OTHER INFORMATION

ITEM 10. Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2006, 2005 and 2004 are incorporated herein by reference.

<u>Brief Description Of The General Nature And Scope Of The Registrant's Business And Its Subsidiaries</u>

SM Prime Holdings, Inc. ("SMPHI" or the "Company") was incorporated in the Philippines on January 6, 1994 to develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The Company currently has 28 SM Supermalls.

The subsidiaries of the Company follow:

Company	Date and Place of Incorporation	Percentage of Ownership	Malls Owned
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	54.37	SM Megamall
Premier Central, Inc.	March 16, 1998, Philippines	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	March 25, 1998, Philippines	100.00	SM City Dasmarinas
Premier Southern Corp. (PSC)	April 7, 1998, Philippines	100.00	SM City Batangas and SM City Lipa

San Lazaro Holdings Corporation	March 7, 2001, Philippines	100.00	-na-

All the malls are under SMPHI except for the 5 malls which are under the subsidiaries mentioned in the above table.

Management's Discussion and Analysis or Plan of Operation

2006
Financial and Operational Highlights
(in Million Pesos, except for financial ratios)

	Twelve months ended Dec 31		
	2006	**2005**	**% Change**
Profit & Loss Data			
Operating Revenues	13,222	10,905	21%
Operating Expenses	5,565	4,850	15%
Operating Income	7,657	6,055	26%
Net Income	5,449	4,973	10%
EBITDA	9,444	7,513	26%

	Dec 31 2006	**Dec 31 2005**	**% Change**
Balance Sheet Data			
Total Assets	70,792	59,429	19%
Total Debt	25,873	19,735	31%
Net Debt	12,727	9,392	36%
Total Stockholders' Equity	35,672	32,550	10%
Financial Ratios			
Fixed Assets to Total Assets	0.73	0.76	
Current Ratio	1.03	1.12	
Debt to Equity	0.42:0.58	0.38:0.62	
Net Debt to Equity	0.26:0.74	0.22:0.78	
Return on Equity	0.15	0.15	
Debt to EBITDA	2.74	2.63	
EBITDA to Interest Expense	12.37	26.96	
Operating Income to Revenues	0.58	0.56	
EBITDA Margin	0.71	0.69	
Net Income to Revenues	0.41	0.46	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts 21% increase in gross revenues for the year 2006 to P13.2 billion from P10.9 billion in 2005.

Rental revenues remain the largest portion, with a significant growth of 22% amounting to P11.0 billion from last year's P9.0 billion. This is largely due to rentals from new SM Supermalls opened in the second half of 2005 and the year 2006, namely, SM City San Lazaro, SM Supercenter Valenzuela, SM Supercenter Molino, SM City Sta. Rosa, SM City Clark, SM Mall of Asia, SM Supercenter Pasig, The Block at SM North Edsa and SM City Lipa. The new malls opened with a total gross floor area of 1.0 million square meters. Currently, these new malls have an average occupancy level of 95%. Same store rental growth is at 7%.

Cinema ticket sales showed a strong performance of 22% increase due to more blockbuster films in 2006 compared to the same period in 2005 and the huge success of the 2006 Metro Manila Film Festival. For the year 2006, major blockbuster films shown were "Superman Returns," "Sukob," "X – Men 3," "Mission Impossible 3," and "Pirates of the Carribean 2." In 2005, major films shown were "Harry Potter 4," "King Kong," "Dubai," "D Anothers," and "Let the Love Begin."

Operating expenses increased by 15% from P4.85 billion to P5.57 billion mainly due to the new malls. Income from operations enjoyed a favorable growth of 26% from P6.05 billion in 2005 to P7.66 billion in 2006.

Net income in 2006 increased 10% at P5.45 billion from last year's P4.97 billion. The decrease in interest and dividend income is mainly due to the sale of investments held for trading, while the increase in interest expense is the result of additional borrowings. Corporate income tax rates were also increased from 32% to 35% effective November 1, 2005 as required by R.A. No. 9337.

On the balance sheet side, cash and cash equivalents, including investments held for trading increased 52% due to the new malls and proceeds from new loans net of capital expenditures and principal and interest payments. Receivables increased 32% due to increase in rent income from the new malls and accruals for interest and dividend income.

The increase in prepaid expenses and other current assets of 79% is mainly due to input taxes from construction activities. Other noncurrent assets increased 48% due to deposits paid for leased properties and advances to contractors.

The increase in investment properties of 14% is mainly due to construction activities related to completed projects like SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM North Edsa, SM Supercenter Pasig, SM City Lipa and SM City Bacolod. Ongoing projects are SM City Taytay, SM City Cebu Annex, and SM Supercenter Muntinlupa.

Loans payable increased 151% due to additional short-term, peso-denominated and dollar-denominated loans amounting to P1.69 billion and $68.05 million, respectively, availed during 2006, net of principal payments. Likewise, long-term debt also increased due to the P3 billion floating rate note facility availed from Metrobank in June 2006 and the P1.2 billion fixed rate note facility from Philamlife in August 2006. The borrowings were availed to finance capital expenditure requirements.

The Company's performance indicators are measured in terms of the following: (1) Ratio of investment properties to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) earnings before interest, income taxes, depreciation and amortization (EBITDA); (7) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (8) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (9) operating income to revenues which basically measures the gross profit ratio; (10) EBITDA margin which measures the ratio of EBITDA to gross revenues and, (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total investment properties accounting for 73% and 76% of total assets as of December 31, 2006 and 2005, respectively. The Company's current ratio is steady at 1.03:1 as of December 31, 2006 and 1.12:1 as of December 31, 2005.

Interest-bearing debt to stockholders' equity slightly increased to 0.42:0.58 from 0.38:0.62 as of December 31, 2006 and 2005, respectively. Net interest-bearing debt to stockholders' equity remains strong at 0.26:0.74 and 0.22:0.78 as of December 31, 2006 and 2005, respectively.

In terms of profitability, ROE remains steady at 15% for both years 2006 and 2005.

EBITDA increased 26% to P9.44 billion for the year 2006 from P7.5 billion in 2005. Debt to EBITDA slightly increased at 2.74:1 from 2.63:1 as of December 31, 2006 and 2005, respectively. EBITDA to interest expense however decreased from 26.96:1 to 12.37:1 from the year 2005 to 2006 due to increase in interest expense.

Operating income to revenues increased to 58% in 2006 from 56% in 2005. EBITDA margin remains strong at 71% and 69% for the years ended 2006 and 2005, respectively. On the other hand, net income to revenues decreased at 41% compared to 46% for the year ended 2006 and 2005, respectively, mainly due to increase in interest expense and provision for income tax.

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

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

SM Prime currently has 28 Supermalls strategically located nationwide with a total gross floor area of 3.6 million square meters.

Last May 21, 2006, the Company opened the Mall of Asia to a huge crowd of close to a million. Located on a 60 hectare property overlooking Manila Bay, the 386,000 square meter complex consists of four buildings linked by elevated walkways - Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. Other malls opened in 2006 were SM City Sta. Rosa, SM City Clark, SM Supercenter Pasig and SM City Lipa.

The Company opened its 28th mall, SM City Bacolod in March 2, 2007. Other malls scheduled to open in 2007 are SM City Taytay and SM Supercenter Muntinlupa. Ongoing expansion of existing malls, SM City Cebu – Annex, The Science Discovery Center in the Mall of Asia and the Sunset Strip at the Espalanade in SM BayCity, SM City Pampanga and SM City Fairview are also underway. Total gross floor area will increase to 3.9 million square meters by end 2007 from 3.6 million square meters as of December 31, 2006.

