

# COVER SHEET

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SEC Registration Number

S	M	P	R	I	M	E	H	O	L	D	I	N	G	S	,	I	N	C	.	A	N	D	S	U	B	S	I	
D	I	A	R	I	E	S																						

(Company's Full Name)

S	M	C	o	r	p	o	r	a	t	e	O	f	f	i	c	e	s	,	B	u	i	l	d	i	n	g	A	,
J	.	W	.	D	i	o	k	n	o	B	o	u	l	e	v	a	r	d	,	M	a	l	l	o	f	A		
s	i	a	C	o	m	p	l	e	x	,	P	a	s	a	y	C	i	t	y	1	3	0	0					

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

<b>Mr. Jeffrey C. Lim</b>
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(Contact Person)

<b>831-1000</b>
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(Company Telephone Number)

0	6	3	0
Month	Day	Month	Day
(Fiscal Year)			

1	7	-	Q
(Form Type)			

Month	Day	(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

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To be accomplished by SEC Personnel concerned

File Number											

\_\_\_\_\_ LCU

Document ID											

\_\_\_\_\_ Cashier

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **JUNE 30, 2011**
2. SEC Identification Number **AS0940000-88**                      3. BIR Tax Identification No. **003-058-789**
4. Exact name of registrant as specified in its charter **SM PRIME HOLDINGS, INC.**
5. **PHILIPPINES**                      6. (SEC Use Only)  
Province, Country or other jurisdiction of                      Industry Classification Code:  
incorporation or organization
7. **SM Corporate Offices, Bldg. A, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City**  
**1300**  
Address of principal office                      Postal Code
8. **( 632) 831-1000**  
Registrant's telephone number, including area code
9. \_\_\_\_\_  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>CAPITAL STOCK, P 1 PAR VALUE</b>	<b>13,898,943,067</b>

11. Are any or all of these securities listed on the Philippine Stock Exchange.  
Yes  No

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Securities Regulation Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes  No

(b) has been subject to such filing requirements for the past 90 days.

Yes  No

SM Prime Holdings, Inc. and Subsidiaries

**Consolidated Financial Statements**  
**June 30, 2011 and December 31, 2010**  
**and Six Months Ended June 30, 2011 and 2010**

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 7, 20, 22 and 23)	P9,158,078,786	P9,719,718,284
Short-term investments (Notes 8, 20, 22 and 23)	866,600,000	876,800,000
Investments held for trading (Notes 9, 20, 22 and 23)	789,839,027	500,134,177
Receivables (Notes 10, 20, 22 and 23)	4,021,656,905	4,189,315,348
Available-for-sale investments (Notes 13, 20, 22 and 23)	1,101,854,142	1,104,161,471
Prepaid expenses and other current assets (Note 11)	1,195,296,208	1,104,217,482
<b>Total Current Assets</b>	<b>17,133,325,068</b>	<b>17,494,346,762</b>
<b>Noncurrent Assets</b>		
Investment properties - net (Notes 12 and 20)	98,341,204,699	93,940,301,554
Derivative assets (Notes 22 and 23)	489,430,696	738,228,976
Deferred tax assets (Note 18)	252,811,305	223,266,010
Other noncurrent assets	3,544,846,397	3,946,369,661
<b>Total Noncurrent Assets</b>	<b>102,628,293,097</b>	<b>98,848,166,201</b>
	<b>P119,761,618,165</b>	<b>P116,342,512,963</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 14, 20, 22 and 23)	P8,216,974,708	P6,796,847,322
Current portion of long-term debt (Notes 15, 20, 22 and 23)	635,061,000	766,703,000
Income tax payable	462,073,986	403,831,964
<b>Total Current Liabilities</b>	<b>9,314,109,694</b>	<b>7,967,382,286</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 15, 20, 22 and 23)	39,228,119,408	38,076,546,811
Deferred tax liabilities (Note 18)	1,275,119,619	1,322,799,401
Tenants' deposits (Notes 21, 22 and 23)	6,840,375,473	6,465,889,827
Derivative liabilities (Notes 22 and 23)	578,791,779	709,909,803
Other noncurrent liabilities (Notes 12, 20, 22 and 23)	3,079,538,158	2,850,102,189
<b>Total Noncurrent Liabilities</b>	<b>51,001,944,437</b>	<b>49,425,248,031</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock (Notes 5, 16 and 24)	13,917,800,067	13,917,800,067
Additional paid-in capital - net (Notes 2, 5 and 16)	8,219,067,298	8,219,067,298
Unrealized gain on available-for-sale investments (Notes 13 and 16)	1,668,727	3,745,323
Cumulative translation adjustment (Note 16)	662,827,355	589,700,365
Retained earnings (Note 16):		
Appropriated	7,000,000,000	7,000,000,000
Unappropriated	29,082,655,668	28,562,329,066
Treasury stock (Notes 16 and 24)	(101,474,705)	(101,474,705)
<b>Total Equity Attributable to Equity Holders of the Parent (Note 22)</b>	<b>58,782,544,410</b>	<b>58,191,167,414</b>
<b>Non-controlling Interests (Notes 2 and 16)</b>	<b>663,019,624</b>	<b>758,715,232</b>
<b>Total Stockholders' Equity</b>	<b>59,445,564,034</b>	<b>58,949,882,646</b>
	<b>P119,761,618,165</b>	<b>P116,342,512,963</b>

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>REVENUE</b>		
Rent (Notes 12, 20 and 21)	<b>₱10,917,791,200</b>	₱9,491,798,123
Cinema ticket sales	<b>1,294,880,666</b>	1,372,059,043
Others	<b>492,390,818</b>	442,278,924
	<b>12,705,062,684</b>	11,306,136,090
<b>OPERATING EXPENSES</b> (Notes 12, 17, 19, 20 and 21)	<b>5,917,959,939</b>	5,323,373,554
<b>INCOME FROM OPERATIONS</b>	<b>6,787,102,745</b>	5,982,762,536
<b>OTHER INCOME (CHARGES) - Net</b>		
Interest and dividend income (Notes 7, 8, 9, 13 and 20)	<b>196,673,715</b>	114,420,608
Interest expense (Notes 15, 20 and 23)	<b>(916,364,689)</b>	(1,000,601,001)
Others - net (Notes 9, 15 and 23)	<b>(314,620,012)</b>	2,591,543
	<b>(1,034,310,986)</b>	(883,588,850)
<b>INCOME BEFORE INCOME TAX</b>	<b>5,752,791,759</b>	5,099,173,686
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 18)		
Current	<b>1,401,388,942</b>	1,206,263,822
Deferred	<b>(79,639,943)</b>	(2,357,187)
	<b>1,321,748,999</b>	1,203,906,635
<b>NET INCOME</b>	<b>₱4,431,042,760</b>	₱3,895,267,051
<b>Attributable to</b>		
Equity holders of the parent (Note 24)	<b>₱4,273,041,217</b>	₱3,757,818,592
Non-controlling interests (Notes 2 and 16)	<b>158,001,543</b>	137,448,459
	<b>₱4,431,042,760</b>	₱3,895,267,051
<b>Basic/Dilutive Earnings Per Share</b> (Note 24)	<b>₱0.311</b>	₱0.282

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>NET INCOME</b>	<b>P4,431,042,760</b>	<b>P3,895,267,051</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net</b>		
Unrealized gain (loss) on available-for-sale investments -net of tax (Notes 13 and 16)	(2,076,596)	(384,007)
Cumulative translation adjustment (Note 16)	<b>73,126,990</b>	53,612,119
	<b>71,050,394</b>	53,228,112
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P4,502,093,154</b>	<b>P3,948,495,163</b>
<b>Attributable to</b>		
Equity holders of the parent	<b>P4,344,091,611</b>	P3,811,046,704
Non-controlling interests (Notes 2 and 16)	<b>158,001,543</b>	137,448,459
	<b>P4,502,093,154</b>	<b>P3,948,495,163</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Three Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>REVENUE</b>		
Rent (Notes 12, 20 and 21)	<b>₱5,662,260,054</b>	₱4,892,843,170
Cinema ticket sales	<b>722,349,735</b>	779,383,680
Others	<b>253,515,645</b>	245,311,972
	<b>6,638,125,434</b>	5,917,538,822
<b>OPERATING EXPENSES</b> (Notes 12, 17, 19, 20 and 21)	<b>3,118,896,062</b>	2,849,740,093
<b>INCOME FROM OPERATIONS</b>	<b>3,519,229,372</b>	3,067,798,729
<b>OTHER INCOME (CHARGES) - Net</b>		
Interest and dividend income (Notes 7, 8, 9, 13 and 20)	<b>102,089,286</b>	68,180,363
Interest expense (Notes 15, 20 and 23)	<b>(485,577,343)</b>	(567,017,611)
Others - net (Notes 9, 15 and 23)	<b>(232,270,097)</b>	(19,794,519)
	<b>(615,758,154)</b>	(518,631,767)
<b>INCOME BEFORE INCOME TAX</b>	<b>2,903,471,218</b>	2,549,166,962
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 18)		
Current	<b>726,483,945</b>	614,429,445
Deferred	<b>(54,174,342)</b>	(10,146,391)
	<b>672,309,603</b>	604,283,054
<b>NET INCOME</b>	<b>₱2,231,161,615</b>	₱1,944,883,908
<b>Attributable to</b>		
Equity holders of the parent (Note 24)	<b>₱2,153,974,699</b>	₱1,872,605,440
Non-controlling interests (Notes 2 and 16)	<b>77,186,916</b>	72,278,468
	<b>₱2,231,161,615</b>	₱1,944,883,908

