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(Company's Full Name)

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

**Mr. Jeffrey C. Lim**  
(Contact Person)

**831-1000**  
(Company Telephone Number)

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic	Foreign

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To be accomplished by SEC Personnel concerned

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SM Prime Holdings, Inc. and Subsidiaries

**Consolidated Financial Statements**  
**September 30, 2010 and December 31, 2009**  
**and Periods Ended September 30, 2010 and 2009**

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

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 7, 21, 23 and 24)	P6,493,616,187	P3,786,466,722
Short-term investments (Notes 8, 21, 23 and 24)	1,877,600,000	1,924,000,000
Investments held for trading (Notes 9, 21, 23 and 24)	278,776,572	389,186,100
Receivables (Notes 10, 21, 23 and 24)	3,597,719,908	3,664,884,416
Prepaid expenses and other current assets (Note 11)	1,004,699,824	808,962,181
Total Current Assets	13,252,412,491	10,573,499,419
<b>Noncurrent Assets</b>		
Investment properties - net (Notes 12 and 21)	90,567,255,624	83,934,766,920
Available-for-sale investments (Notes 13, 23 and 24)	102,359,352	102,794,710
Derivative assets (Notes 23 and 24)	92,424,620	355,235,235
Deferred tax assets (Note 19)	262,596,959	243,120,374
Other noncurrent assets	2,815,147,630	2,650,662,977
Total Noncurrent Assets	93,839,784,185	87,286,580,216
	P107,092,196,676	P97,860,079,635
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Loans payable (Notes 14, 21, 23 and 24)	P-	P1,000,000,000
Accounts payable and other current liabilities (Notes 15, 21, 23 and 24)	6,316,678,168	5,230,439,925
Current portion of long-term debt (Notes 16, 21, 23 and 24)	3,446,958,500	421,467,200
Income tax payable	349,847,437	526,145,990
Total Current Liabilities	10,113,484,105	7,178,053,115
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 16, 21, 23 and 24)	34,074,455,288	32,034,600,468
Deferred tax liabilities (Note 19)	1,198,056,534	1,132,255,738
Tenants' deposits (Notes 22, 23 and 24)	6,356,004,436	5,708,755,024
Derivative liability (Notes 23 and 24)	231,451,676	386,828,566
Other noncurrent liabilities (Notes 12, 21, 23 and 24)	4,948,813,764	3,389,286,638
Total Noncurrent Liabilities	46,808,781,698	42,651,726,434
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock (Notes 5, 17 and 25)	13,348,191,367	13,348,191,367
Additional paid-in capital - net (Notes 2, 5 and 17)	2,375,440,999	2,375,440,999
Unrealized gain on available-for-sale investments (Notes 13 and 17)	2,123,416	2,515,239
Cumulative translation adjustment (Note 17)	531,077,086	681,470,739
Retained earnings (Note 17):		
Appropriated	7,000,000,000	7,000,000,000
Unappropriated	26,328,939,710	24,043,028,119
Treasury stock (Notes 17 and 25)	(101,474,705)	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 23)	49,484,297,873	47,349,171,758
<b>Minority Interest</b> (Notes 2 and 17)	685,633,000	681,128,328
Total Stockholders' Equity	50,169,930,873	48,030,300,086
	P107,092,196,676	P97,860,079,635

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>		
Rent (Notes 12, 21 and 22)	<b>₱14,324,382,831</b>	₱12,671,647,188
Cinema ticket sales	<b>2,043,262,282</b>	1,445,386,397
Others	<b>666,633,629</b>	495,376,903
	<b>17,034,278,742</b>	14,612,410,488
<b>OPERATING EXPENSES</b> (Notes 12, 18, 20, 21 and 22)	<b>8,142,099,101</b>	6,900,162,358
<b>INCOME FROM OPERATIONS</b>	<b>8,892,179,641</b>	7,712,248,130
<b>OTHER INCOME (CHARGES) – net</b>		
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	<b>163,484,118</b>	348,007,981
Interest expense (Notes 14, 16 and 21)	<b>(1,501,239,897)</b>	(1,207,190,061)
Others - net (Notes 9 and 24)	<b>117,564,307</b>	(73,771,403)
	<b>(1,220,191,472)</b>	(932,953,483)
<b>INCOME BEFORE INCOME TAX</b>	<b>7,671,988,169</b>	6,779,294,647
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 19)		
Current	<b>1,796,929,883</b>	1,556,988,215
Deferred	<b>41,396,469</b>	(28,059,409)
	<b>1,838,326,352</b>	1,528,928,806
<b>NET INCOME</b>	<b>₱5,833,661,817</b>	₱5,250,365,841
<b>Attributable to</b>		
Equity holders of the parent (Note 25)	<b>₱5,622,959,433</b>	₱5,072,303,190
Minority interest (Notes 2 and 17)	<b>210,702,384</b>	178,062,651
	<b>₱5,833,661,817</b>	₱5,250,365,841
<b>Basic/Diluted Earnings Per Share</b> (Note 25)	<b>₱0.422</b>	₱0.381

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>NET INCOME</b>	<b>₱5,833,661,817</b>	<b>₱5,250,365,841</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) - net</b>		
Unrealized gain on available-for-sale investments		
- net of tax (Notes 13 and 17)	(391,823)	342,025
Cumulative translation adjustment (Note 17)	(150,393,653)	(49,682,447)
	<b>(150,785,476)</b>	<b>(49,340,422)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱5,682,876,341</b>	<b>₱5,201,025,419</b>
<b>Attributable to</b>		
Equity holders of the parent	<b>₱5,472,173,957</b>	<b>₱5,022,962,768</b>
Minority interest (Notes 2 and 17)	<b>210,702,384</b>	<b>178,062,651</b>
	<b>₱5,682,876,341</b>	<b>₱5,201,025,419</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Three Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>		
Rent (Notes 12, 21 and 22)	<b>₱4,832,584,708</b>	₱4,315,906,347
Cinema ticket sales	<b>671,203,239</b>	511,705,821
Others	<b>224,354,705</b>	184,917,319
	<b>5,728,142,652</b>	5,012,529,487
<b>OPERATING EXPENSES</b> (Notes 12, 18, 20, 21 and 22)	<b>2,818,725,547</b>	2,406,610,649
<b>INCOME FROM OPERATIONS</b>	<b>2,909,417,105</b>	2,605,918,838
<b>OTHER INCOME (CHARGES) – net</b>		
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	<b>49,063,510</b>	98,403,812
Interest expense (Notes 14, 16 and 21)	<b>(500,638,896)</b>	(332,257,964)
Others - net (Notes 9 and 24)	<b>114,972,764</b>	(124,823,046)
	<b>(336,602,622)</b>	(358,677,198)
<b>INCOME BEFORE INCOME TAX</b>	<b>2,572,814,483</b>	2,247,241,640
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 19)		
Current	<b>590,666,061</b>	525,459,586
Deferred	<b>43,753,656</b>	(148,116)
	<b>634,419,717</b>	525,311,470
<b>NET INCOME</b>	<b>₱1,938,394,766</b>	₱1,721,930,170
<b>Attributable to</b>		
Equity holders of the parent (Note 25)	<b>₱1,865,140,841</b>	₱1,659,719,484
Minority interest (Notes 2 and 17)	<b>73,253,925</b>	62,210,686
	<b>₱1,938,394,766</b>	₱1,721,930,170