2005

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

	Year Ended December 31		
	2005	**2004**	**Variance**
Profit & Loss Data			
Operating Revenues	10,905	10,209	7%
Operating Expenses	4,850	4,469	9%
Operating Income	6,055	5,740	5%
Net Income	4,973	4,621	8%
EBITDA	7,513	7,074	6%

	December 31		
	2005	**2004**	**Variance**
Balance Sheet Data			
Total Assets	59,429	53,932	10%
Total Investment Properties	45,380	35,315	28%
Total Debt	19,943	18,440	8%
Total Stockholders' Equity	32,550	29,939	9%
Financial Ratios			
Fixed Assets to Total Assets	76%	65%	
Current Ratio	1.12	1.48	
Debt to Equity	38 : 62	38 : 62	
Return on Equity	15%	15%	
EBITDA to Debt	0.38	0.38	
Operating Income to Revenues	56%	56%	
Net Income to Revenues	46%	45%	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts P4.97 billion net income for the year ended December 31, 2005---an 8% increase from last year's P4.62 billion. Gross revenues likewise increased 7% to P10.90 billion in 2005 from P10.21 billion in 2004. Rental revenues remain the largest portion, with a 10% growth to P9.03 billion from last year's P8.18 billion. This is largely due to rentals from new SM Supermalls opened in 2004, namely SM City Dasmariñas and SM

City Batangas and the opening of SM City San Lazaro, SM Supercenter Molino and SM Supercenter Valenzuela in 2005. Same store rental growth is at 5%.

SM City San Lazaro, SM Supercenter Molino and SM Supercenter Valenzuela opened with a total gross floor area of 296,102 square meters. Currently, these malls have an average occupancy level of 97%.

Cinema ticket sales declined 12% due to more blockbuster films in 2004 compared to 2005. Major films shown in 2005 were “Harry Potter 4,” “King Kong,” “Dubai,” “D Anothers,” and “Let the Love Begin.” In 2004, major blockbuster films shown for the same period were “Spiderman 2,” “Harry Potter 3,” “Day After Tomorrow,” “Lord of the Rings 3,” and “Milan.”

Operating expenses also grew 9% due to the opening of new malls. Depreciation expense for these new malls also contributed to this increase. Income from operations, however, remains favorable at P6.01 billion from last year’s P5.74 billion.

On the balance sheet side, cash and cash equivalents including investments held for trading, decreased 49% principally due to capital expenditures and payments of dividends, interest and principal amortization. Receivables increased 11% due to the expected surge in rent income towards the last quarter of the year.

The increase in prepaid expenses and other current assets of 90% is mainly due to accumulated input VAT.

The increase in investment properties and shopping malls under construction of 28% is mainly due to construction activities related to Mall of Asia, SM Valenzuela, SM Molino and SM Sta. Rosa and other malls scheduled to open in 2006. The increase in other noncurrent assets of 46% is due to deposits paid for properties leased in 2005.

Long-term debt and loans payable had a net increase of 8% due to additional long-term debt of P5 billion completed in July 2005 net of principal repayments. The Notes, composed of P3.5 billion and P1.5 billion will mature in five years and seven years, respectively.

Accounts payable and accrued expenses increased 27% due to accruals for purchased land and construction activities.

Tenants’ deposits and others increased 23% due to the new malls which were opened in 2005. The increase in minority interest of 6% is due to share in net income of FARDC offset by dividends declared.

The Company’s performance indicators are measured in terms of the following: (1) Ratio of fixed assets to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders’ equity; (4) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA); (6) EBITDA to debt which measures the ratio of EBITDA to total interest-bearing liabilities; (7) operating income to revenues which basically measures the gross profit ratio; and, (8) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total fixed assets accounting for 76% of total assets as of December 31, 2005 and 65% as of December 31, 2004. The Company’s current ratio declined 1.12:1 as of December 31, 2005 as compared to 1.48:1 as of December 31, 2004.

Interest-bearing debt to stockholders' equity is steady at 0.38:0.62 as of December 31, 2005 and 2004. Although a new P5 billion loan facility was acquired in 2005, portion of short-term loans and principal amortizations were paid during the year.

In terms of profitability, ROE remains steady at 15% for both years 2005 and 2004.

EBITDA increased 6% to P7.51 billion for the year ended December 31, 2005 from P7.07 billion in 2004. EBITDA to debt is steady at 0.38 for both years 2005 and 2004.

Operating income to revenues is steady at 56%. On the other hand, net income to revenues is almost steady at 46% and 45%, respectively, for the years ended 2005 and 2004.

SM Prime currently has 23 Supermalls strategically located nationwide with a total gross floor area of 2.9 million square meters.

In May 2006, the Company is set to open the Mall of Asia. Located on a 60 hectare property overlooking Manila Bay, the 386,000 square meter complex consists of four buildings linked by elevated walkways - Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building.

The Main Mall will include shopping and dining establishments, the Food Court, and the country's first Olympic size ice skating rink. The North Parking Building will house the SM Department Store and half of the 5,000 parking spaces, while the South Parking Building will include the SM Hypermarket and more dining areas. One of the Mall's main attractions is the Entertainment Center Building, which will offer a spectacular view of the Bay from its row of trendy restaurants, but which will also house bowling and billiard facilities, and ten theaters including a Director's Club and the country's first IMAX theater.

The Company opened its 23rd mall, SM City Santa Rosa on February 17, 2006. Other malls scheduled to open in 2006 are SM City Clark, SM City Lipa, SM Supercenter Frontera Verde, and SM North Edsa Annex 3. Total gross floor area will increase to 3.5 million square meters by end 2006 from 2.8 million square meters as of December 31, 2005.

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

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

2004

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

	Year Ended December 31		
	2004	**2003**	**% Change**
Profit and Loss Data			
Revenues	10,209	8,802	16%
Operating expenses	4,469	3,764	18%
Operating Income	5,740	5,038	14%
Net Income	4,621	4,181	11%
EBITDA	7,075	6,108	16%

	December 31		
	2004	**2003**	**% Change**
Balance Sheet Data			
Total Assets	53,932	43,450	24%
Total Debt	18,440	6,523	183%
Total Stockholders' Equity	29,939	31,764	-6%
Financial Ratios			
Fixed Assets to Total Assets	0.65	0.71	
Current Ratio	1.48	1.82	
Debt to Equity	38 : 62	17 : 83	

	December 31	
	2004	**2003**
Return on Equity	0.15	0.13
Debt to EBITDA	2.6	1.07
EBITDA to Interest Expense	32.99	37.61
Operating Income to Revenues	0.56	0.57
Net Income to Revenues	0.45	0.47

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts P4.62 billion net income for the year ended December 31, 2004—an 11% increase from last year's same period of P4.18 billion, as reported prior to change in accounting policy as required by International Accounting Standards. Gross revenues likewise increased 16% to P10.21 billion in the year 2004 from P8.80 billion in the year 2003. Rental revenues remain the largest portion, with a 17% growth to P8.18 billion from last year's P6.98 billion. This is largely due to rentals from three additional SM Supermalls opened in the last quarter of 2003, namely SM City Lucena, SM City Baguio, and SM City Marilao, and the opening of SM City Dasmariñas and SM City Batangas in 2004.

SM City Dasmariñas and SM City Batangas opened with a gross floor area of 79,792 and 80,350 square meters, respectively. Currently, both malls have an average occupancy level of 85%.

Cinema and Amusement revenues likewise enjoyed favorable growth, with cinema revenues up by 11%, largely due to blockbuster films such as “Harry Potter 3,” “The Day After Tomorrow,” “Lord of the Rings 3,” “Troy,” and “Spiderman 2.”

Operating expenses also grew 18% due to the opening of five new malls (SM City Marilao, Baguio, Lucena, Dasmariñas and Batangas). Depreciation expenses for these five new malls also contributed to this increase. Income from operations, however, remains favorable at P5.78 billion, a 15% increase from last year’s P5.04 billion. Other income increased by 36% despite additional short and long-term loans due to capitalization of related interest expense to ongoing mall projects.

The financial condition of SM Prime Holdings, Inc. remains strong with a cash balance of P10.11 billion as of December 31, 2004. On the other hand, receivables increased 27% mainly due to the opening of new malls and accrued interest and dividends receivable from cash placements and investment securities, respectively.

The increase in prepaid expenses and other current assets of 50% is mainly due to accumulated input VAT of subsidiaries. These input VAT will be applied in 2005.

The increase in investment properties of 14% is mainly due to construction activities related to Mall of Asia, SM City San Lazaro, SM Valenzuela and SM City Molino which are expected to open within 2005. The increase in other noncurrent assets of 95% is due to deposits paid for properties within the Luzon area.