*See accompanying Notes to Consolidated Financial Statements.*

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

	Equity Attributable to Equity Holders of the Parent									
	Capital Stock (Notes 5, 16 and 24)	Additional Paid-in Capital - Net (Notes 2, 5 and 16)	Unrealized Gain on Available- for-Sale Investments (Notes 13 and 16)	Cumulative Translation Adjustment (Note 16)	Retained Earnings		Treasury Stock (Notes 16 and 24)	Total	Non-controlling Interests (Notes 2 and 16)	Total
					Appropriated	Unappropriated				
					(Note 16)	(Note 16)				
<b>At January 1, 2011</b>	<b>₱13,917,800,067</b>	<b>₱8,219,067,298</b>	<b>₱3,745,323</b>	<b>₱589,700,365</b>	<b>₱7,000,000,000</b>	<b>₱28,562,329,066</b>	<b>(₱101,474,705)</b>	<b>₱58,191,167,414</b>	<b>₱758,715,232</b>	<b>₱58,949,882,646</b>
Total comprehensive income	-	-	(2,076,596)	73,126,990	-	4,273,041,217	-	4,344,091,611	158,001,543	4,502,093,154
Cash dividends - ₱0.27 a share	-	-	-	-	-	(3,752,714,615)	-	(3,752,714,615)	-	(3,752,714,615)
Dividends of a subsidiary	-	-	-	-	-	-	-	-	(253,697,151)	(253,697,151)
<b>At June 30, 2011</b>	<b>₱13,917,800,067</b>	<b>₱8,219,067,298</b>	<b>₱1,668,727</b>	<b>₱662,827,355</b>	<b>₱7,000,000,000</b>	<b>₱29,082,655,668</b>	<b>₱(101,474,705)</b>	<b>₱58,782,544,410</b>	<b>₱663,019,624</b>	<b>₱59,445,564,034</b>
At January 1, 2010	₱13,348,191,367	₱2,375,440,999	₱2,515,239	₱681,470,739	₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
Total comprehensive income	-	-	(384,007)	53,612,119	-	3,757,818,592	-	3,811,046,704	137,448,459	3,948,495,163
Cash dividends - ₱0.25 a share	-	-	-	-	-	(3,337,047,842)	-	(3,337,047,842)	-	(3,337,047,842)
Dividends of a subsidiary	-	-	-	-	-	-	-	-	(206,197,712)	(206,197,712)
<b>At June 30, 2010</b>	<b>₱13,348,191,367</b>	<b>₱2,375,440,999</b>	<b>₱2,131,232</b>	<b>₱735,082,858</b>	<b>₱7,000,000,000</b>	<b>₱24,463,798,869</b>	<b>₱(101,474,705)</b>	<b>₱47,823,170,620</b>	<b>₱612,379,075</b>	<b>₱48,435,549,695</b>

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax and non-controlling interests	<b>₱5,752,791,759</b>	₱5,099,173,686
Adjustments for:		
Depreciation and amortization (Notes 12 and 17)	<b>1,890,939,102</b>	1,757,139,791
Interest expense (Notes 15, 20 and 23)	<b>916,364,689</b>	1,000,601,001
Interest and dividend income (Notes 7, 8, 9, 13 and 20)	<b>(196,673,715)</b>	(114,420,608)
Unrealized marked-to-market loss on derivatives (Note 23)	<b>119,251,508</b>	126,722,011
Marked-to-market loss on derivatives (Note 23)	<b>38,123,249</b>	-
Unrealized foreign exchange loss (gain) – net	<b>80,595,528</b>	(9,537,346)
Unrealized marked-to-market loss (gain) on investments held for trading (Note 9)	<b>6,375,000</b>	(4,245,530)
Operating income before working capital changes	<b>8,607,767,120</b>	7,855,433,005
Decrease (increase) in:		
Receivables	<b>167,359,672</b>	(29,764,540)
Prepaid expenses and other current assets	<b>(89,471,193)</b>	(245,600,906)
Increase in:		
Accounts payable and other current liabilities	<b>1,410,223,564</b>	592,776,400
Tenants' deposits	<b>369,901,113</b>	334,143,491
Cash generated from operations	<b>10,465,780,276</b>	8,506,987,450
Income taxes paid	<b>(1,342,839,476)</b>	(1,350,799,925)
Net cash provided by operating activities	<b>9,122,940,800</b>	7,156,187,525
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Investment properties (Note 12)	<b>(6,067,039,401)</b>	(5,360,949,509)
Other noncurrent assets	<b>413,853,682</b>	(29,299,085)
Investments held for trading	<b>(296,725,000)</b>	31,706,872
Increase in other noncurrent liabilities	<b>94,543,714</b>	-
Interest and dividend received	<b>194,333,977</b>	112,760,057
Net cash used in investing activities	<b>(5,661,033,028)</b>	(5,245,781,665)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of loans (Notes 15 and 20)	<b>13,102,782,300</b>	3,925,000,000
Payments of:		
Loans (Notes 15 and 20)	<b>(12,088,413,703)</b>	(1,127,936,507)
Dividends	<b>(3,752,714,615)</b>	(3,337,047,842)
Interest	<b>(989,288,923)</b>	(1,131,538,566)
Payments to unwinding - net (Note 23)	<b>(39,694,500)</b>	-
Decrease in non-controlling interests	<b>(253,697,151)</b>	(206,197,713)
Net cash used in financing activities	<b>(4,021,026,592)</b>	(1,877,720,628)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>(2,520,678)</b>	3,134,832
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(561,639,498)</b>	35,820,064
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>9,719,718,284</b>	3,786,466,722
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱9,158,078,786</b>	₱3,822,286,786

*See accompanying Notes to Consolidated Financial Statements.*

## **SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

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

On May 20, 2008, the SEC approved the Parent Company’s acquisition of the 100% ownership of SM Shopping Center (Chengdu) Co. Ltd. (SM Chengdu), Xiamen SM City Co. Ltd and Xiamen SM Mall Management Co. Ltd. (together, SM Xiamen) and SM International Square Jinjiang City Fujian (SM Jinjiang) [collectively, the SM China Companies] through share swap agreements with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) (see Notes 5, 12 and 16).

On November 30, 2008, the Parent Company likewise completed the acquisition of 100% ownership of SM Land (China) Limited from Grand China (see Note 5).

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

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

The registered office and principal place of business of the Parent Company is SM Corporate Offices, Building A, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

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#### **2. Basis of Preparation**

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

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS and Philippine Interpretations which the Company has adopted during the year:

- PAS 24, *Related Party Disclosures (Amended)*
- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues,*
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

The adoption of these new standards and interpretations has no material effect on the consolidated financial statements.

Basis of Consolidation

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

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

On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired additional 24,376,743 FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such non-controlling interests amounting to ₱3,384 million is accounted for as an equity transaction. Accordingly, the carrying amounts of SMPH's investment and the share of non-controlling interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets (see Note 16).

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

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

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

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

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

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

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### 3. Significant Accounting Judgments, Estimates and Assumptions

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

#### Judgments

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

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

Rent income amounted to ₱10,918 million and ₱9,492 million for the six months ended June 30, 2011 and 2010, respectively.

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

Rent expense amounted to ₱290 million and ₱236 million for the six months ended June 30, 2011 and 2010, respectively.

### Estimates and Assumptions

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

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

The carrying amount of receivables amounted to ₱4,022 million and ₱4,189 million as of June 30, 2011 and December 31, 2010, respectively (see Note 10).

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

The Company's AFS investments amounted to ₱1,102 million and ₱1,104 million as of June 30, 2011 and December 31, 2010, respectively (see Note 13).

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

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

The net book value of investment properties amounted to ₱98,341 million and ₱93,940 million as of June 30, 2011 and December 31, 2010, respectively (see Note 12).

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

Deferred tax assets amounted to ₱253 million and ₱223 million as of June 30, 2011 and December 31, 2010, respectively (see Note 18).

*Pension Cost.* The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The methods and assumptions used to estimate fair value of financial assets and liabilities are discussed in Note 23.

*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.

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#### 4. **Summary of Significant Accounting and Financial Reporting Policies**

##### Cash and Cash Equivalents

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

##### Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

*Day 1 Difference.* Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are included in the consolidated statements of income under the "Others - net" account. Interest income on investments held for trading is included in the consolidated statements of income under the "Interest and dividend income" account.

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

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

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The carrying values of financial assets under this category amounted to ₱1,279 million and ₱1,238 million as of June 30, 2011 and December 31, 2010, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱579 million and ₱710 million as of June 30, 2011 and December 31, 2010, respectively (see Note 23).

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

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

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The carrying values of financial assets under this category amounted to ₱14,046 million and ₱14,786 million as of June 30, 2011 and December 31, 2010, respectively (see Note 23).

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

The Company has no investments classified as HTM as of June 30, 2011 and December 31, 2010.



*AFS Investments.* AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as unrealized gain or loss on AFS investments recognized as other comprehensive income in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. Assets under this category are classified as current assets if management intends to sell these financial assets within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's investments in corporate notes and redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱1,102 million and ₱1,104 million as of June 30, 2011 and December 31, 2010, respectively (see Note 23).

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

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

This category includes accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The carrying values of financial liabilities under this category amounted to ₱57,131 million and ₱54,330 million as of June 30, 2011 and December 31, 2010, respectively (see Note 23).

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

#### Debt Issuance Costs

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

#### Derivative Financial Instruments and Hedging

The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 23). 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 a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

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

#### Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

#### Impairment of Financial Assets

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statements of income under “Provision for (reversal of) impairment losses” account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under “Others - net” account.

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

*AFS Investments.* In the case of equity investments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income - is removed from the consolidated statements of comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in the consolidated statements of comprehensive income.

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

#### Offsetting Financial Instruments

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

#### Business Combinations

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

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

#### Acquisition of Non-controlling Interests

Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity and included under “Additional paid-in capital - net” account in the stockholders’ equity section of the consolidated balance sheets.

#### Investment Properties

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

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

Land is stated at cost less any impairment in value.