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>Equity Attributable to Equity Holders of the Parent</b>									
	<b>Capital Stock</b>	<b>Additional Paid-in Capital - Net</b>	<b>Unrealized Gain on Available- for-Sale Investments</b>	<b>Cumulative Translation Adjustments</b>	<b>Retained Earnings</b>		<b>Treasury Stock</b>	<b>Minority Interest</b>		
	(Notes 5, 17 and 25)	(Notes 2, 5 and 17)	(Notes 13 and 17)	(Note 17)	Appropriated (Note 17)	Unappropriated (Note 17)	(Notes 17 and 25)	Total	(Notes 2 and 17)	Total
<b>At January 1, 2010</b>	<b>₱13,348,191,367</b>	<b>₱2,375,440,999</b>	<b>₱2,515,239</b>	<b>₱681,470,739</b>	<b>₱7,000,000,000</b>	<b>₱24,043,028,119</b>	<b>(₱101,474,705)</b>	<b>₱47,349,171,758</b>	<b>₱681,128,328</b>	<b>₱48,030,300,086</b>
Total comprehensive income	-	-	(391,823)	(150,393,653)	-	5,622,959,433	-	5,472,173,957	210,702,384	5,682,876,341
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 September 30, 2010</b>	<b>₱13,348,191,367</b>	<b>₱2,375,440,999</b>	<b>₱2,123,416</b>	<b>₱531,077,086</b>	<b>₱7,000,000,000</b>	<b>₱26,328,939,710</b>	<b>(₱101,474,705)</b>	<b>₱49,484,297,873</b>	<b>₱685,633,000</b>	<b>₱50,169,930,873</b>
At January 1, 2009	₱13,348,191,367	₱5,493,656,403	₱48,346,550	₱821,103,222	₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556
Total comprehensive income	-	-	342,025	(49,682,447)	-	5,072,303,190	-	5,022,962,768	178,062,651	5,201,025,419
Acquisition of minority interest	-	(3,073,952,352)	-	-	-	-	-	(3,073,952,352)	(310,260,212)	(3,384,212,564)
Cash dividends - ₱0.24 a share	-	-	-	-	-	(3,199,040,237)	-	(3,199,040,237)	-	(3,199,040,237)
Dividends of a subsidiary	-	-	-	-	-	-	-	-	(293,089,202)	(293,089,202)
<b>At September 30, 2009</b>	<b>₱13,348,191,367</b>	<b>₱2,419,704,051</b>	<b>₱48,688,575</b>	<b>₱771,420,775</b>	<b>₱7,000,000,000</b>	<b>₱22,091,981,084</b>	<b>(₱101,474,705)</b>	<b>₱45,578,511,147</b>	<b>₱605,703,825</b>	<b>₱46,184,214,972</b>

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax and minority interest	<b>₱7,671,988,169</b>	₱6,779,294,647
Adjustments for:		
Depreciation and amortization (Notes 12 and 18)	<b>2,657,885,189</b>	2,325,362,102
Interest expense (Notes 14, 16 and 21)	<b>1,501,239,897</b>	1,207,190,061
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	<b>(163,484,118)</b>	(348,007,981)
Unrealized marked-to-market loss on derivatives (Note 24)	<b>107,433,726</b>	53,843,536
Unrealized foreign exchange gain – net	<b>(58,559,815)</b>	(2,157,333)
Realized marked-to-market gain on derivatives	<b>–</b>	(12,293,816)
Operating income before working capital changes	<b>11,716,503,048</b>	10,003,231,216
Decrease (increase) in:		
Receivables	<b>(240,392,266)</b>	67,961,723
Prepaid expenses and other current assets	<b>(196,909,301)</b>	255,322,549
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>829,951,419</b>	(379,975,515)
Tenants' deposits	<b>656,575,658</b>	722,956,777
Net cash generated from operations	<b>12,765,728,558</b>	10,669,496,750
Income taxes paid	<b>(1,973,699,035)</b>	(2,008,360,469)
Net cash provided by operating activities	<b>10,792,029,523</b>	8,661,136,281
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Investment properties (Note 12)	<b>(7,711,609,684)</b>	(7,846,065,442)
Other noncurrent assets	<b>(170,841,090)</b>	(530,650,048)
Investments held for trading	<b>107,556,787</b>	(97,002,944)
Decrease in other noncurrent liabilities	<b>(2,168,477)</b>	(2,699,318,500)
Interest and dividend received	<b>155,846,005</b>	300,153,353
Acquisition of minority interest in FARDC	<b>–</b>	(3,384,212,564)
Net cash used in investing activities	<b>(7,621,216,459)</b>	(14,257,096,145)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of loans (Notes 14 and 16)	<b>5,844,950,500</b>	12,581,865,000
Payments of:		
Dividends	<b>(3,337,047,842)</b>	(3,199,040,237)
Interest	<b>(1,501,864,414)</b>	(1,419,382,466)
Loans (Notes 14 and 16)	<b>(1,185,121,880)</b>	(6,764,882,624)
Decrease in minority interest	<b>(206,197,713)</b>	(293,089,202)
Net cash provided by (used in) financing activities	<b>(385,281,349)</b>	905,470,471
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>(78,382,250)</b>	(79,908,775)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>2,707,149,465</b>	(4,770,398,168)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
	<b>3,786,466,722</b>	10,737,196,836
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
	<b>₱6,493,616,187</b>	₱5,966,798,668

*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 17).

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 50.52% directly and indirectly-owned by SM Investments Corporation (SMIC). SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

The registered office and principal place of business of the Parent Company is 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 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 and Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council.

### Changes in Accounting Policies

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

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
- PAS 39 Amendment, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- PFRS 2 Amendments, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*

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
First Asia Realty Development Corporation (FARDC)	Philippines	74.19	SM Megamall
Premier Central, Inc.	- do -	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	- do -	100.00	SM City Dasmariñas SM City Batangas
Premier Southern Corp. (PSC)	- do -	100.00	and SM City Lipa
San Lazaro Holdings Corporation	- do -	100.00	-
Southernpoint Properties Corporation	- do -	100.00	-
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.00	San Miguel by the Bay SM City Xiamen
Affluent Capital Enterprises Limited (Affluent)	British Virgin Islands	100.00	and SM City Chengdu
Mega Make Enterprises Limited (Mega Make)	- do -	100.00	SM City Jinjiang
Springfield Global Enterprises Limited (Springfield)	- do -	100.00	-
SM Land (China) Limited (SM Land (China))	Hong Kong	100.00	-

On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired an additional beneficial interest in FARDC, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such minority interest amounting to ₱3,384 million is accounted for as an equity transaction. The carrying amounts of SMPH's investment and the share of minority interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the minority 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 17).

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the board 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.

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

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

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, 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 ₱14,324 million and ₱12,672 million for the periods ended September 30, 2010 and 2009, respectively.

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

Rent expense amounted to ₱353 million and ₱323 million for the periods ended September 30, 2010 and 2009, 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 ₱3,598 million and ₱3,665 million as of September 30, 2010 and December 31, 2009, 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 greater 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 ₱102 million and ₱103 million as of September 30, 2010 and December 31, 2009, respectively.

*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 an investment property exceed their recoverable amounts, the investment property is considered impaired and are written down to their recoverable amounts.

The net book value of investment properties amounted to ₱90,567 million and ₱83,935 million as of September 30, 2010 and December 31, 2009, 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 ₱263 million and ₱243 million as of September 30, 2010 and December 31, 2009, respectively (see Note 19).

*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 20 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 24.

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

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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 highly liquid investments that are readily convertible to known amounts of cash 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 ₱371 million and ₱744 million as of September 30, 2010 and December 31, 2009, respectively. Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱231 million and ₱387 million as of September 30, 2010 and December 31, 2009, respectively (see Note 24).

*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 ₱11,969 million and ₱9,375 million as of September 30, 2010 and December 31, 2009, respectively (see Note 24).

*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 September 30, 2010 and December 31, 2009.

*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 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 maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's investments in redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱102 million and ₱103 million as of September 30, 2010 and December 31, 2009, respectively (see Note 24).



*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 loans payable, 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 ₱54,587 million and ₱47,170 million as of September 30, 2010 and December 31, 2009, respectively (see Note 24).

#### 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, interest rate swaps, non-deliverable forwards and foreign currency range options to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (see Note 24).

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, 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 Minority Interest

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 malls 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 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 charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Treasury Stock

Own equity instruments which are 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.

#### 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 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. Rental 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 rental 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 substantially 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 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 receivables or payables 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. The Company has only one primary business segment, which is shopping mall operation.

Contingencies

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

Subsequent Events

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

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**5. Business Combinations**

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

On November 13, 2007, the Board of Directors (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 17).

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 P8,125 million plus directly attributable costs associated with the acquisition amounting to P42 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	P4,809,598,537
Costs associated with the acquisition	24,918,802
	<u>P4,834,517,339</u>
Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	P558,441
Cash paid	(24,918,802)
	<u>(P24,360,361)</u>

The total cost of the acquisition was P4,835 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 P8.90 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	P3,315,186,650
Costs associated with the acquisition	17,316,456
	<u>P3,332,503,106</u>
Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	P17,890
Cash paid	(17,316,456)
	<u>(P17,298,566)</u>

The total cost of the acquisition was P3,333 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 P8.90 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 P11,360 (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 accounts of the SM China Companies and SM Land (China) have been included in the 2007 consolidated financial statements as if the combination had occurred at the beginning of 2007.