Loans payable likewise increased due to additional US$20 million loan of the Parent Company. Long-term debt was also acquired during the year namely, US$150 million bullet term loan facility, P1.6 billion JEXIM loan of the subsidiaries and a P1.0 billion loan from a local bank.

Accounts payable and accrued expenses increased 9% mainly from payable to contractors.

The Company’s performance indicators are measured in terms of the following: (1) Ratio of fixed assets to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) debt to equity which measures the ratio of interest bearing liabilities to stockholders’ equity; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA) level; (6) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (7) EBITDA to interest expense which measures the ratio of EBITDA to gross interest expense; (8) operating income to revenues which basically measures the gross profit ratio; and, (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total fixed assets accounting for 65% of total assets as of December 31, 2004 and 71% as of December 31, 2003. The Company’s liquidity position remains strong with current ratio at 1.48:1 as of December 31, 2004 as compared to 1.82:1 as of December 31, 2003.

In terms of profitability, ROE increased at 15% for the year ended December 31, 2004 compared to 13% in 2003.

Interest-bearing debt to equity increased 0.62:1 as of December 31, 2004 as compared with 0.21:1 as of December 31, 2003 as a result of additional borrowings.

EBITDA increased 16% to P7.10 billion for the year ended December 31, 2004 from P6.11 billion in 2003. Debt to EBITDA, likewise, increased 2.60:1 from 1.07:1 last year due to additional loans obtained. EBITDA to interest expense, however, decreased from 37.61:1 to 32.99:1.

Operating income to revenues is also steady for the year ended December 31, 2004 and 2003 at 56%. On the other hand, net income to revenues declined to 45% for the year ended December 31, 2004 from 47% in 2003 mainly due to increase in interest expense.

SM Prime Holdings, Inc. has set aside P5 billion for capital expenditures for 2005. Construction is now ongoing full-blast on the SM Mall of Asia, set to be the country's premier shopping destination and tourist attraction, revitalizing the Roxas Boulevard Bay Area. In its first phase, the SM Mall of Asia will open in the last quarter of 2005 with a gross floor area of 386,000 square meters—comprised of a Main Mall, an Entertainment Mall, and two parking buildings. Also, set to open in 2005 are SM City San Lazaro (Manila), SM Valenzuela and SM City Molino (Cavite). With an amassed land bank of 199 hectares in 15 prime locations, SM Prime Holdings, Inc. is set for continuous expansion within the next five years.

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

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

Changes in and disagreements with accountants on accounting and financial disclosure

There were no significant changes in and disagreements with accountants on accounting and financial disclosure.

ITEM 11. Acquisition or Disposition of Property

In the normal course of business, the Company does land banking activities for future mall sites.

ITEM 12. Restatement of Accounts

NA.

D. OTHER MATTERS

ITEM 13. Action with Respect to Reports

The following are to be submitted for approval during the stockholders' meeting:

(a) Minutes of the annual meeting of stockholders held on April 26, 2006.

(b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:

(a) Approval of projects and land acquisitions;

(b) Treasury matters related to opening of accounts and transactions with banks;

(c) Appointments of signatories and amendments thereof.

ITEM 14. Amendment of Charter, By-Laws or Other Documents

-NA-

ITEM 15. Other Proposed Action

The following are to be proposed for approval during the stockholders' meeting:

(a) Increase in authorized capital stock and amendment of Article Seven of Amended Articles of Incorporation to reflect the capital increase;

(b) Election of directors for 2007 –2008;

(c) Appointment of external auditors; and,

(d) Other matters.

ITEM 16. Voting Procedures

<u>Vote required for approval</u>

The vote required for the election of directors is majority of the outstanding capital stock.

<u>Methods by which votes will be counted</u>

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote of any question need not be by ballot. On a vote by ballot, each ballot shall not be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him.

ITEM 17. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE - ₱ 0.25 in 2006, ₱ 0.23 in 2005 and ₱ 0.65 in 2004.

Stock Prices		2006 High		2006 Low		2005 High		2005 Low
First Quarter	₱	8.40	₱	7.50	₱	9.70	₱	7.40
Second Quarter		9.10		6.90		8.30		7.10
Third Quarter		8.50		7.40		7.70		6.80
Fourth Quarter		11.25		8.30		9.00		7.20

The Company's shares of stock is traded in the Philippine Stock Exchange.

As of February 28, 2007, the closing price of the Company's shares of stock is ₱11.00/share. For the two months ending February 28, 2007, stock prices of SMPHI were at a high of ₱13.00 and a low of ₱10.75.

The number of shareholders of record as of February 28, 2007 was 2,902. Capital stock issued and outstanding as of February 28, 2007 was 9,916,437,157. As of December 31, 2006, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 15 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2007 are as follows:

Name	No. of Shares Held	% to Total
1. Shoemart, Inc.	4,742,048,245	47.73
2. PCD Nominee Corp. (Non-Filipino)	2,599,732,979	26.17
3. SM Investments Corp.	2,117,904,564	21.32
4. PCD Nominee Corp. (Filipino)	387,644,109	3.90
5. SM Prime Holdings, Inc. (treasury shares)	18,857,000	0.19
6. Sysmart Corporation	11,375,791	0.11
7. Henry Sy, Sr.	3,510,000	0.04
8. Regina Capital Dev. Corp.	3,400,000	0.03
9. Lucky Securities, Inc.	2,615,000	0.03
10. Morgan Guaranty Trust Co.	1,421,528	0.01
11. Southwood Mindanao Corporation	1,300,000	0.01
12. Philippine Air Force Educational Fund, Inc.	1,300,000	0.01
13. Elizabeth Sy	1,299,000	0.01
14. Agaton L. Tiu/ Remington Tiu	1,000,000	0.01
15. Remington Tiu/ Agaton Tiu	1,000,000	0.01
16. Teresita Sy	864,400	0.01
17. Chung Tiong Tay	670,000	0.01
18. Pua Yok Bing	609,000	0.01
19. Harry Robert Taylor	592,600	0.01
20. Jose T. Tan/ Pacita L. Tan	570,000	0.01

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction. The Company has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

ITEM 18. Corporate Governance

The Board of Directors has adopted a Corporate Governance Self Rating System as monitored by the Compliance Officer, Mr. Emmanuel C. Paras. The Compliance Officer ensures that the BOD and its officers and employees comply with all the leading practices and principles on good corporate governance as embodied in the Company's Manual.

The nomination committee reviews the qualifications of all directors including the independent director and monitors the participation of the directors in all meetings, both regular and special. No deviation from the Company's Manual of Corporate Governance has been noted. There are no existing plans to amend the Company's Manual of Corporate Governance.

NOTE: The Company will provide without charge a copy of the Company's Annual Report on SRC Form 17-A to its stockholders upon receipt of a written request addressed to Mr. Jeffrey C. Lim, Executive Vice President, at SM Corporate Offices, Building A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

PRIME HOLDINGS

Notice of Regular Annual Stockholders' Meeting
April 23, 2007, 3:00 p.m.
Rigodon Ballroom, Manila Peninsula Hotel
Makati City

To all Stockholders:

Please take notice that the 2007 annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on April 23, 2007 at 3:00 p.m. at the Rigodon Ballroom, Manila Peninsula Hotel, Makati City. The proposed agenda of the meeting is set forth below:

AGENDA

1. Call to order.
2. Certification of notice and quorum.
3. Approval of minutes of annual meeting of stockholders held on April 26, 2006.
4. Annual Report.
5. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
6. Approval of increase in authorized capital stock and the amendment of Article Seven of the Amended Articles of Incorporation to reflect the capital increase.
7. Election of directors for 2007-2008.
8. Appointment of external auditors.
9. Other matters.
10. Adjournment.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 26, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

Makati City, March 7, 2007.