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

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

Land use rights	40–60 years
Buildings and improvements	35 years
Building equipment, furniture, leasehold improvements and others	3–15 years

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

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

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

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

#### Impairment of Nonfinancial Assets

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

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

#### Capital Stock

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

#### Treasury Stock

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

#### Revenue Recognition

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

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

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

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

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

#### Management Fees

Management fees are recognized as expense in accordance with the terms of the management contracts.

#### Expenses

Operating and interest expenses are recognized as incurred.

#### 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 method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

#### Foreign Currency-denominated Transactions

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

#### Foreign Currency Translations

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

### Leases

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

*Company as Lessee.* Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*Company as Lessor.* Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rent income. Contingent rents are recognized as revenue in the period in which they are earned.

### Provisions

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

### Borrowing Costs

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

### Taxes

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

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



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

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

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

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

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

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

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

#### Basic/Diluted Earnings Per Share (EPS)

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

#### Geographical Segment

The Company’s business of shopping mall development and operations is organized and managed separately according to geographical areas where the Company operates, namely the Philippines and China. This is the basis upon which the Company reports its primary segment information presented in Note 6 to the consolidated financial statements.

#### Contingencies

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

### Subsequent Events

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

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## 5. Business Combinations

### Acquisition of the SM China Companies (Affluent and Mega Make)

On November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. The acquisition is intended to gain a foothold in China's high-growth prospects and use it as a platform for long-term growth outside the Philippines.

On February 18, 2008, SMPH executed the subscription agreements with Grand China and Oriental Land for the exchange of the SM China Companies shares of stocks for 912,897,212 shares of SMPH to be issued upon the approval by the SEC and the PSE. Grand China owns Affluent, which is the holding company of SM Xiamen and SM Chengdu, while Oriental Land owns Mega Make, the holding company of SM Jinjiang.

On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. Pursuant to the agreements entered into among SMPH, Grand China and Oriental Land, the 912,897,212 shares of SMPH were exchanged for 1,000 shares (100% ownership) of Affluent and 1 share (100% ownership) of Mega Make at a total swap price of ₱10,827 million. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE. As a result of the acquisition, Affluent and Megamake became wholly-owned subsidiaries of SMPH (see Notes 12 and 16).

For accounting purposes, the acquisition of the SM China Companies was recorded at the fair value of the SMPH shares issued to Grand China and Oriental Land at the date of exchange amounting to ₱8,125 million plus directly attributable costs associated with the acquisition amounting to ₱42 million.

Affluent and Mega Make are unlisted companies which were incorporated under the laws of the British Virgin Islands. Affluent indirectly owns SM Xiamen and SM Chengdu while Mega Make indirectly owns SM Jinjiang. The SM China Companies were incorporated in the People's Republic of China. The SM China Companies are engaged in mall operations and development and construction of shopping centers and property management.

### *Affluent*

Below are the details of the cost of the acquisition of Affluent:

Cost:	
Shares issued, at fair value	₱4,809,598,537
Costs associated with the acquisition	24,918,802
	<hr/>
	₱4,834,517,339
	<hr/>

Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	₱558,441
Cash paid	(24,918,802)
	<u>₱(24,360,361)</u>

The total cost of the acquisition was ₱4,835 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. The Parent Company issued 540,404,330 shares with a fair value of ₱8.90 each, which is the quoted market price of the shares of SMPH on the date of exchange.

*Mega Make*

Below are the details of the cost of the acquisition of Mega Make:

Cost:	
Shares issued, at fair value	₱3,315,186,650
Costs associated with the acquisition	17,316,456
	<u>₱3,332,503,106</u>

Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	₱17,890
Cash paid	(17,316,456)
	<u>₱(17,298,566)</u>

The total cost of the acquisition was ₱3,333 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. The Parent Company issued 372,492,882 shares with a fair value of ₱8.90 each, which is the quoted market price of the shares of SMPH on the date of exchange.

Acquisition of SM Land (China)

On November 30, 2008, the Parent Company likewise completed the acquisition of 100% ownership of SM Land (China) from Grand China for ₱11,360 (HK\$2,000). As a result of the acquisition, SM Land (China) became a wholly-owned subsidiary of SMPH.

SM Land (China) is an unlisted company which was incorporated in Hong Kong.

Below are the details of the net cash inflow from the acquisition of SM Land (China):

Net cash and cash equivalents acquired	₱7,511,421
Cash paid	(11,360)
	<u>₱7,500,061</u>

The acquisitions of the SM China Companies and SM Land (China) were considered as business reorganizations of companies under common control.

The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities amounting to ₱4,818 million is included under “Additional paid-in capital - net” account in the stockholders’ equity section of the consolidated balance sheets.

Acquisition of Alpha Star

On September 3, 2009, SM Land (China) acquired Alpha Star from Grand China for ₱778 million (¥112 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land (China). No restatement of prior period was made as a result of the acquisition of Alpha Star due to immateriality.

The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included under “Additional paid-in capital - net” account in the stockholders’ equity section of the consolidated balance sheets (see Note 16).

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**6. Segment Information**

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

Currently, the Company owns forty one shopping malls in the Philippines and three shopping malls in China. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Inter-segment Transactions

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

Geographical Segment Data

	2011			Consolidated
	Philippines	China	Eliminations	
	<i>(In Thousands)</i>			
Revenue	<b>₱11,725,853</b>	<b>₱979,210</b>	<b>₱-</b>	<b>₱12,705,063</b>
Segment results:				
Income before income tax	<b>₱5,432,131</b>	<b>₱320,661</b>	<b>₱-</b>	<b>₱5,752,792</b>
Provision for income tax	<b>1,211,837</b>	<b>109,912</b>	<b>-</b>	<b>1,321,749</b>
Net income	<b>₱4,220,294</b>	<b>₱210,749</b>	<b>₱-</b>	<b>₱4,431,043</b>
Net income attributable to:				
Equity holders of the Parent	<b>₱4,062,294</b>	<b>₱210,749</b>	<b>₱-</b>	<b>₱4,273,041</b>
Non-controlling interests	<b>158,002</b>	<b>-</b>	<b>-</b>	<b>158,002</b>
Segment profit	<b>₱6,370,993</b>	<b>₱416,110</b>	<b>₱-</b>	<b>₱6,787,103</b>
Other information:				
Depreciation and amortization	<b>₱1,676,083</b>	<b>₱214,856</b>	<b>₱-</b>	<b>₱1,890,939</b>
Capital expenditures	<b>4,919,195</b>	<b>1,147,844</b>	<b>-</b>	<b>6,067,039</b>
	2010			
	Philippines	China	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Revenues	<b>₱10,691,340</b>	<b>₱614,796</b>	<b>₱-</b>	<b>₱11,306,136</b>
Segment results:				
Income before income tax	<b>₱4,951,002</b>	<b>₱148,172</b>	<b>₱-</b>	<b>₱5,099,174</b>
Provision for income tax	<b>1,159,982</b>	<b>43,925</b>	<b>-</b>	<b>1,203,907</b>
Net income	<b>₱3,791,020</b>	<b>₱104,247</b>	<b>₱-</b>	<b>₱3,895,267</b>
Net income attributable to:				
Equity holders of the Parent	<b>₱3,653,572</b>	<b>₱104,247</b>	<b>₱-</b>	<b>₱3,757,819</b>
Non-controlling interests	<b>137,448</b>	<b>-</b>	<b>-</b>	<b>137,448</b>
Segment profit	<b>₱5,760,910</b>	<b>₱221,853</b>	<b>₱-</b>	<b>₱5,982,763</b>
Other information:				
Depreciation and amortization	<b>₱1,559,624</b>	<b>₱919,516</b>	<b>₱-</b>	<b>₱10,757,140</b>
Capital expenditures	<b>3,600,121</b>	<b>1,079,494</b>	<b>-</b>	<b>4,679,615</b>

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>June 30, 2011</b>	December 31, 2010
Cash on hand and in banks (see Note 20)	<b>₱2,368,748,184</b>	₱4,132,648,248
Temporary investments (see Note 20)	<b>6,789,330,602</b>	5,587,070,036
	<b>₱9,158,078,786</b>	₱9,719,718,284

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

Interest income earned from bank deposits and temporary investments amounted to ₱117 million and ₱50 million for the six months ended June 30, 2011 and 2010, respectively.

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## 8. Short-term Investments

This account includes time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱867 million and ₱877 million as of June 30, 2011 and December 31, 2010, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated at anytime by the Company.

Interest income earned from short-term investments amounted to ₱14 million for the six months ended June 30, 2011 and 2010.

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## 9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱790 million and ₱500 million as of June 30, 2011 and December 31, 2010, respectively, with yields ranging from 3.18% to 12.29%. The investments are Philippine peso-denominated and U.S. dollar-denominated with various maturities ranging from 2012 to 2018.

Investments held for trading include unrealized marked-to-market loss amounting to ₱6 million and unrealized marked-to-market gain amounting to ₱4 million for the six months ended June 30, 2011 and 2010, respectively, the amounts of which are included under "Others - net" account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱20 million and ₱5 million for the six months ended June 30, 2011 and 2010, respectively.

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## 10. Receivables

This account consists of:

	<b>June 30, 2011</b>	December 31, 2010
Rent (see Note 20)	<b>₱3,398,748,403</b>	₱3,526,843,004
Advances to suppliers	<b>342,453,242</b>	370,314,070
Accrued interest (see Note 20)	<b>35,632,812</b>	33,293,073
Others	<b>244,822,448</b>	258,865,201
	<b>₱4,021,656,905</b>	₱4,189,315,348

Rent receivables generally have terms of 30-90 days.