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 (see Note 17).

#### 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 periods 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 17).

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## 6. Segment Information

### Geographical Segment

The geographical segment is determined as the primary segment reporting format as the Company’s risks and rates of return are affected predominantly by differences in economic and political environments in which they operate. Currently, the Company owns thirty six 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.

The Company has one primary business segment, which is shopping mall operations.

### Segment Assets and Liabilities

Segment assets and segment liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

### 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

	2010			
	Philippines	China	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Revenues	<b>₱16,078,703</b>	<b>₱955,576</b>	<b>₱-</b>	<b>₱17,034,279</b>
Segment results:				
Income before income tax	<b>₱7,450,352</b>	<b>₱221,636</b>	<b>₱-</b>	<b>₱7,671,988</b>
Provision for income tax	<b>1,771,259</b>	<b>67,067</b>	<b>-</b>	<b>1,838,326</b>
Net income	<b>5,679,093</b>	<b>154,569</b>	<b>-</b>	<b>5,833,662</b>
Net income attributable to:				
Equity holders of the Parent	<b>₱5,468,391</b>	<b>₱154,569</b>	<b>₱-</b>	<b>₱5,622,960</b>
Minority interests	<b>210,702</b>	<b>-</b>	<b>-</b>	<b>210,702</b>
Other information:				
Depreciation and amortization	<b>₱2,373,865</b>	<b>₱284,020</b>	<b>₱-</b>	<b>₱2,657,885</b>
Capital expenditures	<b>6,475,157</b>	<b>1,236,453</b>	<b>-</b>	<b>7,711,610</b>
	2009			
	Philippines	China	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Revenues	<b>₱13,921,584</b>	<b>₱690,826</b>	<b>₱-</b>	<b>₱14,612,410</b>
Segment results:				
Income before income tax	<b>₱6,652,072</b>	<b>₱127,223</b>	<b>₱-</b>	<b>₱6,779,295</b>
Provision for income tax	<b>1,493,162</b>	<b>35,767</b>	<b>-</b>	<b>1,528,929</b>
Net income	<b>5,158,910</b>	<b>91,456</b>	<b>-</b>	<b>5,250,366</b>
Net income attributable to:				
Equity holders of the Parent	<b>₱4,980,847</b>	<b>₱91,456</b>	<b>₱-</b>	<b>₱5,072,303</b>
Minority interests	<b>178,063</b>	<b>-</b>	<b>-</b>	<b>178,063</b>
Other information:				
Depreciation and amortization	<b>₱2,085,401</b>	<b>₱239,961</b>	<b>₱-</b>	<b>₱2,325,362</b>
Capital expenditures	<b>4,951,544</b>	<b>2,894,521</b>	<b>-</b>	<b>7,846,065</b>

**7. Cash and Cash Equivalents**

This account consists of:

	September 30, 2010	December 31, 2009
Cash on hand and in banks (see Note 21)	<b>₱2,159,940,942</b>	₱1,617,067,434
Temporary investments (see Note 21)	<b>4,333,675,245</b>	2,169,399,288
	<b>₱6,493,616,187</b>	₱3,786,466,722

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 ₱77 million and ₱102 million for the periods ended September 30, 2010 and 2009, respectively.

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#### 8. Short-term Investments

This account includes time deposits with Banco de Oro Unibank, Inc. amounting to ₱1,878 million and ₱1,924 million as of September 30, 2010 and December 31, 2009, respectively, with fixed interest rates ranging from 3.24% to 6.80%.

Interest income earned from short-term investments amounted to ₱66 million and ₱119 million for the periods ended September 30, 2010 and 2009, respectively.

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#### 9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱279 million and ₱389 million as of September 30, 2010 and December 31, 2009, respectively, with yields ranging from 3.18% to 12.29%. The investments are Peso-denominated and U.S. dollar-denominated with various maturities ranging from 2012-2017.

Investments held for trading include unrealized marked-to-market gain amounting to ₱12 million and ₱5 million for the periods ended September 30, 2010 and 2009, 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 ₱7 million and ₱3 million for the periods ended September 30, 2010 and 2009, respectively.

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#### 10. Receivables

This account consists of:

	<b>September 30, 2010</b>	December 31, 2009
Rent (see Note 21)	<b>₱2,935,684,718</b>	₱3,072,689,836
Accrued interest and others (see Note 21)	<b>662,035,190</b>	592,194,580
	<b>₱3,597,719,908</b>	₱3,664,884,416

Rent receivables generally have terms of 30-90 days.

Accrued interest and others are normally collected throughout the financial year.

The aging analysis of receivables follows:

	September 30, 2010	December 31, 2009
Neither past due nor impaired	<b>₱2,709,243,140</b>	₱3,475,575,869
Past due but not impaired:		
91-120 days	<b>35,006,528</b>	20,907,490
Over 120 days	<b>191,435,050</b>	168,401,057
	<b>₱2,935,684,718</b>	₱3,664,884,416

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

## 11. Prepaid Expenses and Other Current Assets

This account consists of:

	September 30, 2010	December 31, 2009
Prepaid taxes	<b>₱405,517,232</b>	₱289,693,040
Input taxes	<b>298,314,261</b>	277,561,997
Advances to contractors and others	<b>300,868,331</b>	241,707,144
	<b>₱1,004,699,824</b>	₱808,962,181

## 12. Investment Properties

This account consists of:

	September 30, 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 period	₱14,543,163,919	₱64,660,558,173	₱14,399,227,393	₱10,337,428,196	₱103,940,377,681
Additions	3,406,633,029	796,528,247	509,991,292	5,004,835,254	9,717,987,822
Transfers	258,888,488	1,925,120,450	283,067,324	(2,467,076,262)	-
Translation adjustments	(89,423,900)	(200,703,684)	(37,905,176)	(143,921,301)	(471,954,061)
Balance at end of period	18,119,261,536	67,181,503,186	15,154,380,833	12,731,265,887	113,186,411,442
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of period	345,222,016	12,832,794,501	6,827,594,244	-	20,005,610,761
Depreciation and amortization	74,464,584	1,666,994,795	916,425,810	-	2,657,885,189
Translation adjustments	(4,659,473)	(26,496,370)	(13,184,289)	-	(44,340,132)
Balance at end of period	415,027,127	14,473,292,926	7,730,835,765	-	22,619,155,818
<b>Net Book Value</b>	<b>₱17,704,234,409</b>	<b>₱52,708,210,260</b>	<b>₱7,423,545,068</b>	<b>₱12,731,265,887</b>	<b>₱90,567,255,624</b>

	December 31, 2009				
	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 period	₱12,106,288,645	₱58,843,149,698	₱12,509,447,906	₱8,481,332,742	₱91,940,218,991
Additions	2,370,938,158	1,955,769,839	1,269,012,287	6,746,200,394	12,341,920,678
Transfers	130,417,580	4,044,499,146	654,728,116	(4,829,644,842)	-
Translation adjustments	(64,480,464)	(182,860,510)	(33,960,916)	(60,460,098)	(341,761,988)
Balance at end of period	14,543,163,919	64,660,558,173	14,399,227,393	10,337,428,196	103,940,377,681
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of period	265,796,608	10,760,772,164	5,739,741,078	-	16,766,309,850
Depreciation and amortization	82,878,559	2,090,434,742	1,097,471,478	-	3,270,784,779
Translation adjustments	(3,453,151)	(18,412,405)	(9,618,312)	-	(31,483,868)
Balance at end of period	345,222,016	12,832,794,501	6,827,594,244	-	20,005,610,761
<b>Net Book Value</b>	<b>₱14,197,941,903</b>	<b>₱51,827,763,672</b>	<b>₱7,571,633,149</b>	<b>₱10,337,428,196</b>	<b>₱83,934,766,920</b>

Included under “Land” account are the 223,474 square meters of real estate properties with a carrying value of ₱470 million and ₱487 million as of September 30, 2010 and December 31, 2009, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Investment properties - net” account and a corresponding liability equivalent to the same amount, which is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱618 million and ₱647 million as of September 30, 2010 and December 31, 2009, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

Rental income from investment properties amounted to ₱14,324 million and ₱12,672 million for the periods ended September 30, 2010 and 2009, respectively. Direct operating expenses from investment properties that generated rental income amounted to ₱8,142 million and ₱6,900 million for the periods ended September 30, 2010 and 2009, respectively.