BY THE ORDER OF THE BOARD OF DIRECTORS

EMMANUEL C. PARAS
Corporate Secretary
SM PRIME HOLDINGS, INC.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 14, 19, 21 and 22)	**₱7,581,307,508**	₱3,542,166,247
Investments held for trading (Notes 6, 14, 19, 21 and 22)	**294,094,198**	1,646,416,663
Receivables (Notes 3, 7, 19 and 22)	**2,764,804,645**	2,094,099,214
Prepaid expenses and other current assets (Note 8)	**1,117,275,182**	625,207,770
Total Current Assets	**11,757,481,533**	7,907,889,894
Noncurrent Assets		
Investment properties - net (Notes 3 and 9)	**47,074,871,189**	33,015,622,650
Shopping mall complex under construction (Note 10)	**4,595,222,248**	12,364,828,436
Available-for-sale investments (Notes 11, 19, 21 and 22)	**5,270,194,577**	5,154,500,000
Derivative assets (Note 22)	**765,940,052**	–
Deferred tax assets (Notes 3 and 17)	**32,072,923**	107,745,310
Other noncurrent assets	**1,296,210,048**	878,326,590
Total Noncurrent Assets	**59,034,511,037**	51,521,022,986
	₱70,791,992,570	₱59,428,912,880
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 12, 19, 21 and 22)	**₱8,027,991,500**	₱3,204,500,000
Accounts payable and other current liabilities (Notes 12, 13, 19 and 22)	**1,997,704,808**	2,049,492,271
Income tax payable	**585,054,670**	503,845,660
Current portion of long-term debt (Notes 14, 19, 21 and 22)	**825,000,000**	1,291,000,000
Total Current Liabilities	**11,435,750,978**	7,048,837,931
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19, 21 and 22)	**17,019,897,331**	15,239,493,797
Derivative liability (Note 22)	**1,042,500,665**	–
Deferred tax liabilities (Note 17)	**722,857,915**	411,944,833
Tenants' deposits and others (Notes 20 and 22)	**3,944,282,568**	3,301,208,998
Total Noncurrent Liabilities	**22,729,538,479**	18,952,647,628
Equity Attributable to Equity Holders of the Parent (Note 21)		
Capital stock (Notes 15 and 23)	**9,935,294,157**	9,935,294,157
Additional paid-in capital	**3,099,777,406**	3,099,777,406
Unrealized gain on available-for-sale investments (Notes 11 and 22)	**153,086,204**	–
Retained earnings (Note 15):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**15,585,749,586**	12,615,936,311
Treasury stock (Notes 15 and 23)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent	**35,672,432,648**	32,549,533,169
Minority Interests	**954,270,465**	877,894,152
Total Stockholders' Equity	**36,626,703,113**	33,427,427,321
	₱70,791,992,570	₱59,428,912,880

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005	2004
REVENUE			
Rent (Notes 3, 19 and 20)	**₱10,972,042,723**	₱9,027,377,053	₱8,181,484,567
Cinema ticket sales	**1,597,030,599**	1,308,131,615	1,495,238,810
Interest and dividend income (Notes 6, 11 and 19)	**862,627,927**	1,090,644,366	937,437,519
Amusement and others (Notes 6 and 22)	**900,393,181**	666,988,967	612,552,080
	14,332,094,430	12,093,142,001	11,226,712,976
COST AND EXPENSES			
Operating expenses (Notes 16, 18, 19 and 20)	**(5,565,249,821)**	(4,849,838,840)	(4,469,112,718)
Interest expense (Notes 12 and 19)	**(763,706,295)**	(278,686,280)	(214,465,330)
INCOME BEFORE INCOME TAX	**8,003,138,314**	6,964,616,881	6,543,134,928
PROVISION FOR INCOME TAX (Note 17)			
Current	**1,921,844,308**	1,447,706,622	1,634,437,871
Deferred	**331,388,557**	267,189,732	22,489,496
	2,253,232,865	1,714,896,354	1,656,927,367
NET INCOME	**₱5,749,905,449**	₱5,249,720,527	₱4,886,207,561
Attributable to:			
Equity holders of the Parent (Note 23)	**₱5,448,922,555**	₱4,972,905,620	₱4,621,405,917
Minority interests	**300,982,894**	276,814,907	264,801,644
	₱5,749,905,449	₱5,249,720,527	₱4,886,207,561
Earnings Per Share (Note 23)	**₱0.549**	₱0.501	₱0.466

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to Equity Holders of the Parent								
				Retained Earnings					
	Capital Stock (Notes 15 and 23)	Additional Paid-in Capital	Unrealized Gain on Available-for-Sale Investments (Notes 11 and 22)	Appropriated (Note 15)	Unappropriated (Note 15)	Treasury Stock (Notes 15 and 23)	Total	Minority Interests	Total
At January 1, 2006	**₱9,935,294,157**	**₱3,099,777,406**	**₱–**	**₱7,000,000,000**	**₱12,615,936,311**	**(₱101,474,705)**	**₱32,549,533,169**	**₱877,894,152**	**₱33,427,427,321**
Income for the year recognized directly in equity	–	–	**153,086,204**	–	–	–	**153,086,204**	–	**153,086,204**
Net income	–	–	–	–	**5,448,922,555**	–	**5,448,922,555**	**300,982,894**	**5,749,905,449**
Total income for the year	–	–	**153,086,204**	–	**5,448,922,555**	–	**5,602,008,759**	**300,982,894**	**5,902,991,653**
Cash dividends - ₱0.25 a share in 2006	–	–	–	–	**(2,479,109,280)**	–	**(2,479,109,280)**	–	**(2,479,109,280)**
Dividends of subsidiary	–	–	–	–	–	–	–	**(224,606,581)**	**(224,606,581)**
	–	–	–	–	**(2,479,109,280)**	–	**(2,479,109,280)**	**(224,606,581)**	**(2,703,715,861)**
At December 31, 2006	**₱9,935,294,157**	**₱3,099,777,406**	**₱153,086,204**	**₱7,000,000,000**	**₱15,585,749,586**	**(₱101,474,705)**	**₱35,672,432,648**	**₱954,270,465**	**₱36,626,703,113**
At January 1, 2005	₱9,935,294,157	₱3,099,777,406	₱–	₱7,000,000,000	₱9,953,560,549	(₱101,474,705)	₱29,887,157,407	₱827,821,782	₱30,714,979,189
Net income	–	–	–	–	4,972,905,620	–	4,972,905,620	276,814,907	5,249,720,527
Cash dividends - ₱0.23 a share in 2005	–	–	–	–	(2,310,529,858)	–	(2,310,529,858)	–	(2,310,529,858)
Dividends of subsidiary	–	–	–	–	–	–	–	(226,742,537)	(226,742,537)
At December 31, 2005	₱9,935,294,157	₱3,099,777,406	₱–	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,169	₱877,894,152	₱33,427,427,321
At January 1, 2004	₱9,935,294,157	₱3,099,777,406	₱–	₱7,000,000,000	₱11,777,838,761	(₱101,474,705)	₱31,711,435,619	₱833,142,439	₱32,544,578,058
Net income	–	–	–	–	4,621,405,917	–	4,621,405,917	264,801,644	4,886,207,561
Cash dividends - ₱0.65 a share in 2004	–	–	–	–	(6,445,684,129)	–	(6,445,684,129)	–	(6,445,684,129)
Dividends of subsidiary	–	–	–	–	–	–	–	(270,122,301)	(270,122,301)
At December 31, 2004	₱9,935,294,157	₱3,099,777,406	₱–	₱7,000,000,000	₱9,953,560,549	(₱101,474,705)	₱29,887,157,407	₱827,821,782	₱30,714,979,189