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

The aging analysis of receivables follows:

	<b>June 30, 2011</b>	December 31, 2010
Neither past due nor impaired	<b>₱3,683,967,870</b>	₱3,944,764,764
Past due but not impaired:		
91-120 days	<b>41,329,864</b>	31,851,507
Over 120 days	<b>296,359,171</b>	212,699,077
	<b>₱4,021,656,905</b>	₱4,189,315,348

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

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## 11. Prepaid Expenses and Other Current Assets

This account consists of:

	<b>June 30, 2011</b>	December 31, 2010
Input taxes	<b>₱388,986,891</b>	₱398,885,734
Prepaid expenses	<b>450,124,597</b>	314,094,794
Advances to contractors	<b>194,931,678</b>	215,722,567
Others	<b>161,253,042</b>	175,514,387
	<b>₱1,195,296,208</b>	₱1,104,217,482

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

## 12. Investment Properties

This account consists of:

June 30, 2011					
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
<b>Cost</b>					
Balance at beginning of year	P19,524,757,159	P72,278,698,603	P15,707,347,346	P9,817,096,213	P117,327,899,321
Additions	1,184,495,964	872,814,414	246,361,663	3,826,794,405	6,130,466,446
Transfers	435,898,576	2,000,327,524	332,705,946	(2,768,932,046)	-
Translation adjustments	34,797,317	88,141,727	14,630,093	42,357,016	179,926,153
Balance at end of year	21,179,949,016	75,239,982,268	16,301,045,048	10,917,315,588	123,638,291,920
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	401,895,611	15,111,732,471	7,873,969,685	-	23,387,597,767
Depreciation and amortization (see Note 17)	31,297,083	1,195,324,112	664,317,907	-	1,890,939,102
Translation adjustments	1,756,387	11,638,865	5,155,100	-	18,550,352
Balance at end of year	434,949,081	16,318,695,448	8,543,442,692	-	25,297,087,221
<b>Net Book Value</b>	<b>P20,744,999,935</b>	<b>P58,921,286,820</b>	<b>P7,757,602,356</b>	<b>P10,917,315,588</b>	<b>P98,341,204,699</b>

December 31, 2010					
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
<b>Cost</b>					
Balance at beginning of year	P14,543,163,919	P64,660,558,173	P14,399,227,393	P10,337,428,196	P103,940,377,681
Additions	4,600,051,172	1,072,467,305	360,723,984	7,749,521,932	13,782,764,393
Reclassification	(40,000,000)	-	(59,738,975)	-	(99,738,975)
Transfers	477,532,899	6,671,339,375	1,030,868,446	(8,179,740,720)	-
Translation adjustments	(55,990,831)	(125,666,250)	(23,733,502)	(90,113,195)	(295,503,778)
Balance at end of year	19,524,757,159	72,278,698,603	15,707,347,346	9,817,096,213	117,327,899,321
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	345,222,016	12,832,794,501	6,827,594,244	-	20,005,610,761
Depreciation and amortization (see Note 17)	95,275,186	2,295,528,096	1,110,380,695	-	3,501,183,977
Reclassification	(35,684,162)	-	(55,750,198)	-	(91,434,360)
Translation adjustments	(2,917,429)	(16,590,126)	(8,255,056)	-	(27,762,611)
Balance at end of year	401,895,611	15,111,732,471	7,873,969,685	-	23,387,597,767
<b>Net Book Value</b>	<b>P19,122,861,548</b>	<b>P57,166,966,132</b>	<b>P7,833,377,661</b>	<b>P9,817,096,213</b>	<b>P93,940,301,554</b>

Included under “Land” account are the 223,474 square meters of real estate properties with a carrying value of P460 million and P475 million as of June 30, 2011 and December 31, 2010, respectively, and a fair value of P13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to P10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Investment properties - net” account and a corresponding liability equivalent to the same amount, which is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of P624 million and P623 million as of June 30, 2011 and December 31, 2010, respectively, and a fair value of P16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 15).



Rent income from investment properties amounted to ₱10,918 million and ₱9,492 million for the six months ended June 30, 2011 and 2010, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱5,918 million and ₱5,323 million for the six months ended June 30, 2011 and 2010, respectively (see Note 17).

The fair value of investment properties amounted to ₱218,071 million as of July 31, 2010 as determined by an independent appraiser. The valuation of investment properties was based on market values. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

Shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Suzhou and SM Chongqing.

Shopping mall complex under construction includes cost of land amounting to ₱1,507 million and ₱1,966 million as of June 30, 2011 and December 31, 2010, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱32,772 million and ₱27,509 million as of June 30, 2011 and December 31, 2010, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of June 30, 2011 and December 31, 2010 are valued at ₱7,606 million and ₱5,745 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱30 million and ₱150 million for the six months ended June 30, 2011 and 2010, respectively. Capitalization rates used were 5.68% and 6.94% in 2011 and 2010, respectively.

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### 13. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by a local entity with annual dividend rate of 8.25% and investments in corporate notes issued by BDO amounting to ₱1,000 million as of June 30, 2011 and December 31, 2010 with fixed interest rate of 6.80%. 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 remaining shares are mandatorily redeemable in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

Interest income earned from AFS investments amounted to ₱46 million and ₱44 million for the six months ended June 30, 2011 and 2010, respectively.

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#### 14. Accounts Payable and Other Current Liabilities

This account consists of:

	<b>June 30, 2011</b>	December 31, 2010
Trade	<b>₱3,955,417,883</b>	₱4,060,325,504
Accrued operating expenses (see Note 20)	<b>3,207,542,233</b>	2,022,473,343
Accrued interest (see Notes 15 and 20)	<b>296,111,318</b>	338,463,012
Others	<b>757,903,274</b>	375,585,463
	<b>₱8,216,974,708</b>	₱6,796,847,322

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

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

Accrued interest is expected to be settled throughout the financial year.

Others mainly consist of taxes payable which are normally settled throughout the financial year.

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#### 15. Long-term Debt

This account consists of:

	<b>June 30, 2011</b>	December 31, 2010
Parent Company:		
U.S. dollar-denominated loans:		
Five-year term loans	<b>₱4,500,802,924</b>	₱–
Five-year, three-year and two-year bilateral loans	<b>1,069,380,036</b>	1,079,807,116
Three-year club loan	<b>866,600,000</b>	1,713,138,278
Three-year term loans	–	3,897,276,056
Other U.S. dollar loans	<b>2,991,379,510</b>	3,019,052,497
Philippine peso-denominated loans:		
Five-year, seven-year and ten-year corporate notes	<b>6,949,584,946</b>	5,000,000,000
Five-year floating rate notes	<b>4,961,964,691</b>	–
Five-year and ten-year corporate notes	<b>4,956,276,265</b>	4,958,173,719
Five-year, seven-year and ten-year fixed rate notes	<b>1,984,668,452</b>	2,969,868,110
Five-year floating rate notes	–	2,985,437,634
Other bank loans	<b>7,905,034,264</b>	9,734,160,361
Subsidiaries:		
China yuan renminbi-denominated loans:		
Five-year loan	<b>2,171,901,600</b>	2,216,223,600
Eight-year loan	<b>536,272,000</b>	763,071,000
Three-year loan	<b>483,249,240</b>	–

	<b>June 30, 2011</b>	December 31, 2010
Five-year loan	<b>408,237,060</b>	398,124,000
Philippine peso-denominated loans - Five-year bilateral loan	<b>77,829,420</b>	108,917,440
	<b>39,863,180,408</b>	38,843,249,811
Less current portion	<b>635,061,000</b>	766,703,000
	<b>₱39,228,119,408</b>	₱38,076,546,811

*Parent Company*

U.S. Dollar-denominated Five-Year Term Loans

This represents a US\$110 million unsecured loans out of a US\$270 million facility obtained on May 6, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US\$160 million is expected to be fully drawn before end of 2011(see Notes 22 and 23).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans

The US\$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US\$20 million and the US\$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million and ₱6 million in 2010 and 2009, respectively (see Notes 22 and 23).

U.S. Dollar-denominated Three-Year Club Loan

The US\$40 million unsecured loans were drawn on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012. A portion of the loans amounting to US\$20 million was prepaid on May 9, 2011 and the balance of US\$20 million was prepaid on July 28, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 22 and 23).

U.S. Dollar-denominated Three-Year Term Loans

The US\$90 million unsecured loans were obtained in April and May 2009. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 23, 2012. The loan was prepaid on May 16, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 22 and 23).

Other U.S. Dollar Loans

This account consists of the following:

- US\$30 million and a US\$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 22 and 23).
- US\$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013 (see Notes 22 and 23).
- US\$20 million three-year bilateral unsecured loan obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012.

The loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 22).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes

This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱5,000 million, ₱1,134 million ₱52 million and ₱814 million, respectively, obtained on various dates on December 20, 2010 and June 13, 2011. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 22).

Philippine Peso-denominated Five-Year Floating Rate Notes

This represents a five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loan carries an interest rate based on PDST-F plus margin and will mature on March 19, 2016 (see Note 22).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes

This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.40% and 10.11% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively (see Note 22).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes

This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000 million was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4 million (see Notes 22 and 23).

Philippine Peso-denominated Five-Year Floating Rate Notes

This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan amounting to ₱1,000 million and ₱3,000 million was prepaid on December 20, 2010 and March 18, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱3 million in 2010 and ₱6 million in 2011 (see Note 22).

Other Bank Loans

This account consists of the following:

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 22).
- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015 (see Notes 22 and 23).
- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 22).
- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million. The loans bear an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 and October 16, 2012, respectively. The Company prepaid the ₱830 million loan on April 13, 2011, the related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 22).
- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin (see Notes 22 and 23).
- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%. The loan was prepaid on March 3, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Note 22).
- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 22).

#### *Subsidiaries*

##### China Yuan Renminbi-denominated Five-Year Loan

This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.184% in 2011 and 2010 (see Note 22).

##### China Yuan Renminbi-denominated Eight-Year Loan

This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 5.760% and 5.346% in 2011 and 2010, respectively (see Note 22).

##### China Yuan Renminbi-denominated Three-Year Loan

This represents a three-year loan obtained on March 28, 2011 amounting to ¥250 million to finance the construction of shopping malls. Partial drawdown amounting to ¥72 million was made as of June 30, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears interest rate of 6.080% in 2011 (see Note 22).