The fair value of investment properties amounted to ₱233,201 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 Calamba, SM San Pablo, SM Novaliches, SM Taguig, SM Masinag, SM Suzhou and SM Chongqing.

Shopping mall complex under construction includes cost of land amounting to ₱2,166 million and ₱2,088 million as of September 30, 2010 and December 31, 2009, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱17,472 million and ₱13,734 million as of September 30, 2010 and December 31, 2009, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of September 30, 2010 and December 31, 2009 are valued at ₱2,876 million and ₱2,887 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱233 million and ₱520 million for the nine months ended September 30, 2010 and 2009, respectively. Capitalization rates used were 7.70% and 8.56% in 2010 and 2009, 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 an annual dividend rate of 8.25%. Interest income earned from AFS investments amounted to ₱13 million and ₱124 million for the periods ended September 30, 2010 and 2009, respectively. The preferred shares have preference over the issuer’s common shares in the payment of dividends

and in the distribution of assets in case of dissolution and liquidation. Preferred shares amounting to ₱2,453 million (US\$50 million) were redeemed in October 2009. The remaining shares are mandatorily redeemable in 2011 at par.

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#### 14. Loans Payable

Loans payable consists of unsecured Philippine peso-denominated loan obtained from banks which amounted to ₱1,000 million as of December 31, 2009 (see Note 21). This loan was paid upon maturity last February 2010.

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

This account consists of:

	<b>September 30, 2010</b>	December 31, 2009
Trade	<b>₱2,914,076,437</b>	₱2,764,043,291
Accrued operating expenses (see Note 21)	<b>2,010,994,603</b>	1,410,984,518
Accrued interest (see Notes 14, 16 and 21)	<b>548,675,157</b>	318,328,554
Others	<b>842,931,971</b>	737,083,562
	<b>₱6,316,678,168</b>	₱5,230,439,925

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

Accrued interest, accrued operating expenses and others are normally settled throughout the financial year.

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#### 16. Long-term Debt

This account consists of:

	<b>September 30, 2010</b>	December 31, 2009
Parent Company:		
U.S. dollar-denominated loans:		
Three-year term loans	<b>₱3,892,368,144</b>	₱4,072,557,494
Five-year, three-year and two-year bilateral loans	<b>2,389,211,909</b>	2,507,295,023
Three-year club loan	<b>1,711,207,171</b>	-
Three-year bilateral loan	<b>874,445,936</b>	919,562,465
Three-year bilateral loan	<b>855,215,278</b>	-
Philippine peso-denominated loans:		
Five-year and ten-year corporate notes	<b>4,956,245,068</b>	4,956,605,289
Five-year floating rate notes	<b>3,980,875,065</b>	3,977,760,426
Five-year bilateral loan	<b>2,994,818,748</b>	2,989,904,839
Five-year, seven-year and ten-year fixed rate notes	<b>2,968,975,391</b>	2,972,411,897
Other bank loans	<b>9,731,291,552</b>	6,742,204,472



	<b>September 30, 2010</b>	December 31, 2009
<b>Subsidiaries:</b>		
China yuan renminbi-denominated loans:		
Five-year loan	<b>2,189,937,800</b>	2,368,520,000
Eight-year loan	<b>754,020,500</b>	778,228,000
Five-year loan	<b>98,350,500</b>	2,368,520,000
Philippine peso-denominated loans:		
Five-year bilateral loan	<b>124,450,726</b>	171,017,763
	<b>37,521,413,788</b>	32,456,067,668
Less current portion	<b>3,446,958,500</b>	421,467,200
	<b>₱34,074,455,288</b>	₱32,034,600,468

*Parent Company*

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 (see Note 24).

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 unsecured loan on June 1, 2009, with an original maturity date of November 19, 2010. The related unamortized balance of debt issuance costs charged to expense amounted to ₱4 million (see Note 24).

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 (see Note 24).

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

The US\$20 million unsecured loan was obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012.

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

The US\$20 million unsecured loan was drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013 (see Note 24).

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 Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively.

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 amounting to ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin.

Philippine Peso-denominated Five-Year Bilateral Loan

This represents a five-year bullet term loan obtained on June 21, 2006 amounting to ₱3,000 million and will mature on June 21, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin.

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 (see Note 24).

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.
- 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 Note 24).
- 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.
- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries an interest rate based on PDST-F plus an agreed margin.
- Five-year bullet loan obtained on October 16, 2009 amounting to ₱2,000 million and will mature on October 16, 2014. The loan carries an interest rate based on PDST-F plus an agreed margin.
- Five-year bullet loan obtained on October 16, 2009 amounting to ₱830 million and will mature on October 16, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin.
- 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 Note 24).
- 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%.
- 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 24).

*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 carries an interest rate of 5.184% in 2010 and 2009.

China Yuan Renminbi-denominated Ten-Year Bilateral Loan

This represents a ten-year loan obtained on June 11, 2008 amounting to ¥500 million to finance the construction of shopping malls. The loan is payable in annual installments until 2017. The interest rates range from 5.940% to 9.396%. The loan was prepaid on September 1, 2009.

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 5.346% in 2010 and 2009.

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 ¥15 million was made in September 2010 and the balance will be drawn by 2010 to 2011. The loan is payable in semi-annual installments until 2015. The loan carries an interest rate of 5.184% in 2010.

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 San Miguel by the Bay. The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin.

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 September 30, 2010 and December 31, 2009, 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>September 30, 2010</b>	December 31, 2009
Balance at beginning of period	<b>₱255,565,332</b>	₱169,355,369
Additions	<b>100,048,518</b>	196,823,826
Amortization	<b>(80,548,838)</b>	(110,613,863)
Balance at end of period	<b>₱275,065,012</b>	₱255,565,332

### Repayment Schedule

Repayments of long-term debt are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2010	₱245,109,500
2011	4,796,142,000
2012	11,997,251,000
2013	5,016,491,500
2014	8,487,424,800
2015 to 2018	7,254,060,000
	<u>₱37,796,478,800</u>

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## 17. Stockholders' Equity

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of September 30, 2010 and December 31, 2009 are 13,348,191,367 shares.

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.

On April 23, 2007, the BOD and the stockholders approved the increase in authorized capital stock from ₱10,000 million, divided into 10,000,000,000 shares, to ₱20,000 million, divided into 20,000,000,000 shares with a par value of ₱1 a share. The BOD and the stockholders likewise approved the declaration of a 25% stock dividend or approximately 2,500 million shares to all stockholders to be issued from the increased authorized capital stock. These were subsequently approved by the SEC on May 29, 2007 and the stock dividends were issued on July 24, 2007.

The retained earnings account is restricted for the payment of dividends to the extent of ₱4,269 million and ₱4,142 million as of September 30, 2010 and December 31, 2009, respectively, representing the cost of shares held in treasury (₱101 million in 2010 and 2009) and accumulated equity in net earnings of the subsidiaries totaling ₱4,168 million and ₱4,041 million as of September 30, 2010 and December 31, 2009, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

The movement of "Additional paid-in capital - net" account in the consolidated balance sheets is as follows:

	<b>September 30, 2010</b>	December 31, 2009
Balance at beginning of period	<b>₱2,375,440,999</b>	₱5,493,656,403
Adjustments from:		
Acquisition of minority interest in FARDC	-	(3,073,952,352)
Acquisition of Alpha Star	-	(44,263,052)
Balance at end of period	<b>₱2,375,440,999</b>	<b>₱2,375,440,999</b>

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

	2010			2009		
	Before tax amount	Tax expense	Net-of-tax amount	Before tax amount	Tax expense	Net-of-tax amount
Unrealized gain(loss) on AFS investments	(₱435,359)	₱43,536	(₱391,823)	₱380,028	(₱38,003)	₱342,025
Cumulative translation adjustment	(150,393,653)	-	(150,393,653)	(49,682,447)	-	(49,682,447)
	<b>(₱150,829,012)</b>	<b>₱43,536</b>	<b>(₱150,785,476)</b>	<b>(₱49,302,419)</b>	<b>(₱38,003)</b>	<b>(₱49,340,422)</b>

## 18. Operating Expenses

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

	2010	2009
Depreciation and amortization (see Note 12)	<b>₱2,657,885,189</b>	₱2,325,362,102
Administrative (see Notes 20, 21 and 22)	<b>2,250,911,199</b>	1,887,087,562
Film rentals	<b>1,099,121,203</b>	771,819,805
Business taxes and licenses	<b>989,493,064</b>	868,932,305
Others (see Note 21)	<b>1,144,688,446</b>	1,046,960,584
	<b>₱8,142,099,101</b>	<b>₱6,900,162,358</b>

## 19. Income Tax

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

	<b>September 30, 2010</b>	December 31, 2009
Deferred tax assets -		
Unrealized foreign exchange losses and others	<b>₱262,596,959</b>	₱243,120,374
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	<b>₱1,198,056,534</b>	₱1,132,255,738

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.