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interest	**₱8,003,138,314**	₱6,964,616,881	₱6,543,134,928
Adjustments for:			
Depreciation (Notes 9 and 16)	**1,787,114,368**	1,457,685,076	1,334,363,929
Interest and dividend income (Notes 6, 11 and 19)	**(862,627,927)**	(1,090,644,366)	(937,437,519)
Interest expense (Notes 12 and 19)	**763,706,295**	278,686,280	214,465,330
Unrealized foreign exchange loss (gain) - net	**(668,499,763)**	11,024,503	(11,308,807)
Unrealized marked-to-market loss on derivatives - net (Note 22)	**276,560,613**	–	–
Unrealized marked-to-market gain on investments held for trading (Note 6)	**(8,264,785)**	(25,073,031)	–
Operating income before working capital changes	**9,291,127,115**	7,596,295,343	7,143,217,861
Increase in:			
Receivables	**(434,214,375)**	(219,089,383)	(253,762,890)
Prepaid expenses and other current assets	**(492,067,412)**	(296,497,995)	(109,151,591)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(46,810,032)**	267,715,495	(40,435,188)
Tenants' deposits and others	**805,310,107**	393,856,337	307,138,985
Cash generated from operations	**9,123,345,403**	7,742,279,797	7,047,007,177
Income taxes paid	**(1,840,635,298)**	(1,468,432,180)	(1,465,208,214)
Net cash provided by operating activities	**7,282,710,105**	6,273,847,617	5,581,798,963
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Shopping mall complex under construction (Note 10)	**(5,953,210,516)**	(8,276,985,529)	(3,540,734,186)
Investments held for trading	**1,347,832,047**	2,736,919,494	–
Investment properties (Note 9)	**(838,177,239)**	(1,881,420,309)	(1,885,565,826)
Other noncurrent assets	**(364,831,456)**	(258,957,684)	(456,662,412)
Available-for-sale investments	**(100,000,000)**	300,000,000	(5,317,050,000)
Interest and dividend received	**681,231,811**	1,093,709,716	789,805,310
Net cash used in investing activities	**(5,227,155,353)**	(6,286,734,312)	(10,410,207,114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 12 and 14)	**14,673,147,307**	6,608,671,497	12,125,172,249
Payments of:			
Loans (Notes 12 and 14)	**(7,528,727,523)**	(4,535,375,000)	(250,000,000)
Dividends	**(2,703,715,861)**	(2,537,272,395)	(6,715,806,430)
Interest	**(2,109,147,630)**	(1,418,069,187)	(381,633,107)
Net cash provided by (used in) financing activities	**2,331,556,293**	(1,882,045,085)	4,777,732,712
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(347,969,784)**	(239,134,503)	63,083,807
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,039,141,261**	(2,134,066,283)	12,408,368
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,542,166,247**	5,676,232,530	5,663,824,162
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱7,581,307,508**	₱3,542,166,247	₱5,676,232,530

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on January 6, 1994. Its subsidiaries are also incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as "the Company") develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenue include rent income from leases in mall and food court, cinema ticket sales and amusement income from bowling, ice skating and others.

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

The Parent Company is 52.47% directly and indirectly-owned by SM Investments Corporation (SMIC). SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

The registered office and principal place of business of the Parent Company is Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors on February 20, 2007.

2. Basis of Preparation

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

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

Changes in Accounting Policies
The Company adopted the following amendments to the PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) effective January 1, 2006:

- PAS 19, *Amendments to Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures,* requires additional disclosures about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit costs;

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

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendments for Financial Guarantee Contracts*, requires the initial recognition of financial guarantee contracts at fair value and generally re-measured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue Recognition*; and

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

The adoption of the above amendments to the PAS and Philippine Interpretations from IFRIC did not have a significant impact on the Company's consolidated financial statements.

The Company has also early adopted amendment to *PAS 1, Presentation of Financial Statements,* which requires the Company to make additional disclosures to enable the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 21. The adoption of this amendment did not have any effect on the financial position of the Company. It did, however, give rise to additional disclosures.

Future Changes in Accounting Policies

- PFRS 7, *Financial Instruments: Disclosures,* introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The Company will adopt PFRS 7 beginning January 1, 2007.

  The Company is currently assessing the impact of PFRS 7 and expects that the main additional disclosures will be the sensitivity analysis to market risk required by PFRS 7.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2,* becomes effective for financial years beginning on or after May 1, 2006. This Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Company will adopt Philippine Interpretation IFRIC 8 starting January 1, 2007. As equity instruments are only issued to employees in accordance with the employee share scheme, the Company does not expect the Interpretation to have significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* issued in March 2006 and becomes effective for financial years beginning on or after June 1, 2006. This Interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Company will adopt Philippine Interpretation IFRIC 9 starting January 1, 2007. The Company expects that the adoption of this Interpretation will have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment,* becomes effective for financial years beginning on or after November 1, 2006. It provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and available-for-sale (AFS) investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Company will adopt Philippine Interpretation IFRIC 10 starting January 1, 2007. This Interpretation is not expected to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions,* will be effective on January 1, 2008. This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this Interpretation to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement,* will become effective on January 1, 2008. This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation will have no impact on the Company's consolidated financial statements as this is not relevant to its current operations.

- PFRS 8, Operating Segments, will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and companies will need to provide explanations and reconciliations of the differences. The Company will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

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

Company	Percentage of Ownership	Malls Owned
First Asia Realty Development Corporation	54.37	SM Megamall
Premier Central, Inc.	100.00	SM City Clark
Consolidated Prime Development Corp. (CPDC)	100.00	SM City Dasmarinas
Premier Southern Corp. (PSC)	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	100.00	–

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

Judgments
In the process of applying the Company's accounting policy pertaining to leases, management has determined that it retains all the significant risks and rewards of ownership of the investment properties which are leased out and, accordingly, account for these leases as operating leases.

Rent income amounted to ₱10,972 million, ₱9,027 million and ₱8,181 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Use of Estimates

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

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

The net book value of investment properties amounted to ₱47,075 million and ₱33,016 million as of December 31, 2006 and 2005, respectively (see Note 9).

Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying amount of receivables amounted to ₱2,765 million and ₱2,094 million as of December 31, 2006 and 2005, respectively (see Note 7).

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

The net book value of investment properties amounted to ₱47,075 million and ₱33,016 million as of December 31, 2006 and 2005, respectively (see Note 9).

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

Deferred tax assets amounted to ₱32 million and ₱108 million as of December 31, 2006 and 2005, respectively (see Note 17).

Pension. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The fair value of financial assets and liabilities are discussed in Note 22.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these claims (see Note 24).

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Financial Assets and Liabilities

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

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

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

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

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

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

Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Amusement and others" account.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

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

Classified as financial assets at FVPL are investments held for trading (see Note 6) and derivative financial instruments (see Note 22).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Loans and receivable are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

Classified under this category are the Company's receivables.

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

The Company has no investments classified as HTM as of December 31, 2006 and 2005.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest rate.

Classified under this category are the Company's investments in redeemable preferred shares (see Note 11).

<u>*Financial Liabilities*</u>

Financial liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivatives transaction that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

Included in this category are the Company's derivative financial instruments with negative fair values (see Note 22).

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

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

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

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

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Derivative Financial Instruments and Hedging

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

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

Embedded Derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

AFS Financial Assets. If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

No impairment losses were recognized during the year.

Offsetting Financial Instruments

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

Investment Properties

Investment properties represent land and buildings, structures, equipment and improvements of the shopping malls.

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

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

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

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

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

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

Transfers of shopping mall complex under construction to investment property are made when there is a change in use, evidenced by completion of construction of shopping mall complex.

Shopping Mall Complex Under Construction

Shopping mall complex under construction is stated at cost and includes the cost of land, construction costs, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period, provided that the carrying amount does not exceed the amount realizable from the use or sale of the asset. Shopping mall complex under construction is not depreciated until such time that the relevant assets are completed and put into operational use.

Impairment of Nonfinancial Assets

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

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

Treasury Stock

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Revenue

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

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

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

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

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

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

Pension Cost
The Parent Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The amount recognized as defined benefit liability is the net of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains not recognized minus past service cost not yet recognized minus the fair value of plan assets at the balance sheet date out of which the obligations are to be settled directly.

Foreign Currency Transactions
The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases
Leases where the Company retains substantially all the risks and benefits or ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

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

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

Taxes

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

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

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

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

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

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

Earnings Per Share (EPS)
EPS is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year.

Business Segment
The Company has one primary business segment, which is shopping mall operation.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

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

5. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks	**₱308,776,352**	₱242,807,779
Temporary investments (see Note 14)	**7,272,531,156**	3,299,358,468
	₱7,581,307,508	₱3,542,166,247

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

6. Investments Held for Trading

In 2006, this account consists of investments in Philippine government bonds with fixed interest rates ranging from 6.71% to 8.00%. The investments are US dollar-denominated and will mature on various dates starting November 22, 2008 until January 15, 2016.