##### China Yuan Renminbi-denominated Five-Year Loan

This represents a five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown amounting to ¥30 million and ¥0.90 million was made in 2010 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.598% in 2011 and 2010 (see Note 22).

Philippine Peso-denominated Five-Year Bilateral Loan

This represents a five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called “SM by the Bay.” The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 22).

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

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of June 30, 2011 and December 31, 2010, the Company is in compliance with the terms of its loan covenants.

Debt Issuance Costs

The movements in unamortized debt issuance costs are as follows:

	<b>June 30, 2011</b>	December 31, 2010
Balance at beginning of year	<b>₱263,713,789</b>	₱255,565,332
Additions	<b>366,589,647</b>	128,934,570
Amortization	<b>(141,118,944)</b>	(120,786,113)
Balance at end of year	<b>₱489,184,492</b>	₱263,713,789

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

Repayment Schedule

Repayments of long-term debt are scheduled as follows:

Year	Amount
2011	₱436,420,000
2012	1,586,587,000
2013	3,272,411,000
2014	9,294,053,840
2015	12,273,893,060
2016 to 2020	13,489,000,000
	<b>₱40,352,364,900</b>

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## 16. Stockholders' Equity

Capital Stock

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares are 13,917,800,067 shares as of June 30, 2011 and December 31, 2010, respectively.

Additional Paid-in Capital

The movements in “Additional paid-in capital - net” account in the consolidated balance sheets are as follows:

	<b>June 30, 2011</b>	December 31, 2010
Balance at beginning of year	<b>₱8,219,067,298</b>	₱2,375,440,999
Additional issuance of shares	–	5,843,626,299
<b>Balance at end of year</b>	<b>₱8,219,067,298</b>	<b>₱8,219,067,298</b>

International Placement of Shares

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

In connection with the international placement of its shares, the Parent Company engaged into a Placement Agreement with SM Land (the Selling Shareholder) and CLSA Limited and Macquarie Capital (Singapore) Pte. Limited (the “Joint Bookrunners”) on October 14, 2010. As stated in the Placement Agreement, SM Land shall sell its 570 million SMPH Common Shares (the “Sale Shares”) with a par value of ₱1 per share at ₱11.50 (Offer Price) per share to the Joint Bookrunners, or to investors that the Joint Bookrunners may procure outside the Philippines (the “International Placement”).

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

SM Land was able to sell through the Joint Bookrunners the total Sale Shares of 570 million SMPH common shares. Likewise, SM Land subscribed for and the Parent Company issued to SM Land the same number of new SMPH common shares. The proceeds of ₱6,414 million, net of transaction costs capitalized, add up to the capital of the Parent Company.

Unrealized Gain on Available-for-Sale Investments and Cumulative Translation Adjustment

The tax effects relating to each component of other comprehensive income are as follows:

	2011			2010		
	Before Tax Amount	Tax Benefit	Net-of-tax Amount	Before Tax Amount	Tax Expense	Net-of-tax Amount
Unrealized gain (loss) on AFS investments	(₱2,307,329)	₱230,733	(₱2,076,596)	(₱426,674)	₱42,667	(₱384,007)
Cumulative translation adjustment	73,126,990	–	73,126,990	53,612,119	–	53,612,119
	<b>₱70,819,661</b>	<b>₱230,733</b>	<b>₱71,050,394</b>	<b>₱53,185,445</b>	<b>₱42,667</b>	<b>₱53,228,112</b>

Acquisition of SM China Companies

As discussed in Note 5, on November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. On May 20, 2008, the SEC approved the valuation and confirmed that the

issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE.

Retained Earnings

The retained earnings account is restricted for the payment of dividends to the extent of ₱4,740 million and ₱4,729 million as of June 30, 2011 and December 31, 2010, respectively, representing the cost of shares held in treasury (₱101 million in 2011 and 2010) and accumulated equity in net earnings of the subsidiaries totaling ₱4,639 million and ₱4,628 million as of June 30, 2011 and December 31, 2010, 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

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

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**17. Operating Expenses**

This account consists of the following expenses incurred in operating the investment properties:

	<b>2011</b>	2010
Depreciation and amortization (see Note 12)	<b>₱1,890,939,102</b>	₱1,757,139,791
Administrative (see Notes 19, 20 and 21)	<b>1,683,328,631</b>	1,421,884,427
Business taxes and licenses	<b>786,214,038</b>	662,874,048
Film rentals	<b>703,238,263</b>	741,388,225
Others (see Note 20)	<b>854,239,905</b>	740,087,063
	<b>₱5,917,959,939</b>	₱5,323,373,554

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**18. Income Tax**

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

	<b>June 30, 2011</b>	December 31, 2010
Deferred tax assets -		
Unrealized foreign exchange losses and others	<b>₱252,811,305</b>	₱223,266,010
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	<b>₱1,275,119,619</b>	₱1,322,799,401

Current tax regulations provide that effective July 1, 2006, the regular corporate income tax (RCIT) rate shall be 35% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30%.

On November 26, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 16-2008 which implemented the provisions of Republic Act 9504 on optional standard deduction (OSD). This regulation allowed both individual and corporate tax payers to use OSD in computing their



taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

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## 19. Pension Cost

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all of its regular full-time employees. As of December 31, 2010, the date of latest actuarial valuation, the actuarial asset amounted to ₱17 million. The annual normal cost amounted to ₱3 million. The principal actuarial assumptions used to determine the pension benefits include salary increase of 11% a year and a return on plan assets of 6% a year.

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## 20. Related Party Transactions

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the six months ended June 30, 2011 and 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

- a. The Company has existing lease agreements with its affiliates, the SM Retail Group and SM Banking Group. Total rent income amounted to ₱3,503 million and ₱3,162 million for the six months ended June 30, 2011 and 2010, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,237 million and ₱1,418 million as of June 30, 2011 and December 31, 2010, respectively.
- b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱110 million and ₱99 million for the six months ended June 30, 2011 and 2010, respectively. Rent payable to SMIC and SM Land included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱29 million and ₱35 million as of June 30, 2011 and December 31, 2010, respectively.
- c. The Company pays management fees to its affiliates, 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 ₱384 million and ₱326 million for the six months ended June 30, 2011 and 2010, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱74 million and ₱59 million as of June 30, 2011 and December 31, 2010, respectively.

- d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group and SMIC. Cash and cash equivalents, short-term investments and investments held for trading amounted to ₱6,948 million and ₱7,125 million as of June 30, 2011 and December 31, 2010, respectively. Interest income amounted to ₱133 million and ₱64 million for the six months ended June 30, 2011 and 2010, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱25 million and ₱17 million as of June 30, 2011 and December 31, 2010, respectively.
- e. As of June 30, 2011 and December 31, 2010, the outstanding long-term debt from the SM Banking Group and SMIC amounted to ₱698 million and ₱1,529 million, respectively. Advances from SMIC, included under “Other noncurrent liabilities” account in the consolidated balance sheets amounting to ₱2,000 million was prepaid in November 2010. Interest expense amounted to ₱40 million and ₱136 million for the six months ended June 30, 2011 and 2010, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱12 million and ₱23 million as of June 30, 2011 and December 31, 2010, respectively.
- f. AFS investments include investments in corporate notes issued by BDO amounting to ₱1,000 million as of June 30, 2011 and December 31, 2010. Interest income amounted to ₱34 million for the six months ended June 30, 2011 and 2010. Interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱6 million as of June 30, 2011 and December 31, 2010.
- g. On January 2, 2008, the SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 170,082 square meters, 19,952 square meters and 33,440 square meters, respectively. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.
- h. The total compensation paid to key management personnel of the Company amounted to ₱15 million and ₱13 million for the six months ended June 30, 2011 and 2010, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

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## 21. Lease Agreements

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

Rent income amounted to ₱10,918 million and ₱9,492 million for the six months ended June 30, 2011 and 2010, respectively.

The Company also leases certain parcels of land where some of its malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the

same period under the same terms and conditions. Rent payments are generally computed based on a certain percentage of the Company's gross rent income or a certain fixed amount, whichever is higher.

Rent expense included under "Operating expenses" account in the consolidated statements of income amounted to ₱290 million and ₱236 million for the six months ended June 30, 2011 and 2010, respectively.

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## 22. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, principally interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 23).

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

### Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 7, 9, 13 and 15.

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 June 30, 2011 and December 31, 2010, after taking into account the effect of interest rate swaps, approximately 51% and 53% respectively, of the Company's long-term borrowings are at a fixed rate of interest (see Note 23).