For the periods ended September 30, 2010 and December 31, 2009, the Company opted to use OSD in computing their taxable income.

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## 20. 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, 2009, the date of latest actuarial valuation, the actuarial asset amounted to ₱9 million. The annual normal cost amounted to ₱2 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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## 21. 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 periods ended September 30, 2010 and 2009, 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 ₱4,710 million and ₱4,260 million for the nine months period September 30, 2010 and 2009, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,125 million and ₱1,198 million as of September 30, 2010 and December 31, 2009, respectively.
- b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land, Inc. for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱149 million and ₱129 million for the nine months period September 30, 2010 and 2009, respectively. Rent payable to SMIC and SM Land, Inc., included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱17 million and ₱16 million as of September 30, 2010 and December 31, 2009, 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 ₱483 million and ₱427 million for the nine months period September 30, 2010 and 2009, respectively. Accrued management fees, included under "Accounts payable and

other current liabilities” account in the consolidated balance sheets, amounted to ₱79 million and ₱65 million as of September 30, 2010 and December 31, 2009.

- 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 ₱6,923 million and ₱4,539 million as of September 30, 2010 and December 31, 2009, respectively. Interest income amounted to ₱144 million and ₱216 million for the nine months period September 30, 2010 and 2009, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱21 million and ₱13 million as of September 30, 2010 and December 31, 2009, respectively.
- e. As of September 30, 2010 and December 31, 2009, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱3,529 million and ₱3,530 million, respectively. Interest expense amounted to ₱205 million and ₱78 million for the nine months period September 30, 2010 and 2009, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱82 million and ₱26 million as of September 30, 2010 and December 31, 2009, respectively.
- f. 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.
- g. The total compensation paid to key management personnel of the Company amounted to ₱40 million and ₱44 million for the nine months period September 30, 2010 and 2009, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

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## 22. 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 ₱14,324 million and ₱12,672 million for the periods ended September 30, 2010 and 2009, respectively.

The Company also leases certain parcels of land where some of its malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the Company’s gross rental income or a certain fixed amount, whichever is higher.

Rent expense included under “Operating expenses” account in the consolidated statements of income amounted to ₱353 million and ₱323 million for the periods ended September 30, 2010 and 2009, respectively.

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### 23. 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 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 24).

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 9, 13, 14 and 16.

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 September 30, 2010 and December 31, 2009, after taking into account the effect of interest rate swaps, approximately 52% and 50%, respectively, of the Company’s long-term borrowings are at a fixed rate of interest (see Note 24).



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

	September 30, 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	₱5,550,000	₱5,550,000	₱5,550,000	₱3,677,800,000	₱-	₱1,100,000,000	₱4,794,450,000	(₱36,389,236)	₱4,758,060,764
Interest rate	8.40%	8.40%	8.40%	8.40%		10.11%			
Philippine peso-denominated fixed rate notes	5,990,000	5,990,000	980,990,000	990,000	1,194,060,000	800,000,000	2,988,020,000	(19,044,609)	2,968,975,391
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	(11,972,810)	2,188,027,190
Interest rate			7.18%			9.75%			
Floating rate:									
U.S. dollar-denominated three-year term loans	\$-	\$90,000,000	\$-	\$-	\$-	\$-	3,949,200,000	(56,831,856)	3,892,368,144
Interest rate		LIBOR+spread							
Philippine peso-denominated five-year floating rate loan	₱2,000,000	₱3,992,000,000	₱-	₱-	₱-	₱-	3,994,000,000	(13,124,935)	3,980,875,065
Interest rate	PDST-F+margin%	PDST-F+margin%							
Philippine peso-denominated five-year bilateral loans	₱3,078,125,000	₱46,875,000	₱-	₱-	₱-	₱-	3,125,000,000	(5,730,526)	3,119,269,474
Interest rate	PDST-F+margin%	PDST-F+margin%							
U.S. dollar-denominated bilateral loans	\$30,000,000	\$25,000,000	\$-	\$-	\$-	\$-	2,413,400,000	(24,188,091)	2,389,211,909
Interest rate	LIBOR+spread	LIBOR+spread							
China yuan renminbi-denominated five-year loan	¥20,000,000	¥40,000,000	¥45,000,000	¥244,000,000	¥-	¥-	2,288,288,300	-	2,288,288,300
Interest rate	5.184%	5.184%	5.184%	5.184%					
Philippine peso-denominated five-year inverse floating	₱10,000,000	₱10,000,000	₱10,000,000	₱10,000,000	₱960,000,000	₱-	1,000,000,000	(7,798,266)	992,201,734
Interest rate	12.8%-PDST-F	12.8%-PDST-F	12.8%-PDST-F	12.8%-PDST-F	12.8%-PDST-F				
U.S. dollar-denominated bilateral loan	\$-	\$40,000,000	\$-	\$-	\$-	\$-	1,755,200,000	(25,538,786)	1,729,661,214
Interest rate		LIBOR+spread							
U.S. dollar-denominated club loan	\$-	\$40,000,000	\$-	\$-	\$-	\$-	1,755,200,000	(43,992,829)	1,711,207,171
Interest rate		LIBOR+spread							
China yuan renminbi-denominated eight-year bilateral loan	¥75,000,000	¥40,000,000	¥-	¥-	¥-	¥-	754,020,500	-	754,020,500
Interest rate	5.35%	5.35%							
Philippine peso-denominated corporate notes	₱300,000	₱300,000	₱300,000	₱198,800,000	₱-	₱-	199,700,000	(1,515,696)	198,184,304
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
Other bank loans	₱-	₱830,000,000	₱750,000,000	₱3,000,000,000	₱2,000,000,000	₱-	6,580,000,000	(28,937,372)	6,551,062,628
Interest rate		PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%				
							₱37,796,478,800	(₱275,065,012)	₱37,521,413,788

	December 31, 2009						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	₱5,550,000	₱5,550,000	₱5,550,000	₱5,550,000	₱3,677,800,000	₱1,100,000,000	₱4,800,000,000	(₱41,658,923)	₱4,758,341,077
Interest rate	8.40%	8.40%	8.40%	8.40%	8.40%	10.11%			
Philippine peso-denominated fixed rate notes	5,990,000	5,990,000	5,990,000	980,990,000	990,000	1,994,060,000	2,994,010,000	(21,598,103)	2,972,411,897
Interest rate	9.31%-9.60%	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	(13,877,458)	2,186,122,542
Interest rate				7.18%		9.75%			
Floating rate:									
U.S. dollar-denominated three-year term loans	\$-	\$-	\$90,000,000	\$-	\$-	\$-	4,158,000,000	(85,442,506)	4,072,557,494
Interest rate			LIBOR+spread						
Philippine peso-denominated five-year floating rate loan	₱2,000,000	₱2,000,000	₱3,992,000,000	₱-	₱-	₱-	3,996,000,000	(18,239,574)	3,977,760,426
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
Philippine peso-denominated five-year bilateral loans	₱62,500,000	₱3,062,500,000	₱46,875,000	₱-	₱-	₱-	3,171,875,000	(10,952,398)	3,160,922,602
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
U.S. dollar-denominated bilateral loans	\$-	\$30,000,000	\$-	\$25,000,000	\$-	\$-	2,541,000,000	(33,704,977)	2,507,295,023
Interest rate		LIBOR+spread		LIBOR+spread					
China yuan renminbi-denominated five-year loan	¥16,000,000	¥20,000,000	¥30,000,000	¥40,000,000	¥244,000,000	¥-	2,368,520,000	-	2,368,520,000
Interest rate	5.184%	5.184%	5.184%	5.184%	5.184%				
U.S. dollar-denominated three-year term loans	\$-	\$-	\$20,000,000	\$-	\$-	\$-	924,000,000	(4,437,535)	919,562,465
Interest rate			LIBOR+spread						
China yuan renminbi-denominated eight-year bilateral loan	¥35,000,000	¥40,000,000	¥40,000,000	¥-	¥-	¥-	778,228,000	-	778,228,000
Interest rate	5.35%	5.35%	5.35%						
Philippine peso-denominated corporate notes	₱300,000	₱300,000	₱300,000	₱300,000	₱198,800,000	₱-	200,000,000	(1,735,788)	198,264,212
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Other bank loans	₱-	₱-	₱-	₱750,000,000	₱3,830,000,000	₱-	4,580,000,000	(23,918,070)	4,556,081,930
Interest rate				PHIREF+margin%	PDST-F+margin%				
							₱32,711,633,000	(₱255,565,332)	₱32,456,067,668

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 24).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱9,650 million (US\$220 million) and ₱10,237 million (US\$233 million), respectively, as of September 30, 2010 and ₱7,910 million (US\$171 million) and ₱7,755 million (US\$168 million), respectively, as of December 31, 2009.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱43.88 to US\$1.00 and ₱46.20 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as of September 30, 2010 and December 31, 2009, 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 assets 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 24.