In 2005, this account consists of various investments in bonds purchased from different banks and government bonds with fixed interest rates ranging from 7.25% to 9.38% and 5.98% to 12.00%, respectively. The investments are denominated in Philippine peso and US dollar and will mature on various dates starting September 24, 2007 until January 15, 2016. Investments in government bonds denominated in Philippine peso and bonds purchased from different banks totaling

₱1,348 million were sold in 2006. The gain on sale of investments amounting to ₱13 million was included in "Amusement and others" account in the consolidated statements of income.

Investments held for trading includes unrealized marked-to-market gain amounting to ₱8 million and ₱25 million in 2006 and 2005, respectively, which was presented as part of "Amusement and others" account in the consolidated statements of income.

7. Receivables

This account consists of:

	2006	2005
Rent (see Note 19)	**₱2,013,845,438**	₱1,569,488,741
Accrued interests and others (see Note 19)	**750,959,207**	524,610,473
	₱2,764,804,645	₱2,094,099,214

Rent receivables have general terms of 30-90 days.

8. Prepaid Expenses and Other Current Assets

This account primarily consists of input taxes amounting to ₱863 million and ₱489 million as of December 31, 2006 and 2005, respectively.

9. Investment Properties

This account consists of:

	2006			
	Land	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Total**
Cost				
Balance at beginning of year	**₱7,300,356,052**	**₱28,177,412,861**	**₱6,615,135,820**	**₱42,092,904,733**
Additions	**62,226,211**	**241,104,350**	**534,846,678**	**838,177,239**
Completed projects transferred from shopping mall complex under construction	**516,853,975**	**12,802,900,092**	**1,688,431,601**	**15,008,185,668**
Balance at end of year	**7,879,436,238**	**41,221,417,303**	**8,838,414,099**	**57,939,267,640**
Accumulated Depreciation				
Balance at beginning of year	–	**5,855,253,184**	**3,222,028,899**	**9,077,282,083**
Depreciation	–	**1,088,368,854**	**698,745,514**	**1,787,114,368**
Balance at end of year	–	**6,943,622,038**	**3,920,774,413**	**10,864,396,451**
Net Book Value	**₱7,879,436,238**	**₱34,277,795,265**	**₱4,917,639,686**	**₱47,074,871,189**

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	2005			
	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	₱6,723,580,334	₱24,355,912,417	₱5,414,677,039	₱36,494,169,790
Additions	576,775,718	492,799,193	811,845,398	1,881,420,309
Completed projects transferred from shopping mall complex under construction	–	3,328,701,251	388,613,383	3,717,314,634
Balance at end of year	7,300,356,052	28,177,412,861	6,615,135,820	42,092,904,733
Accumulated Depreciation				
Balance at beginning of year	–	5,264,280,421	2,355,316,586	7,619,597,007
Depreciation	–	590,972,763	866,712,313	1,457,685,076
Balance at end of year	–	5,855,253,184	3,222,028,899	9,077,282,083
Net Book Value	₱7,300,356,052	₱22,322,159,677	₱3,393,106,921	₱33,015,622,650

The fair value of investment properties as of December 31, 2004 as determined by an independent appraiser amounted to ₱107,774 million. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with International Valuation Standards.

While fair values of the investment properties were not determined as of December 31, 2006 and 2005, the Company's management believes that there were no conditions present in 2006 and 2005 that would significantly reduce the fair values of the investment properties from that determined in 2004.

10. Shopping Mall Complex Under Construction

The movements of this account follow:

	2006	2005
Balance at beginning of year	**₱12,364,828,436**	₱6,440,286,551
Additions	**7,238,579,480**	9,641,856,519
Completed projects transferred to investment properties	**(15,008,185,668)**	(3,717,314,634)
Balance at end of year	**₱4,595,222,248**	₱12,364,828,436

In 2006, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Bacolod, SM City Cebu Expansion, SM City Marikina, SM City Taytay and SM Supercenter Muntinlupa.

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

Shopping mall under construction includes cost of land amounting to ₱2,153 million and ₱2,718 million as of December 31, 2006 and 2005, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱3,812 million and ₱8,081 million as of December 31, 2006 and 2005, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2006 and 2005 are valued at ₱1,979 million and ₱1,897 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,285 million and ₱1,365 million in 2006 and 2005, respectively. Capitalization rates used were 10.04% in 2006 and 10.14% in 2005.

11. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by local entities with annual dividend rates of 6.5% to 10.46%. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The shares are mandatorily redeemable in 2009 up to 2011.

AFS investments include unrealized gain amounting to ₱219 million in 2006. This amount is deferred under equity, net of deferred tax liability amounting to ₱66 million.

12. Loans Payable

Loans payable consist of Philippine peso-denominated and US dollar-denominated loans obtained from banks amounting to ₱2,240 million and ₱5,788 million (US$118 million), respectively, in 2006 and ₱550 million and ₱2,655 million (US$50 million), respectively, in 2005. The loans bear interest ranging from 5.3% to 6.8% in 2006 and 4.4% to 7.8% in 2005.

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2006	2005
Trade	**₱988,319,052**	₱1,175,494,096
Accrued interest (see Notes 12, 14 and 19)	**315,118,983**	375,191,354
Accrued operating expenses and others (see Note 19)	**694,266,773**	498,806,821
	₱1,997,704,808	₱2,049,492,271

Trade payables are noninterest-bearing and are normally settled within a 30-day term.

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14. **Long-term Debt**

This account consists of:

	2006	2005
Parent Company -		
U.S. dollar-denominated five-year syndicated loan	**₱7,247,365,206**	₱7,817,895,366
Philippine peso-denominated loans:		
Five-year bilateral loan	**2,975,283,692**	–
Five-year and seven-year fixed rate notes	**2,972,542,654**	4,965,643,165
Five-year syndicated loan	**846,071,043**	1,269,021,152
Other bank loans	**2,717,265,000**	996,840,610
Subsidiaries -		
Philippine peso-denominated five-year syndicated loans	**1,086,369,736**	1,481,093,504
	17,844,897,331	16,530,493,797
Less current portion	**825,000,000**	1,291,000,000
	₱17,019,897,331	₱15,239,493,797

Parent Company

US Dollar-denominated Five-Year Syndicated Loan
The US$150 million unsecured loan was obtained on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on London Inter-Bank Offered Rate (LIBOR) plus a certain percentage (see Note 22).

Philippine Peso-denominated Five-Year Bilateral Loan
This represents a five-year bullet term loan obtained on June 21, 2006 amounting to ₱3,000 million and will mature on June 21, 2011. The loan carries an interest rate based on Mart 1 plus an agreed margin.

Philippine Peso-denominated Five-Year and Seven-Year Fixed Rate Notes
This represents a five-year and seven-year fixed rate notes obtained on July 8, 2005 amounting to ₱3,500 million (₱2,000 million of which was obtained from SMIC) and ₱1,500 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively (see Notes 19 and 22).

In 2006, the Company prepaid the ₱2,000 million notes held by SMIC with an original maturity date of July 8, 2010.

Philippine Peso-denominated Five-Year Syndicated Loan
This represents a five-year syndicated term loan obtained on November 21, 2003, originally amounting to ₱1,700 million, payable in equal quarterly installments of ₱106 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly.

Other Bank Loans
This account consists of the following:

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

- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000 million and will mature on October 2, 2011. The loan carries an interest rate based on Mart 1 plus an agreed margin.

- Two-year and five-year unsecured loans obtained on December 1, 2004 amounting to ₱466 million and ₱534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The ₱466 million loan matured on December 1, 2006 while the ₱534 million loan will mature on December 1, 2009.

Subsidiaries

Philippine Peso-denominated Five-Year Syndicated Loans
In 2004, CPDC and PSC obtained a five-year term loan, which originally amounted to ₱1,600 million, to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100 million starting in October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears.

As of December 31, 2006, investments held for trading and temporary investments totaling ₱1,761 million were pledged to secure the loans in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP). In accordance with the loan agreement, the Parent Company has the option to substitute the pledged investments held for trading and temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 19).

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2006 and 2005, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱194 million and ₱208 million as of December 31, 2006 and 2005, respectively.