Interest Rate Risk Table

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

	June 30, 2011						Total	Debt Issuance	Carrying Value
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years			
<b>Fixed rate:</b>									
Philippine peso-denominated corporate notes	₱45,550,000	₱25,550,000	₱3,697,800,000	₱1,097,300,000	₱8,660,000	₱1,914,040,000	₱6,788,900,000	(45,147,086)	₱6,743,752,914
Interest rate	5.79%-8.40%	5.79%-8.40%	5.79%-8.40%	5.79%-6.65%	5.89%-6.65%	5.89%-10.11%			
Philippine peso-denominated fixed rate notes	₱990,000	₱990,000	₱990,000	₱1,194,060,000	₱-	₱800,000,000	1,997,030,000	(12,361,548)	1,984,668,452
Interest rate	9.60%	9.60%	9.60%	9.60%		9.85%			
Other bank loans	₱-	₱-	₱-	₱-	₱1,200,000,000	₱-	1,200,000,000	(6,857,340)	1,193,142,660
Interest rate					9.75%				
<b>Floating rate:</b>									
U.S. dollar-denominated five-year term loans	\$-	\$90,000,000	\$-	\$-	\$110,000,000	\$-	4,766,300,000	(265,497,076)	4,500,802,924
Interest rate		LIBOR+spread			LIBOR+spread				
U.S. dollar-denominated bilateral loans	\$-	\$25,000,000	\$-	\$-	\$-	\$-	1,083,250,000	(13,869,964)	1,069,380,036
Interest rate		LIBOR+spread							
U.S. dollar-denominated three-year club loan	\$20,000,000	\$-	\$-	\$-	\$-	\$-	866,600,000	-	866,600,000
Interest rate	LIBOR+spread								
Other U.S. dollar loans	\$-	\$20,000,000	\$-	\$50,000,000	\$-	\$-	3,033,100,000	(41,720,490)	2,991,379,510
Interest rate		LIBOR+spread		LIBOR+spread					
Philippine peso-denominated corporate notes	₱100,300,000	₱50,300,000	₱248,800,000	₱4,800,000,000	₱-	₱-	5,199,400,000	(37,291,703)	5,162,108,297
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
Philippine peso-denominated five-year floating rate notes	₱50,000,000	₱50,000,000	₱50,000,000	₱50,000,000	₱4,800,000,000	₱-	5,000,000,000	(38,035,310)	4,961,964,690
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Philippine peso-denominated five-year bilateral loans	₱78,125,000	₱-	₱-	₱-	₱-	₱-	78,125,000	(295,580)	77,829,420
Interest rate	PDST-F+margin%								
Other bank loans	₱10,000,000	₱760,000,000	₱3,010,000,000	₱2,960,000,000	₱-	₱-	6,740,000,000	(28,108,395)	6,711,891,605
Interest rate	PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%					
China yuan renminbi-denominated loans	¥130,000,000	¥65,000,000	¥341,090,169	¥900,000	¥-	¥-	3,599,659,900	-	3,599,659,900
Interest rate	5.18%-6.08%	5.18%-6.08%	5.18%-6.08%	5.18%-6.08%					
							₱40,352,364,900	(₱489,184,492)	₱39,863,180,408

	December 31, 2010						Total	Debt Issuance	Carrying Value
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years			
Fixed rate:									
Philippine peso-denominated corporate notes	₱25,550,000	₱25,550,000	₱25,550,000	₱3,697,800,000	₱1,097,300,000	₱1,922,700,000	₱6,794,450,000	(₱34,537,230)	₱6,759,912,770
Interest rate	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱5,990,000	₱5,990,000	₱980,990,000	₱990,000	₱1,994,060,000	₱–	2,988,020,000	(18,151,890)	2,969,868,110
Interest rate	9.31%–9.60%	9.31%–9.60%	9.31%–9.60%	9.60%	9.60%–9.85%				
Other bank loans	–	–	1,000,000,000	–	–	1,200,000,000	2,200,000,000	(11,312,327)	2,188,687,673
Interest rate			7.18%			9.75%			
Floating rate:									
U.S. dollar-denominated three-year term loans	\$–	\$90,000,000	\$–	\$–	\$–	\$–	3,945,600,000	(48,323,944)	3,897,276,056
Interest rate		LIBOR+spread							
U.S. dollar-denominated bilateral loans	\$–	\$–	\$25,000,000	\$–	\$–	\$–	1,096,000,000	(16,192,884)	1,079,807,116
Interest rate			LIBOR+spread						
U.S. dollar-denominated three-year club loan	\$–	\$40,000,000	\$–	\$–	\$–	\$–	1,753,600,000	(40,461,722)	1,713,138,278
Interest rate		LIBOR+spread							
Other U.S. dollar loans	\$–	\$20,000,000	\$20,000,000	\$–	\$30,000,000	\$–	3,068,800,000	(49,747,503)	3,019,052,497
Interest rate		LIBOR+spread	LIBOR+spread		LIBOR+spread				
Philippine peso-denominated corporate notes	₱30,300,000	₱30,300,000	₱30,300,000	₱228,800,000	₱2,880,000,000	₱–	3,199,700,000	(1,439,051)	3,198,260,949
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Philippine peso-denominated five-year floating rate notes	₱2,000,000	₱2,992,000,000	₱–	₱–	₱–	₱–	2,994,000,000	(8,562,366)	2,985,437,634
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated five-year bilateral loans	₱62,500,000	₱46,875,000	₱–	₱–	₱–	₱–	109,375,000	(457,560)	108,917,440
Interest rate	PDST-F+margin%	PDST-F+margin%							
Other bank loans	₱10,000,000	₱840,000,000	₱760,000,000	₱3,010,000,000	₱2,960,000,000	₱–	7,580,000,000	(34,527,312)	7,545,472,688
Interest rate	PDST-F+margin%	PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%				
China yuan renminbi-denominated five-year loan	¥20,000,000	¥30,000,000	¥40,000,000	¥244,000,000	¥–	¥–	2,216,223,600	–	2,216,223,600
Interest rate	5.18%	5.18%	5.18%	5.18%					
China yuan renminbi-denominated eight-year loan	¥75,000,000	¥40,000,000	¥–	¥–	¥–	¥–	763,071,000	–	763,071,000
Interest rate	5.35%	5.35%							
China yuan renminbi-denominated five-year loan	¥–	¥10,000,000	¥25,000,000	¥25,000,000	¥–	¥–	398,124,000	–	398,124,000
Interest rate		5.60%	5.60%	5.60%					
							₱39,106,963,600	(₱263,713,789)	₱38,843,249,811

#### Foreign Currency Risk

To manage its foreign currency risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows (see Note 23).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱9,444 million (US\$218 million) and ₱9,932 million (US\$229 million), respectively, as of June 30, 2011 and ₱9,653 million (US\$220 million) and ₱10,090 million (US\$230 million), respectively, as of December 31, 2010.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱43.33 to US\$1.00 and ₱43.84 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as of June 30, 2011 and December 31, 2010, respectively.

#### 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, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 23.

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

#### Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

*High Quality.* Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

*Standard Quality.* Other financial assets not belonging to high quality financial assets are included in this category.

As of June 30, 2011 and December 31, 2010, the credit quality of the Company's financial assets is as follows:

	June 30, 2011			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		
<b>Loans and Receivables</b>				
Cash and cash equivalents*	P9,122,665,625	P-	P-	P9,122,665,625
Short-term investments	866,600,000	-	-	866,600,000
Receivables from:				
Rent	-	3,061,059,368	337,689,035	3,398,748,403
Accrued interest	35,632,812	-	-	35,632,812
Advances to suppliers and others	-	587,275,690	-	587,275,690
<b>Financial Assets at FVPL</b>				
Investments held for trading -				
Corporate and government bonds	789,839,027	-	-	789,839,027
Derivative assets	489,430,696	-	-	489,430,696
<b>AFS Investments</b>				
Debt securities	1,101,854,142	-	-	1,101,854,142
	<b>P12,406,022,302</b>	<b>P3,648,335,058</b>	<b>P337,689,035</b>	<b>P16,392,046,395</b>

\*Excluding cash on hand amounting to P35 million.

	December 31, 2010			
	Neither Past Due nor Impaired		Past Due but not Impaired	Total
	High Quality	Standard Quality		
<b>Loans and Receivables</b>				
Cash and cash equivalents*	P9,690,188,157	P-	P-	P9,690,188,157
Short-term investments	876,800,000	-	-	876,800,000
Receivables from:				
Rent	-	3,282,292,420	244,550,584	3,526,843,004
Accrued interest	33,293,073	-	-	33,293,073
Advances to suppliers and others	-	629,179,271	-	629,179,271
<b>Financial Assets at FVPL</b>				
Investments held for trading -				
Corporate and government bonds	500,134,177	-	-	500,134,177
Derivative assets	738,228,976	-	-	738,228,976
<b>AFS Investments</b>				
Debt securities	1,104,161,471	-	-	1,104,161,471
	<b>P12,942,805,854</b>	<b>P3,911,471,691</b>	<b>P244,550,584</b>	<b>P17,098,828,129</b>

\*Excluding cash on hand amounting to P30 million.

### Liquidity Risk

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company's financial assets, which have maturity of less than 12 months and used to meet its short term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to P9,158 million, P867 million and P790 million, respectively, as of June 30, 2011 and P9,720 million, P877 million and P500 million, respectively, as of December 31, 2010. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to P1,102 million and P1,104 million as of June 30, 2011 and December 31, 2010, respectively.

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

June 30, 2011				
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	P7,807,776,743	P-	P-	P7,807,776,743
Long-term debt (including current portion)	2,542,160,446	43,605,818,273	3,399,290,183	49,547,268,902
Derivative liabilities	-	578,791,779	-	578,791,779
Tenants' deposits	-	6,840,375,473	-	6,840,375,473
Other noncurrent liabilities*	-	2,619,169,259	-	2,619,169,259
	<b>P10,349,937,189</b>	<b>P53,644,154,784</b>	<b>P3,399,290,183</b>	<b>P67,393,382,156</b>

\* Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to P409 million and P460 million, respectively.

December 31, 2010				
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	P6,646,207,309	P-	P-	P6,646,207,309
Long-term debt (including current portion)	2,691,093,533	39,907,704,664	4,833,260,283	47,432,058,480
Derivative liabilities	-	709,909,803	-	709,909,803
Tenants' deposits	-	6,465,889,827	-	6,465,889,827
Other noncurrent liabilities*	-	2,375,075,078	-	2,375,075,078
	<b>P9,337,300,842</b>	<b>P49,458,579,372</b>	<b>P4,833,260,283</b>	<b>P63,629,140,497</b>

\* Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to P151 million and P475 million, respectively.

### 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, payoff existing debts, return capital to shareholders or issue new shares.