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.

The credit quality of the Company's financial assets is as follows:

	<b>September 30, 2010</b>			<b>Total</b>
	<b>Neither Past Due nor High Quality</b>	<b>Impaired Standard Quality</b>	<b>Past Due but not Impaired</b>	
	<b>High Quality</b>	<b>Standard Quality</b>	<b>Past Due but not Impaired</b>	
<b>Loans and Receivables</b>				
Cash and cash equivalents*	<b>₱6,468,145,598</b>	<b>₱-</b>	<b>₱-</b>	<b>₱6,468,145,598</b>
Short-term investments	<b>1,877,600,000</b>	<b>-</b>	<b>-</b>	<b>1,877,600,000</b>
Receivables	<b>23,386,215</b>	<b>3,347,892,115</b>	<b>226,441,578</b>	<b>3,597,719,908</b>
<b>Financial Assets at FVPL</b>				
Held for trading	<b>278,776,572</b>	<b>-</b>	<b>-</b>	<b>278,776,572</b>

Derivative assets	92,424,620	-	-	92,424,620
<b>AFS Investments</b>				
Redeemable preferred shares - unquoted	102,359,352	-	-	102,359,352
	<b>₱8,842,692,357</b>	<b>₱3,347,892,115</b>	<b>₱226,441,578</b>	<b>₱12,417,026,050</b>

\*Excluding cash on hand amounting to ₱25 million.

	December 31, 2009			Total
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	
<b>Loans and Receivables</b>				
Cash and cash equivalents*	₱3,755,924,815	₱-	₱-	₱3,755,924,815
Short-term investments	1,924,000,000	-	-	1,924,000,000
Receivables	21,725,664	3,453,850,205	189,308,547	3,664,884,416
<b>Financial Assets at FVPL</b>				
Held for trading	389,186,100	-	-	389,186,100
Derivative assets	355,235,235	-	-	355,235,235
<b>AFS Investments</b>				
Redeemable preferred shares - unquoted	102,794,710	-	-	102,794,710
	<b>₱6,548,866,524</b>	<b>₱3,453,850,205</b>	<b>₱189,308,547</b>	<b>₱10,192,025,276</b>

\*Excluding cash on hand amounting to ₱31 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 ₱6,494 million, ₱1,878 million and ₱278 million, respectively, as of September 30, 2010 and ₱3,786 million, ₱1,924 million and ₱389 million, respectively, as of December 31, 2009. Also included in the Company's financial assets used to meet its short term liquidity needs are AFS investments, which have maturity of 2 years, amounting to ₱102 million and ₱103 million as of September 30, 2010 and December 31, 2009, respectively.

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

	September 30, 2010			Total
	Less than 12 Months	2 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities*	₱6,231,010,699	₱-	₱-	₱6,231,010,699
Long-term debt (including current portion)	5,571,548,751	36,230,431,067	3,804,849,841	45,606,829,659
Derivative liability	-	231,451,676	-	231,451,676
Tenants' deposits	-	6,356,004,436	-	6,356,004,436
Other noncurrent liabilities*	-	4,478,697,946	-	4,478,697,946
	<b>₱11,802,559,450</b>	<b>₱47,296,585,125</b>	<b>₱3,804,849,841</b>	<b>₱62,903,994,416</b>

\*Excluding nonfinancial liabilities in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱86 million and ₱470 million, respectively.

	December 31, 2009			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱1,005,972,222	₱-	₱-	₱1,005,972,222
Accounts payable and other current liabilities*	5,103,211,559	-	-	5,103,211,559
Long-term debt (including current portion)	2,335,788,158	33,848,773,149	5,226,568,028	41,411,129,335
Derivative liability	498,284,308	(2,393,981)		495,890,327
Tenants' deposits	-	5,708,755,024	-	5,708,755,024
Other noncurrent liabilities*	-	2,901,839,861	-	2,901,839,861
	<b>₱8,943,256,247</b>	<b>₱42,456,974,053</b>	<b>₱5,226,568,028</b>	<b>₱56,626,798,328</b>

\*Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱127 million and ₱487 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.

The Company's gearing ratio are as follows:

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

	September 30, 2010	December 31, 2009
Loans payable	₱-	₱1,000,000,000
Current portion of long-term debt	<b>3,446,958,500</b>	421,467,200
Long-term debt - net of current portion	<b>34,074,455,288</b>	32,034,600,468
Total interest-bearing debt (a)	<b>37,521,413,788</b>	33,456,067,668
Total equity attributable to equity holders of the Parent	<b>49,484,297,873</b>	47,349,171,758
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	<b>₱87,005,711,661</b>	₱80,805,239,426
Gearing ratio (a/b)	<b>43%</b>	41%

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

	<b>September 30, 2010</b>	December 31, 2009
Loans payable	<b>₱-</b>	₱1,000,000,000
Current portion of long-term debt	<b>3,446,958,500</b>	421,467,200
Long-term debt - net of current portion	<b>34,074,455,288</b>	32,034,600,468
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	<b>(8,752,352,111)</b>	(6,202,447,532)
Total net interest-bearing debt (a)	<b>28,769,061,677</b>	27,253,620,136
Total equity attributable to equity holders of the Parent	<b>49,484,297,873</b>	47,349,171,758
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	<b>₱78,253,359,550</b>	₱74,602,791,894
Gearing ratio (a/b)	<b>37%</b>	37%

**24. Financial Instruments**

Carrying Values

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

	<b>September 30, 2010</b>	June 30, 2010	March 31, 2010
<b>Financial Assets</b>			
Loans and receivables	<b>₱11,968,936,095</b>	₱9,480,279,398	₱9,243,278,756
Financial assets at FVPL	<b>371,201,192</b>	421,282,506	410,369,604
AFS investments	<b>102,359,352</b>	102,368,036	103,068,411
	<b>₱12,442,496,639</b>	₱10,003,929,940	₱9,756,716,771
<b>Financial Liabilities</b>			
Financial liabilities at FVPL	<b>₱231,451,676</b>	₱217,106,358	₱160,604,891
Other financial liabilities	<b>54,587,126,870</b>	53,023,843,356	49,073,381,271
	<b>₱54,818,578,546</b>	₱53,240,949,714	₱49,233,986,162

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 cross currency swaps, interest rate swaps, non-deliverable forwards and foreign currency range options.