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

Year	Amount
2007	₱825,000,000
2008	825,000,000
2009	8,188,500,000
2010	1,500,000,000
2011	4,000,000,000
2012-2016	2,700,000,000
	₱18,038,500,000

15. **Stockholders' Equity**

The Company has an authorized capital stock of 10,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2006 and 2005 are 9,935,294,157 shares.

The retained earnings account is restricted for the payment of dividends to the extent of ₱2,942 million and ₱4,360 million as of December 31, 2006 and 2005, respectively, representing the cost of shares held in treasury (₱101 million in 2006 and 2005) and accumulated equity in net earnings of the subsidiaries totaling ₱2,841 million and ₱4,259 million as of December 31, 2006 and 2005, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

16. **Operating Expenses**

This account consists of:

	2006	2005	2004
Depreciation (see Note 9)	**₱1,787,114,368**	₱1,457,685,076	₱1,334,363,929
Administrative (see Notes 18, 19 and 20)	**1,587,912,907**	1,638,621,352	1,404,844,093
Film rentals	**846,217,683**	687,859,433	778,571,501
Business taxes and licenses	**608,818,441**	498,370,891	446,528,340
Others (see Note 19)	**735,186,422**	567,302,088	504,804,855
	₱5,565,249,821	₱4,849,838,840	₱4,469,112,718

17. **Income Tax**

The components of deferred tax assets and liabilities follow:

	2006	2005
Deferred tax assets -		
Accrued expenses, unrealized foreign exchange loss and others	**₱32,072,923**	₱107,745,310
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	**₱722,857,915**	₱411,944,833

The reconciliation of statutory tax rates to effective tax rates follows:

	2006	2005	2004
Statutory tax rates	**35.0%**	32.5%	32.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(3.8)**	(5.1)	(4.6)
Change in enacted tax rates and others	**(3.1)**	(2.8)	(2.1)
Effective tax rates	**28.1%**	24.6%	25.3%

18. Pension Cost

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

Net Pension Cost

	2006	2005	2004
Current service cost	**₱582,378**	₱388,003	₱556,657
Interest cost on benefit obligation	**640,148**	453,107	439,860
Expected return on plan assets	**(398,371)**	(262,914)	(197,532)
Net actuarial loss (gain) recognized	**7,799**	(17,516)	–
Net pension cost	**₱831,954**	₱560,680	₱798,985
Actual return on plan assets	**₱290,949**	₱312,990	₱205,468

Net Pension Liability

	2006	2005	2004
Defined benefit obligation	**₱18,632,172**	₱5,334,567	₱3,236,475
Fair value of plan assets	**(4,946,058)**	(3,319,755)	(2,190,948)
Unfunded obligation	**13,686,114**	2,014,812	1,045,527
Unrecognized net actuarial (losses) gains	**(12,926,517)**	(751,815)	831,624
Net pension liability	**₱759,597**	₱1,262,997	₱1,877,151

The above amounts of net pension liability were not recognized in the books due to immateriality.

The changes in the present value of the defined benefit obligation follow:

	2006	2005	2004
Defined benefit obligation, January 1	**₱5,334,567**	₱3,236,475	₱3,665,502
Interest cost on benefit obligation	**640,148**	453,107	439,860
Current service cost	**582,378**	388,003	556,657
Benefits paid	**–**	(359,017)	(601,856)
Actuarial losses (gains) on obligation	**12,075,079**	1,615,999	(823,688)
Defined benefit obligation, December 31	**₱18,632,172**	₱5,334,567	₱3,236,475

The changes in the fair value of plan assets follow:

	2006	2005	2004
Fair value of plan assets, January 1	**₱3,319,755**	₱2,190,948	₱1,646,098
Benefits paid	**–**	(359,017)	(601,856)
Expected return on plan assets	**398,371**	262,914	197,532
Contributions	**1,335,354**	1,174,834	941,238
Actuarial gains (losses)	**(107,422)**	50,076	7,936
Fair value of plan assets, December 31	**₱4,946,058**	₱3,319,755	₱2,190,948

The Company expects to contribute ₱1 million to its defined benefit pension plan in 2007.

The plan assets are composed mainly of cash and cash equivalents, investments in government securities and other similar debt instruments.

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

	2006	2005	2004
Discount rate	**8.3%**	12.0%	14.0%
Expected rate of return on plan assets	**12.0%**	12.0%	12.0%
Future salary increases	**10.0%**	10.0%	10.0%

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

Amounts for the current and previous two years are as follows:

	2006	2005	2004
Defined benefit obligation	**₱18,632,172**	₱5,334,567	₱3,236,475
Plan assets	**4,946,058**	3,319,755	2,190,948
Deficit	**13,686,114**	2,014,812	1,045,527
Experience adjustments on plan liabilities	**12,075,079**	1,615,999	(823,688)
Experience adjustments on plan assets	**107,422**	(50,076)	(7,936)

19. **Related Party Disclosures**

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

a. The Company has existing lease agreements with the SM Retail Group and SM Banking Group. Total rent revenue amounted to ₱3,513 million, ₱2,904 million and ₱2,621 million in 2006, 2005 and 2004, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱835 million and ₱569 million as of December 31, 2006 and 2005, respectively.

b. The Company leases the land where two of its malls are located from SMIC and Shoemart, Inc. for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and Shoemart, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱105 million, ₱46 million and ₱39 million in 2006, 2005 and 2004, respectively. Rent payable to SMIC and Shoemart, Inc., included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱16 million and ₱5 million as of December 31, 2006 and 2005, respectively.

c. The Company pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱403 million, ₱324 million and ₱300 million in 2006, 2005 and 2004, respectively. Accrued management fees, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱18 million and ₱20 million as of December 31, 2006 and 2005, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group. Cash and cash equivalents and investments held for trading totalled ₱7,581 million and ₱3,681 million as of December 31, 2006 and 2005, respectively. Pledged investments held for trading of ₱1,761 million is deposited with Banco de Oro (BDO) (see Note 14). Interest income amounted to ₱376 million, ₱427 million and ₱441 million in 2006, 2005 and 2004, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱96 million and ₱50 million as of December 31, 2006 and 2005, respectively.

e. As of December 31, 2006 and 2005, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱1,922 million and ₱3,900 million, respectively. Interest expense amounted to ₱393 million, ₱326 million and ₱161 million in 2006, 2005 and 2004, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱12 million and ₱118 million as of December 31, 2006 and 2005, respectively.

f. As of December 31, 2006 and 2005, a portion of AFS amounting to ₱2,405 million and ₱2,655 million pertains to mandatorily redeemable preferred shares of BDO (see Note 11). Interest income amounted to ₱160 million, ₱176 million and ₱38 million in 2006, 2005 and 2004, respectively. Interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱282 million and ₱84 million as of December 31, 2006 and 2005, respectively.

g. The total compensation paid to key management personnel of the Company amounted to ₱13 million, ₱10 million and ₱7 million in 2006, 2005 and 2004, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

20. Lease Agreements

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

The Company also leases certain parcels of land where some of its malls are constructed. The terms of the lease are for periods ranging from 25 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the Company's gross rental income or a certain fixed amount, whichever is higher.

21. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, principally interest rate swaps and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance.

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

<u>Interest Rate Risk</u>
The Company's exposure to interest rate risk relates primarily to the Company's financial instruments with a floating interest rate and fixed interest rate. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 6, 11, 12 and 14.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2006 and 2005, after taking into account the effect of interest rate swaps, approximately 61% and 78%, respectively, of the Company's long-term borrowings are at a fixed rate of interest.