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



As of June 30, 2011 and December 31, 2010, the Company's gearing ratio are as follows:

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

	June 30, 2011	December 31, 2010
Current portion of long-term debt	P635,061,000	P766,703,000
Long-term debt - net of current portion	39,228,119,408	38,076,546,811
Total interest-bearing debt (a)	39,863,180,408	38,843,249,811
Total equity attributable to equity holders of the Parent	58,782,544,410	58,191,167,414
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	P98,645,724,818	P97,034,417,225
Gearing ratio (a/b)	40%	40%

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

	June 30, 2011	December 31, 2010
Current portion of long-term debt	P635,061,000	P766,703,000
Long-term debt - net of current portion	39,228,119,408	38,076,546,811
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	(11,916,371,955)	(12,200,813,932)
Total net interest-bearing debt (a)	27,946,808,453	26,642,435,879
Total equity attributable to equity holders of the Parent	58,782,544,410	58,191,167,414
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	P86,729,352,863	P84,833,603,293
Gearing ratio (a/b)	32%	31%

**23. Financial Instruments**

Carrying Values

The table below presents a comparison of the carrying amounts of the Company's financial instruments by category:

	June 30, 2011	March 31, 2011	December 31, 2010
<b>Financial Assets</b>			
Loans and receivables	P14,046,335,691	P15,928,033,851	P14,785,833,632
Financial assets at FVPL	1,279,269,723	1,281,082,672	1,238,363,153
AFS investments	1,101,854,142	1,103,461,465	1,104,161,471
	P16,427,459,556	P18,312,577,988	P17,128,358,256
<b>Financial Liabilities</b>			
Financial liabilities at FVPL	P578,791,779	P603,886,928	P709,909,803
Other financial liabilities	57,130,501,883	55,243,241,841	54,330,422,025
	P57,709,293,662	P55,847,128,769	P55,040,331,828

Fair Values

The carrying amounts of the Company's other financial assets approximate their fair values due to the short-term nature of the transactions.

Derivative Financial Instruments

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

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

	2011		
	<1 Year	>1-<2 Years	>2-<5 Years
Floating-Fixed:			
Outstanding notional amount	\$110,000,000	\$110,000,000	\$110,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.28%	3.28%	3.28%
Outstanding notional amount	\$50,000,000	\$50,000,000	\$50,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.18%-3.53%	3.18%-3.53%	3.18%-3.53%
Outstanding notional amount	\$20,000,000	\$20,000,000	\$-
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	\$20,000,000	\$20,000,000	\$-
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	\$25,000,000	\$25,000,000	\$25,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	4.10%	4.10%	4.10%
Outstanding notional amount	₱750,000,000	₱750,000,000	₱750,000,000
Receive-floating rate	3 months	3 months	3 months
	PHIREF+margin%	PHIREF+margin%	PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-Floating:			
Outstanding notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
	+margin%	+margin%	+margin%

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
<b>Floating-Fixed:</b>			
Outstanding notional amount	\$30,000,000	\$30,000,000	\$30,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.53%	3.53%	3.53%
Outstanding notional amount	\$40,000,000	\$40,000,000	\$-
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	\$20,000,000	\$20,000,000	\$20,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	3.41%	3.41%	3.41%
Outstanding notional amount	\$115,000,000	\$115,000,000	\$25,000,000
Receive-floating rate	6 months	6 months	6 months
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	4.10%– 5.40%	4.10%– 5.40%	4.10%
Outstanding notional amount	₱750,000,000	₱750,000,000	₱750,000,000
Receive-floating rate	3 months	3 months	3 months
	PHIREF+margin%	PHIREF+margin%	PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
<b>Fixed-Floating:</b>			
Outstanding notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F +margin%	3MPDST-F +margin%	3MPDST-F +margin%
Outstanding notional amount	₱985,000,000	₱980,000,000	₱975,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST- F +margin%	3MPDST- F +margin%	3MPDST- F +margin%

*Interest Rate Swaps.* In 2011, the Parent Company entered into US\$ interest rate swap agreement with notional amount of US\$110 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated bilateral loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 15). As of June 30, 2011, the floating to fixed interest rate swap has negative fair value of ₱51 million.

The Parent Company entered into US\$ interest rate swap agreement with notional amount of US\$30 million in 2010 and US\$20 million in 2011. Under these agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 and 2015 (see Note 15). As of June 30, 2011 and December 31, 2010, the floating to fixed interest rate swaps have negative fair values of ₱16 million and positive values of ₱20 million, respectively.

In 2010, the Parent Company entered into two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 15). As of June 30, 2011 and December 31, 2010, these swaps have positive fair values of ₱58 million and ₱87 million, respectively.

Also in 2010, the Parent Company entered into US\$ interest rate swap agreement with notional amount of US\$40 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 15). On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Realized losses from the pretermination recognized in the consolidated statements of income amounted to ₱4 million in 2011.

Also in 2010, the Parent Company entered into US\$ interest rate swap agreement with notional amount of US\$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 15). As of June 30, 2011 and December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱7 million and ₱2 million, respectively.

In 2009, the Parent Company entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$145 million. Under these agreements, the Parent Company effectively converts the floating rate US\$30 million two-year bilateral loan, US\$90 million three-year term loan and US\$25 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 15). The Parent Company preterminated the US\$30 million on November 30, 2010 and the US\$90 million on May 16, 2011. The pretermination resulted to a ₱6 million gain in 2010 and ₱9 million loss in 2011, recognized in the consolidated statements. As of June 30, 2011 and December 31, 2010, the outstanding floating to fixed interest rate swaps have net negative fair values of ₱47 million and ₱130 million, respectively.

Also in 2009, the Parent Company entered into Philippine peso interest rate swap agreement with notional amount of ₱750 million. Under the agreement, the Parent Company effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 15). As of June 30, 2011 and December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱21 million and ₱30 million, respectively.

In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million with repayment of ₱5 million every anniversary. Under these agreements, the Parent Company effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 15). As of December 31, 2010, the fixed to floating interest rate swaps have positive fair values of ₱90 million. On March 14, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan. The pretermination resulted to a ₱27 million loss recognized in the consolidated statements of income.

*Non-deliverable Forwards.* In 2011 and 2010, the Parent Company entered into sell ₱ and buy US\$ forward contracts. At the same time, it entered into sell US\$ and buy ₱ with the same

aggregate notional amount as an offsetting position. The Parent Company recognized derivative asset and derivative liability amounting to ₱431 million and ₱541 million from the outstanding forward contracts as of June 30, 2011 and December 31, 2010, respectively.

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#### 24. Basic/Diluted EPS Computation

Basic/diluted EPS is computed as follows:

	2011	2010
Net income attributable to equity holders of the Parent (a)	<b>₱4,273,041,217</b>	₱3,757,818,592
Common shares issued	<b>13,348,191,367</b>	13,348,191,367
Weighted average number of shares issued in equity placement (see Note 16)	<b>403,472,829</b>	-
Common shares issued at end of year	<b>13,751,664,196</b>	13,348,191,367
Less treasury stock	<b>18,857,000</b>	18,857,000
Weighted average number of common shares outstanding (b)	<b>13,732,807,196</b>	13,329,334,367
Earnings per share (a/b)	<b>₱0.311</b>	₱0.282

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Financial and Operational Highlights

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

	Second Quarter					Six Months Ended June 30				
	2011	% to Revenues	2010	% to Revenues	% Change	2011	% to Revenues	2010	% to Revenues	% Change
Profit & Loss Data										
Revenues	6,638	100%	5,918	100%	12%	12,705	100%	11,306	100%	12%
Operating Expenses	3,119	47%	2,850	48%	9%	5,918	47%	5,323	47%	11%
Operating Income	3,519	53%	3,068	52%	15%	6,787	53%	5,983	53%	13%
Net Income	2,154	32%	1,873	32%	15%	4,273	34%	3,758	33%	14%
EBITDA	4,484	68%	3,963	67%	13%	8,678	68%	7,740	68%	12%

	June 30 2011	% to Total Assets	Dec 31 2010	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	119,762	100%	116,343	100%	3%
Investment Properties	98,341	82%	93,940	81%	5%
Total Debt	39,863	33%	38,843	33%	3%
Net Debt	27,947	23%	26,642	23%	5%
Total Stockholders' Equity	58,783	49%	58,191	50%	1%

Financial Ratios	June 30 2011	Dec 31 2010
Current Ratio	1.84	2.20
Debt to Equity	0.40 : 0.60	0.40 : 0.60
Net Debt to Equity	0.32 : 0.68	0.31 : 0.69

	June 30	
(annualized)	2011	2010
Return on Equity	0.15	0.16
Return on Investment Properties	0.10	0.10
Debt to EBITDA	2.30	2.35
EBITDA to Interest Expense	9.47	7.74
Operating Income to Revenues	0.53	0.53
EBITDA Margin	0.68	0.68
Net Income to Revenues	0.34	0.33
Debt Service Coverage Ratio	7.39	2.48

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 41 malls in the Philippines and three malls in China, posts 12% increase in gross revenues for the first half of 2011 to ₱12.71 billion from ₱11.31 billion in the same period 2010. Rental revenues, accounting for 86% of total revenues, grew by 15% amounting to ₱10.92 billion from same period last year of ₱9.49 billion. This is largely due to rentals from new SM Supermalls opened in 2010, namely, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches. SM Masinag was also opened in May 2011. The new malls added 380,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 7%.

In terms of gross revenues, the three malls in China contributed ₱0.98 billion in 2011 and ₱0.61 billion in 2010, or 8% and 5% of total consolidated operating revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 9% and 6% to SM Prime's consolidated rental revenues in 2011 and 2010, respectively. Gross revenues of the three malls in China increased 59% in 2011 compared to the same period in 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle which added 110,000 square meters of gross floor area. Average occupancy rate for the three malls is now at 91%.

For the first half of 2011, cinema ticket sales decreased by 6% from ₱1.37 billion in 2010 to ₱1.30 billion in 2011 due to lack of foreign blockbuster movies. In 2011, major blockbusters shown were "Kung Fu Panda 2," "Thor," "Pirates of the Caribbean 4," "Catch Me I'm in Love" and "X-Men: First Class." In the same period 2010, major films shown were "Iron Man 2," "Clash of the Titans," "Avatar," "Shrek Forever After" and "Miss You Like Crazy."