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

	September 30, 2010		
	<1 Year	>1-<2 Years	>2-<5 Years
<b>Floating-Fixed:</b>			
Outstanding notional amount	<b>\$60,000,000</b>	<b>\$60,000,000</b>	<b>\$20,000,000</b>
Receive-floating rate	<b>6 months</b>	<b>6 months</b>	<b>6 months</b>
	<b>LIBOR+margin%</b>	<b>LIBOR+margin%</b>	<b>LIBOR+margin%</b>
Pay-fixed rate	<b>3.41%</b>	<b>3.41%</b>	<b>3.41%</b>
Outstanding notional amount	<b>\$145,000,000</b>	<b>\$115,000,000</b>	<b>\$25,000,000</b>
Receive-floating rate	<b>6 months</b>	<b>6 months</b>	<b>6 months</b>
	<b>LIBOR+margin%</b>	<b>LIBOR+margin%</b>	<b>LIBOR+margin%</b>
Pay-fixed rate	<b>3.41%– 5.40%</b>	<b>3.41%– 5.40%</b>	<b>4.10% %</b>
Outstanding notional amount	<b>₱750,000,000</b>	<b>₱750,000,000</b>	<b>₱750,000,000</b>
Receive-floating rate	<b>3 months</b>	<b>3 months</b>	<b>3 months</b>
	<b>PHIREF+margin%</b>	<b>PHIREF+margin%</b>	<b>PHIREF+margin%</b>
Pay-fixed rate	<b>8.20%</b>	<b>8.20%</b>	<b>8.20%</b>
<b>Inverse Floating-Floating:</b>			
Outstanding notional amount	<b>₱1,000,000,000</b>	<b>₱1,000,000,000</b>	<b>₱1,000,000,000</b>
Receive-floating rate	<b>12.8%-3MPDST-F</b>	<b>12.8%-3MPDST-F</b>	<b>12.8%-3MPDST-F</b>
	<b>3MPDST-</b>	<b>3MPDST-</b>	<b>3MPDST-</b>
Pay-floating rate	<b>F+margin%</b>	<b>F+margin%</b>	<b>F+margin%</b>
<b>Fixed-Floating:</b>			
Outstanding notional amount	<b>₱990,000,000</b>	<b>₱985,000,000</b>	<b>₱980,000,000</b>
Receive-fixed rate	<b>9.3058%</b>	<b>9.3058%</b>	<b>9.3058%</b>
	<b>3MPDST-</b>	<b>3MPDST-</b>	<b>3MPDST-</b>
Pay-floating rate	<b>F+margin%</b>	<b>F+margin%</b>	<b>F+margin%</b>
December 31, 2009			
	<1 Year	>1-<2 Years	>2-<5 Years
<b>Floating-Fixed:</b>			
Outstanding notional amount	\$145,000,000	\$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	₱990,000,000	₱985,000,000	₱980,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
	3MPDST-	3MPDST-	3MPDST-
Pay-floating rate	F+margin%	F+margin%	F+margin%

*Interest Rate Swaps.* In 2010, the Parent Company entered into Philippine peso interest rate swap agreements with notional amount of ₱1,000 million. Under the agreements, the Parent Company effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2015 (see Note 16). As of September 30, 2010, the inverse floating rate notes have positive fair values of ₱28 million.

Also in 2010, the Parent Company entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$60 million. Under these agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year loans into fixed rate loans with semi-annual payment intervals up to January 2013. As of September 30, 2010, the floating to fixed interest rate swaps have negative fair values of ₱8 million.

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 U.S. dollar-denominated three-year term loans and U.S. dollar-denominated five-year and three-year bilateral loans into fixed rate loans with semi-annual payment intervals up to November 2011-2013 (see Note 16). As of September 30, 2010 and December 31, 2009, the floating to fixed interest rate swaps have negative fair values of ₱217 million and ₱99 million, respectively.

In 2009, the Parent Company entered into Philippine peso interest rate swap agreements with notional amount of ₱750 million. Under the agreements, the Parent Company effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loans with quarterly payment intervals up to April 2013 (see Note 16). The floating to fixed interest rate swaps have negative fair value of ₱6 million as of September 30, 2010 and positive fair value of ₱10 million as of December 31, 2009.

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 16). As of September 30, 2010 and December 31, 2009, the fixed to floating interest rate swaps have positive fair values of ₱64 million and ₱58 million, respectively.

*Cross Currency Swaps.* In 2004, the Parent Company entered into floating to fix cross currency swap agreements with an aggregate notional amount of US\$70 million and weighted average swap rate of ₱56.31 to US\$1. Under these agreements, the Parent Company effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet term loan with semi-annual interest payments up to October 2009 (see Note 16). As of December 31, 2008, the cross currency swaps have negative fair values of ₱861 million. Fair value changes from these cross currency swaps recognized in the consolidated statements of income amounted to ₱245 million gain in 2009.

*Non-deliverable Forwards.* In 2009, the Parent Company entered into sell ₱ and buy US\$ forward contracts having an aggregate notional amount of US\$901 million. At the same time, it entered into sell US\$ and buy ₱ with the same aggregate notional amount as an offsetting position with the sell ₱ and buy US\$ position. The forward contracts were transacted with various counterparties and will mature in various dates in 2009 and 2010. The forward rates range from ₱46.38 to ₱48.21. As of December 31, 2009, sell ₱ and buy US\$ forward contracts and buy ₱ and sell US\$ forward contracts both have aggregate notional amount of US\$457 million. The Parent Company recognized derivative asset and derivative liability amounting to ₱288 million from these forward contracts as of December 31, 2009. Fair value changes from these forward contracts recognized in the consolidated statements of income amounted to ₱23 million gain in 2009.

*Foreign Currency Range Options.* In 2009, the Parent Company entered into a series of non-deliverable foreign currency range options to buy US\$ and sell ₱ with a counterparty at an aggregate notional amount of US\$38 million. Under the option contracts, at each expiry date, the



Parent Company compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, the Parent Company, on a net-settlement basis, will buy US\$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, the Parent Company, on a net-settlement basis, will buy, US\$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As of December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US\$1.00 and ₱49.02 to US\$1.00, respectively. Fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6 million gain in 2009.

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## 25. Basic/Diluted EPS Computation

Basic/diluted EPS is computed as follows:

	<b>2010</b>	2009
Net income attributable to equity holders of the Parent (a)	<b>₱5,622,959,433</b>	₱5,072,303,190
Common shares issued	<b>13,348,191,367</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>13,329,334,367</b>	13,329,334,367
Earnings per share (a/b)	<b>₱0.422</b>	₱0.381

## 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)

	Third Quarter					Nine Months Ended Sep 30				
	2010	% to Revenues	2009	% to Revenues	% Change	2010	% to Revenues	2009	% to Revenues	% Change
Profit & Loss Data										
Revenues	5,728	100%	5,013	100%	14%	17,034	100%	14,612	100%	17%
Operating Expenses	2,819	49%	2,407	48%	17%	8,142	48%	6,900	47%	18%
Operating Income	2,909	51%	2,606	52%	12%	8,892	52%	7,712	53%	15%
Net Income	1,865	33%	1,660	33%	12%	5,623	33%	5,072	35%	11%
EBITDA	3,810	67%	3,455	69%	10%	11,550	68%	10,038	69%	15%

	Sep 30 2010	% to Total Assets	Dec 31 2009	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	107,092	100%	97,860	100%	9%
Total Debt	37,521	35%	33,456	34%	12%
Net Debt	28,769	27%	27,254	28%	6%
Total Stockholders' Equity	49,484	46%	47,349	48%	5%

Financial Ratios	Sep 30 2010	Dec 31 2009
Investment Properties to Total Assets	0.85	0.86
Current Ratio	1.31	1.47
Debt to Equity	0.43 : 0.57	0.41 : 0.59
Net Debt to Equity	0.37 : 0.63	0.37 : 0.63

	Sep 30	
(annualized)	2010	2009
Debt Service Coverage Ratio	2.64	1.83
Return on Equity	0.15	0.15
Debt to EBITDA	2.44	2.71
EBITDA to Interest Expense	7.69	8.31
Operating Income to Revenues	0.52	0.53
EBITDA Margin	0.68	0.69
Net Income to Revenues	0.33	0.35

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 40 malls in the Philippines and 3 malls in China, posts 17% increase in gross revenues for the first nine months of 2010 to P17.03 billion from P14.61 billion in the same period 2009. Rental revenues remain the largest portion, with a growth of 13% amounting to P14.32 billion from last year's P12.67 billion. This is largely due to rentals from new SM Supermalls opened towards the end of 2008, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. Last April 30, 2010, SM City Tarlac was also opened. The new malls and expansions added 676,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 6%.

In terms of gross revenues, the three malls in China contributed P0.96 billion in 2010 and P0.69 billion in 2009, or 6% and 5% of total consolidated operating revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 7% and 5% to SM Prime's consolidated rental revenue in 2010 and 2009, respectively. Gross revenues of the three malls in China increased 38% in 2010 compared to the same period in 2009 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle which added 110,000 square meters of gross floor area. Average occupancy rate for the three malls is now at 88%.

For the nine months ending 2010, cinema ticket sales increased by 41% due to more blockbuster movies shown in 2010 compared to the same period of 2009. In 2010, major blockbusters shown were "Twilight Saga: Eclipse," "Iron Man 2," "Avatar," "Clash of the Titans" and "Shrek Forever After." In the same period 2009, major films shown were "Transformers 2," "You Changed My Life," "Harry Potter & The Half Blood Prince," "G.I. Joe 2D" and "In My Life."