The Company's long-term debt, presented by maturity profile, that are exposed to interest rate risk are as follows:

	1-<2 years	2-<3 years	3-<4 years	4-<5 years	5-<6 years	6-<7 years	>7 years	Total	Debt Issuance	Carrying Value
Fixed rate:										
Philippine peso-denominated five-year and seven-year fixed rate notes	₱–	₱–	₱–	₱1,500,000,000	₱–	₱1,500,000,000	₱–	₱3,000,000,000	(₱27,457,346)	₱2,972,542,654
Interest rate				10.54%		11.56%				
Philippine peso-denominated five-year syndicated loan	825,000,000	825,000,000	300,000,000	–	–	–	–	1,950,000,000	(17,559,221)	1,932,440,779
Interest rate	8.00-9.66%	8.00-9.66%	9.66%							
Other bank loans	–	–	534,000,000	–	–	–	1,200,000,000	1,734,000,000	(11,985,000)	1,722,015,000
Interest rate			12.54%				9.75%			
Floating rate:										
US dollar-denominated five-year syndicated loan	$–	$–	$150,000,000	$–	$–	$–	$–	7,354,500,000	(107,134,794)	7,247,365,206
Interest rate			LIBOR+margin%							
Philippine peso-denominated five-year bilateral loan	₱–	₱–	₱–	₱–	₱3,000,000,000	₱–	₱–	3,000,000,000	(24,716,308)	2,975,283,692
Interest rate					Mart 1+margin%					
Other bank loans	–	–	–	–	1,000,000,000	–	–	1,000,000,000	(4,750,000)	995,250,000
Interest rate					Mart 1+margin%					
								₱18,038,500,000	(₱193,602,669)	₱17,844,897,331

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Foreign Currency Risk
The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱9,723 million (US$198 million) and ₱9,710 million (US$198 million) as of December 31, 2006, respectively, and ₱6,955 million (US$131 million) and ₱6,902 million (US$130 million) as of December 31, 2005, respectively.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱49.03 to US$1.00 and ₱53.09 to US$1.00, the Philippine peso to US dollar exchange rates as of December 31, 2006 and 2005, respectively.

To manage foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, the Company enters into foreign currency swaps aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

Credit Risk
It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 22.

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

Liquidity Risk
The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors its capital gearing by measuring the ratio of interest-bearing debt to total capital and net interest-bearing debt to total capital. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents, investments held for trading and AFS investments.

As of December 31, 2006 and 2005, the Company's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital were as follows:

Interest-bearing debt to total capital

	2006	2005
Loans payable	**₱8,027,991,500**	₱3,204,500,000
Current portion of long-term debt	**825,000,000**	1,291,000,000
Long-term debt - net of current portion	**17,019,897,331**	15,239,493,797
Total interest-bearing debt (a)	**25,872,888,831**	19,734,993,797
Total equity attributable to equity holders of the Parent	**35,672,432,648**	32,549,533,169
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱61,545,321,479**	₱52,284,526,966
Gearing ratio (a/b)	**42%**	38%

Net interest-bearing debt to total capital

	2006	2005
Loans payable	**₱8,027,991,500**	₱3,204,500,000
Current portion of long-term debt	**825,000,000**	1,291,000,000
Long-term debt - net of current portion	**17,019,897,331**	15,239,493,797
Less cash and cash equivalents, investments held for trading and AFS investments	**(13,145,596,283)**	(10,343,082,910)
Total net interest-bearing debt (a)	**12,727,292,548**	9,391,910,887
Total equity attributable to equity holders of the Parent	**35,672,432,648**	32,549,533,169
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱48,399,725,196**	₱41,941,444,056
Gearing ratio (a/b)	**26%**	22%

22. Financial Instruments

Fair Values

The table below presents a comparison by category of carrying amounts and fair values of all of the Company's financial instruments as of December 31, 2006 and 2005:

	2006		2005	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱7,581,307,508**	**₱7,581,307,508**	₱3,542,166,247	₱3,542,166,247
Investments held for trading	**294,094,198**	**294,094,198**	1,646,416,663	1,646,416,663
Receivables	**2,764,804,645**	**2,764,804,645**	2,094,099,214	2,094,099,214
Derivative assets	**765,940,052**	**765,940,052**	–	–
AFS investments	**5,270,194,577**	**5,270,194,577**	5,154,500,000	5,154,500,000
Financial Liabilities				
Loans payable	**8,027,991,500**	**8,027,991,500**	3,204,500,000	3,204,500,000
Accounts payable and other current liabilities	**1,997,704,808**	**1,997,704,808**	2,049,492,271	2,049,492,271
Long-term debt (including current portion)	**17,844,897,331**	**19,184,148,588**	16,530,493,797	17,069,286,855
Derivative liability	**1,042,500,665**	**1,042,500,665**	–	–
Tenants' deposits and others	**3,944,282,568**	**3,894,978,926**	3,301,208,998	3,136,769,049

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

Cash and Cash Equivalents. The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

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

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

AFS Investments. The fair value of investments in mandatorily redeemable preferred shares where there is no active market is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 6.97% to 7.98%.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.94% to 7.35%.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variables rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rate used was 6.99%.

Tenants' Deposits and Others. Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 6.60% to 6.69%.

Derivative Instruments. The fair values of the interest rate swaps, cross currency swaps and currency options are based on quotes obtained from counterparties.

Derivative Financial Instruments

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

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

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years
Cross-Currency Swaps						
Floating-Fixed:						
Notional amount	$70,000,000	$70,000,000	$70,000,000			
	6 months	6 months	6 months			
Receive-floating rate	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%			
Pay-fixed rate	12.58-12.75%	12.58-12.75%	12.58-12.75%			
Weighted swap rate	₱56.31	₱56.31	₱56.31			
Interest Rate Swap						
Floating-Fixed:						
Notional amount	$80,000,000	$80,000,000	$80,000,000			
	6 months	6 months	6 months			
Receive-floating rate	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%			
Pay-fixed rate	5.34%	5.34%	5.34%			
Fixed - Floating:						
Notional amount	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱1,500,000,000	₱1,500,000,000
Receive-fixed rate	10.54-11.56%	10.54-11.56%	10.54-11.56%	10.54-11.56%	11.56%	11.56%
	3 months	3 months	3 months	3 months	3 months	3 months
Pay-floating rate	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %

Cross Currency Swaps. In 2004, the Parent Company entered into cross currency swap agreements with an aggregate notional amount of US$70 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, the Parent Company effectively swaps the principal amount and interest of the US dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of December 31, 2006, the cross currency swaps have negative fair values of ₱1,042 million.

Interest Rate Swaps. Also in 2004, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan at an average interest rate of 5.34% into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2006, the floating to fixed interest rate swaps have positive fair values of ₱149 million.

In 2005, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱3,750 million. Under these agreements, the Parent Company effectively swaps these fixed rate Philippine peso-denominated five-year and seven-year syndicated fixed rate notes into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to July 2012. As of December 31, 2006, the fixed to floating interest rate swaps have positive fair values of ₱577 million.

Foreign Currency Call Option. To manage the hedging costs of the cross currency swaps mentioned above, the Company, in August 2006, entered into a cost reduction trade. In this trade, the Company took a view that the USD/PHP exchange rate will not trade above ₱54 (US$1.00) on April 28, 2007 and October 28, 2007. In return, the Company will receive a premium equivalent to 1.6% savings per annum on the notional amount of ₱3,942 million. However, should the USD/PHP exchange rate trade above the strike price on the two dates, the Company will have to pay a penalty based on an agreed formula. As of December 31, 2006, the positive fair value of the currency option is ₱40 million.

The net unrealized marked-to-market loss on derivative transactions, shown as part of "Amusement and others" account in the consolidated statements of income, amounted to ₱277 million for the year December 31, 2006.

23. Basic EPS Computation

Basic EPS is computed as follows:

	2006	2005	2004
Net income attributable to equity holders of the Parent (a)	**₱5,448,922,555**	₱4,972,905,620	₱4,621,405,917
Common shares issued	**9,935,294,157**	9,935,294,157	9,935,294,157
Less weighted average number of treasury shares acquired during the year	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**9,916,437,157**	9,916,437,157	9,916,437,157
Earnings per share (a/b)	**₱0.549**	₱0.501	₱0.466

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24. **Other Matter**

The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the vatability of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The Bureau of Internal Revenue's (Respondent) motion for reconsideration was denied on December 18, 2006. The Respondent has filed an appeal on January 19, 2007. In the opinion of management and its legal counsel, the eventual resolution of these cases will not have any material adverse effect on the consolidated financial statements.

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasay City on March 8, 2007.

By: SM PRIME HOLDINGS, INC.

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Jeffrey C. Lim
Executive Vice President