Amusement and other income increased by 11% to ₱492 million in 2011 from ₱442 million in 2010. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Operating expenses increased by 11% from ₱5.32 billion in 2010 to ₱5.92 billion in 2011 mainly due to new malls and increase in administrative expenses. Likewise, income from operations posted a 13% growth from ₱5.98 billion in 2010 to ₱6.79 billion in 2011. In terms of operating expenses, the three malls in China contributed ₱0.56 billion in 2011 and ₱0.39 billion in 2010, or 10% and 7% of SM Prime's consolidated operating expenses, respectively.

Interest and dividend income increased significantly by 72% to ₱197 million in 2011 compared to ₱114 million in 2010 mainly due to higher balance of temporary investments in the first half of 2011 compared to same period last year.

On the other hand, interest expense for the period decreased by 8% despite the new loans, at ₱0.92 billion in 2011 from ₱1.0 billion in 2010, due to decrease in market interest rates and interest reduction initiatives.

Net income for the six months ended 2011 increased by 14% at ₱4.27 billion from same period last year of ₱3.76 billion. On a stand-alone basis, the net income of the three malls in China doubled to ₱211 million in 2011 compared to ₱104 million in 2010. While net income of the Philippine operations grew 11% at ₱4.06 billion in 2011 from ₱3.65 billion in 2010.

On the balance sheet side, cash and cash equivalents slightly decreased by 6% from ₱9.72 billion as of December 31, 2010 to ₱9.16 billion as of June 30, 2011. This account includes

the remaining proceeds raised from the equity placement done last October 2010 amounting to ₱3.2 billion.

Investments held for trading increased by 58%, from ₱500 million as of December 31, 2010 to ₱790 million as of June 30, 2011, due to additional investments in corporate bonds.

Receivables decreased by 4% from ₱4.19 billion as of December 31, 2010 to ₱4.02 billion as of June 30, 2011 due to subsequent collections of rental receivables. On the other hand, prepaid expenses and other current assets increased by 8% from ₱1.10 billion as of December 31, 2010 to ₱1.19 billion as of June 30, 2011 mainly due to prepaid taxes and prepaid insurance on investment properties.

Investment properties increased 5% from ₱93.9 billion as of December 31, 2010 to ₱98.3 billion as of June 30, 2011 mainly because of on-going new mall projects and expansions located in Cavite, Pampanga, Olongapo, General Santos and Davao City and Suzhou and Chongqing in China.

The decrease in derivative assets by 34% from ₱738 million as of December 31, 2010 to ₱489 million as of June 30, 2011 and derivative liabilities by 18% from ₱710 million as of December 31, 2010 to ₱579 million as of June 30, 2011, is mainly due to unwinding of interest rate swaps as a result of prepayment of underlying loans.

Deferred tax assets increased 13% from ₱223 million as of December 31, 2010 to ₱253 million as of June 30, 2011 due to unrealized marked-to-market losses on interest rate swaps.

Other noncurrent assets decreased by 10% from ₱3.95 billion as of December 31, 2010 to ₱3.54 billion as of June 30, 2011 mainly due to refund of a bid bond for acquisition of a certain real property in China, offset by additional deposits paid and advances to contractors for mall construction.

The increase in accounts payable and other current liabilities of 21% from ₱6.80 billion as of December 31, 2010 to ₱8.22 billion as of June 30, 2011 is mainly due to accrued operating expenses, taxes payable and payables to mall contractors.

Current portion of long-term debt decreased by 17% from ₱767 million as of December 31, 2010 to ₱635 million as of June 30, 2011 is due to subsequent payments.

Tenants' deposits increased 6% from ₱6.47 billion as of December 31, 2010 to ₱6.84 billion as of June 30, 2011 due to the new malls. Other noncurrent liabilities likewise increased by 8% from ₱2.85 billion as of December 31, 2010 to ₱3.08 billion as of June 30, 2011 mainly due to increase in liability for purchased real estate properties.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on



equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) return on investment properties (ROI) which measures the ratio of net income to investment properties excluding shopping mall complex under construction; (7) earnings before interest, income taxes, depreciation and amortization (EBITDA); (8) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (9) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (10) operating income to revenues which basically measures the gross profit ratio; (11) EBITDA margin which measures the ratio of EBITDA to gross revenues and (12) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The Company's current ratio decreased to 1.84:1 from 2.20:1 as of June 30, 2011 and December 31, 2010, respectively, due to increase in accounts payable and other current liabilities.

Interest-bearing debt to stockholders' equity is unchanged at 0.40:0.60 as of June 30, 2011 and December 31, 2010. Net interest-bearing debt to stockholders' equity slightly increased to 0.32:0.68 from 0.31:0.69 as of June 30, 2011 and December 31, 2010, respectively. Debt service coverage ratio increased to 7.39:1 from 2.48:1 for the six months ended June 30, 2011 and 2010, respectively, due to prepayment of debt maturities scheduled for 2012.

In terms of profitability, ROE slightly decreased to 15% from 16% for the six months ended June 30, 2011 and 2010, respectively, as a result of the equity placement done last October 2010.

EBITDA increased 12% to ₱8.69 billion in 2011 from ₱7.74 billion in 2010. Debt to EBITDA is almost steady at 2.30:1 from 2.35:1 as of June 30, 2011 and 2010, respectively. EBITDA to interest expense increased from 7.74:1 to 9.47:1 for the periods ended June 30, 2010 and 2011, respectively, due to higher cash flows from operations and decrease in interest expense.

Consolidated operating income to revenues is steady at 53% for both periods ended June 30, 2011 and 2010. On a stand-alone basis, operating income margin of the Philippines and China operations is at 54% and 42% in 2011, compared to 54% and 36% in 2010, respectively.

EBITDA margin remains strong at 68% for the both periods ended June 30, 2011 and 2010. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 69% and 64% in 2011, respectively and 68% in 2010.

Net income to revenues slightly improved at 34% from 33% for the periods ended June 30, 2011 and 2010. On a stand-alone basis, net income margin of the Philippines and China operations is at 35% and 22% in 2011 and 34% and 17% in 2010, respectively.

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

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

SM City Masinag is the first SM mall to be opened this year. It brings to 41 the total number of SM Prime malls all over the country, with a combined gross floor area of 5.1 million square meters. For the rest of 2011, SM Prime is scheduled to open SM City San Fernando in Pampanga, SM City Olongapo in Zambales, and SM Suzhou in China. The company is also set to expand this year SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. By the end of 2011, SM Prime will have 43 malls in the Philippines and four in China with an estimated combined gross floor area of 5.9 million square meters.


## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**SM PRIME HOLDINGS, INC.**

Registrant

Date: August 1, 2011

  
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**JEFFREY C. LIM**  
Executive Vice-President

**SM PRIME HOLDINGS, INC.**  
**AGING OF RENT RECEIVABLE**  
**AS OF JUNE 30, 2011**

MALL	BALANCE	CURRENT	Over 30 days
SM NORTH EDSA	371,248,840	284,573,906	86,674,934
SM MEGAMALL	331,070,660	258,867,453	72,203,207
SM MALL OF ASIA	264,498,848	228,155,737	36,343,111
SM FAIRVIEW	192,510,504	157,560,324	34,950,180
SM CEBU	146,793,569	135,447,747	11,345,822
SM SOUTHMALL	113,614,133	97,871,400	15,742,734
SM PAMPANGA	109,407,680	98,272,437	11,135,242
SM MANILA	107,814,877	67,263,404	40,551,473
SM BACOR	91,102,186	81,526,808	9,575,378
SM SAN LAZARO	85,757,686	81,721,567	4,036,119
SM ILOILO	83,242,403	74,328,099	8,914,304
SM STA MESA	70,131,173	67,054,113	3,077,060
SM DASMARINAS	69,476,863	64,661,101	4,815,763
SM CLARK	70,284,817	64,805,921	5,478,896
SM BAGUIO	62,977,336	59,768,729	3,208,607
SM DAVAO	62,013,805	57,237,041	4,776,764
SM MARILAO	59,669,882	58,507,805	1,162,077
SM STA ROSA	58,845,868	57,927,104	918,763
SM BICUTAN	56,393,475	54,122,994	2,270,481
SM SUCAT	55,080,675	50,972,094	4,108,581
SM TAYTAY	53,117,585	52,213,550	904,035
SM MARIKINA	52,222,632	50,713,160	1,509,471
SM LIPA	53,805,996	52,486,976	1,319,020
SM BACOLOD	48,390,028	46,802,322	1,587,706
SM BATANGAS	50,189,051	45,207,325	4,981,725
SM CALAMBA	42,613,046	42,362,251	250,795
SM NAGA	40,131,542	38,948,458	1,183,084
SM TARLAC	39,706,081	37,502,611	2,203,470
SM BY THE BAY	41,849,136	18,328,585	23,520,551
SM ROSALES	38,113,527	35,808,177	2,305,350
SM LUCENA	37,133,934	35,725,245	1,408,689
SM BALIWAG	36,894,706	35,990,212	904,494
SM CAGAYAN DE ORO	36,280,247	30,880,614	5,399,633
SM ROSARIO	33,453,480	32,124,925	1,328,555
SM VALENZUELA	32,280,568	29,173,612	3,106,956
SM MASINAG	31,486,217	29,152,245	2,333,972
SM MOLINO	30,894,554	30,796,837	97,718
SM NOVALICHES	27,557,063	26,926,823	630,241
SM MUNTINLUPA	26,832,444	26,545,932	286,512
SM SAN PABLO	25,928,547	25,555,810	372,737
SM PASIG	24,145,896	21,800,127	2,345,769
SM LAS PINAS	22,419,651	21,786,513	633,138
SM NAGTAHAN	6,114,909	6,002,920	111,989
SM CHINA MALLS	105,252,283	104,239,011	1,013,272
	<b>3,398,748,403</b>	<b>2,977,720,027</b>	<b>421,028,376</b>