Amusement and other income likewise increased by 35% to P667 million in 2010 from P495 million in 2009. 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 18% from P6.90 billion in 2009 to P8.14 billion in 2010 mainly due to increase in film rentals, administrative and depreciation expenses. Likewise, income from operations posted a 15% growth from P7.71 billion in 2009 to P8.89 billion in 2010. In terms of operating expenses, the three malls in China contributed P0.61 billion in 2010 and P0.52 billion in 2009, or 8% of SM Prime's consolidated operating expenses.

Interest and dividend income decreased by 53% in 2010 compared to 2009 mainly due to maturity of the \$50M BDO Preferred shares under "Available-for-sale investments" account last October 2009 and a higher balance of temporary investments in early 2009.

Interest expense for the period increased 24%, from P1,207 million in 2009 to P1,501 million in 2010, mainly due to higher loan availments for capital expenditures and working capital requirements in 2010. While accounting standards allow us to capitalize a portion of our borrowing costs, we can only capitalize while the asset is still under construction.

Net income for the nine months ended 2010 increased 11% at P5.62 billion from same period last year of P5.07 billion. Meanwhile, the net income of the three malls in China increased to P155 million in 2010 compared to P91 million in 2009. On a stand-alone basis, net income of the Philippine operations grew 10% at P5.47 billion from P4.98 billion in 2009.

On the balance sheet side, investments held for trading account decreased by 28% due to investments in government bonds which matured in March and July 2010.

Receivables account slightly decreased by 2% while prepaid expenses and other current assets increased by 24% mainly due to prepaid taxes and insurance.

Investment properties increased 8% mainly because of on-going mall projects in 2010, located in Novaliches, Quezon City; Taguig City; San Pablo and Calamba, which are both in Laguna, and Suzhou and Chongqing in China. In addition, this account also includes the cost of the 30-hectare purchased land in SRP Cebu amounting to P2.7 billion.

Derivative assets and derivative liability decreased mainly due to non-deliverable forwards entered into in 2009 which matured in 2010.

Other noncurrent assets increased by 6% mainly due to advances and deposits paid for leased properties and deposits paid to contractors.

Loans payable decreased due to full settlement upon maturity last February 2010 while long-term debt increased mainly due to new loans availed in the period.

The increase in accounts payable and other current liabilities of 21% is due to accrued operating expenses and accrued interest on the loans. Tenants' deposits likewise increased 11% due to the new malls and expansions in 2009 and 2010.

Other noncurrent liabilities increased by 46% due to liability for purchased land which includes the 30-hectare purchased land in SRP Cebu payable over a period of six years.

The Company's performance indicators are measured in terms of the following: (1) Ratio of investment properties to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (5) 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; (6) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (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 balance sheet remains robust with investment properties accounting for 85% and 86% of total assets as of September 30, 2010 and December 31, 2009, respectively. The Company's current ratio decreased to 1.31:1 from 1.47:1 as of September 30, 2010 and December 31, 2009, respectively, due to reclassification of a P3 billion loan maturing in June 2011 to current portion of long-term debt.

Interest-bearing debt to stockholders' equity slightly increased to 0.43:0.57 from 0.41:0.59 as of September 30, 2010 and December 31, 2009, respectively, due to new loan availments. Net interest-bearing debt to stockholders' equity is unchanged at 0.37:0.63 as of September 30, 2010 and December

31, 2009. Debt service coverage ratio increased to 2.64:1 from 1.83:1 for the nine months ended September 30, 2010 and 2009, respectively, due to higher cash flows from operations in 2010.

In terms of profitability, ROE is steady at 15% for the nine months ended September 30, 2010 and 2009.

EBITDA increased 15% to P11.55 billion in 2010 from P10.04 billion in 2009. Debt to EBITDA slightly decreased to 2.44:1 from 2.71:1 as of September 30, 2010 and 2009, respectively, due to higher total debt in 2010 compared to the same period in 2009. While EBITDA to interest expense slightly decreased from 8.31:1 to 7.69:1 for the periods ended September 30, 2009 and 2010, respectively.

Consolidated operating income to revenues slightly decreased to 52% in 2010 compared from 53% in 2009 due to increase in depreciation and amortization expenses. On a stand-alone basis, operating income margin of the Philippines and China operations is at 53% and 36% in 2010, compared to 54% and 24% in 2009, respectively.

EBITDA margin remains strong at 68% and 69% for the periods ended September 30, 2010 and 2009, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 68% and 66% in 2010 and 69% and 59% in 2009, respectively.

On the other hand, net income to revenues decreased to 33% from 35% for the periods ended September 30, 2010 and 2009, respectively, mainly due to increase in interest expense. On a stand-alone basis, net income margin of the Philippines and China operations is at 34% and 16% in 2010 and 36% and 13% in 2009, 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 Prime currently has 40 Supermalls strategically located in the Philippines with a total gross floor area of 4.8 million square meters. Likewise, the Company also has 3 Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.6 million square meters. For the rest of 2010, SM Prime will open SM Suzhou located in Jiangsu Province. This mall will have a GFA of 70,000 sqm. Like the first three cities wherein SM Prime penetrated in China, Suzhou is an emerging city with a market profile that is fast expanding in terms of spending capacity, making it an ideal host for an SM Supermall.

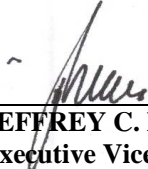
## SIGNATURES

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: November 9, 2010



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

**SM PRIME HOLDINGS, INC.**  
**AGING OF RENT RECEIVABLE**  
**AS OF SEPTEMBER 30, 2010**

MALL	<u>BALANCE</u>	<u>CURRENT</u>	<u>Over 30 days</u>
SM MEGAMALL	334,964,633	234,800,184	100,164,449
SM NORTH EDSA	340,659,222	270,197,113	70,462,109
SM MALL OF ASIA	245,795,589	212,913,032	32,882,558
SM FAIRVIEW	156,537,120	130,177,637	26,359,483
SM CEBU	129,477,015	128,012,334	1,464,682
SM SOUTHMALL	115,090,440	85,584,318	29,506,122
SM MANILA	99,421,563	82,890,033	16,531,531
SM PAMPANGA	91,621,316	87,502,273	4,119,043
SM BACOR	86,483,216	76,161,883	10,321,333
SM ILOILO	82,008,619	71,528,607	10,480,012
SM SAN LAZARO	76,192,900	75,736,583	456,317
SM CLARK	62,421,470	58,636,388	3,785,082
SM DASMARINAS	61,523,749	56,529,319	4,994,430
SM STA MESA	61,409,604	58,966,224	2,443,380
SM DAVAO	58,192,206	53,554,615	4,637,592
SM BAGUIO	56,471,326	51,680,079	4,791,248
SM MARIKINA	53,214,331	50,696,943	2,517,387
SM MARILAO	52,507,825	51,463,027	1,044,797
SM STA ROSA	51,754,081	50,905,958	848,124
SM SUCAT	49,704,190	46,660,306	3,043,884
SM BICUTAN	49,274,995	48,232,861	1,042,134
SM BATANGAS	46,836,444	41,654,040	5,182,404
SM LIPA	46,635,988	45,431,029	1,204,959
SM TARLAC	45,358,570	41,491,752	3,866,819
SM BACOLOD	42,039,719	39,548,682	2,491,037
SM TAYTAY	36,934,488	36,065,167	869,321
SM LUCENA	35,414,328	34,984,934	429,395
SM ROSALES	35,157,595	32,273,674	2,883,921
SM CAGAYAN DE ORO	34,006,298	28,351,785	5,654,514
SM BY THE BAY	33,909,983	14,636,431	19,273,552
SM NAGA	33,100,503	32,210,385	890,118
SM BALIWAG	32,609,926	32,143,513	466,413
SM VALENZUELA	29,491,489	29,312,028	179,461
SM ROSARIO	28,226,265	27,769,360	456,904
SM MOLINO	28,019,437	27,760,377	259,060
SM MUNTINLUPA	25,809,599	24,907,585	902,014
SM PASIG	24,588,597	22,773,495	1,815,102
SM LAS PINAS	21,448,890	20,886,786	562,104
SM NAGTAHAN	6,151,161	6,122,263	28,898
SM CHINA MALLS	35,220,024	26,552,567	8,667,457
	<b>2,935,684,718</b>	<b>2,547,705,570</b>	<b>387,979,148</b>