COVER SHEET

AS094-000088
SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
(Company's Full Name)

SM Corporate Offices, Building A, J. W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300
(Business Address: No. Street City/Town/Province)

Mr. Jeffrey C. Lim
(Contact Person)

831-1000
(Company Telephone Number)

09 *Month* **30** *Day*
(Fiscal Year)

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended **SEPTEMBER 30, 2011**

2. SEC Identification Number **AS0940000-88** 3. BIR Tax Identification No. **003-058-789**

4. Exact name of registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

5. **PHILIPPINES**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **SM Corporate Offices, Bldg. A, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City** **1300**
Address of principal office Postal Code

8. **(632) 831-1000**
Registrant's telephone number, including area code

9.
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 4 and 8 of the SRC

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

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

12. Indicate by check mark whether the registrant:

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

Yes [**X**] No [ ]

(b) has been subject to such filing requirements for the past 90 days.
Yes [**X**] No [ ]

SM Prime Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
September 30, 2011 and December 31, 2010
and Nine Months Ended September 30, 2011 and 2010

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 19, 21 and 22)	**₱9,542,182,224**	₱9,719,718,284
Short-term investments (Notes 7, 19, 21 and 22)	**874,400,000**	876,800,000
Investments held for trading (Notes 8, 19, 21 and 22)	**800,562,260**	500,134,177
Receivables (Notes 9, 19, 21 and 22)	**3,844,850,277**	4,189,315,348
Available-for-sale investments (Notes 12, 19, 21 and 22)	**1,100,819,324**	1,104,161,471
Prepaid expenses and other current assets (Note 10)	**1,176,977,879**	1,104,217,482
Total Current Assets	**17,339,791,964**	17,494,346,762
Noncurrent Assets		
Investment properties - net (Notes 11 and 19)	**102,244,999,442**	93,940,301,554
Derivative assets (Notes 21 and 22)	**85,728,533**	738,228,976
Deferred tax assets (Note 17)	**276,590,007**	223,266,010
Other noncurrent assets	**3,594,918,978**	3,946,369,661
Total Noncurrent Assets	**106,202,236,960**	98,848,166,201
	₱123,542,028,924	₱116,342,512,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 19, 21 and 22)	**₱8,923,508,141**	₱6,796,847,322
Current portion of long-term debt (Notes 14, 19, 21 and 22)	**678,938,000**	766,703,000
Income tax payable	**394,331,981**	403,831,964
Total Current Liabilities	**9,996,778,122**	7,967,382,286
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19, 21 and 22)	**39,975,184,117**	38,076,546,811
Deferred tax liabilities (Note 17)	**1,273,315,237**	1,322,799,401
Tenants' deposits (Notes 20, 21 and 22)	**7,135,447,081**	6,465,889,827
Derivative liabilities (Notes 21 and 22)	**273,347,158**	709,909,803
Other noncurrent liabilities (Notes 11, 19, 21 and 22)	**3,094,651,433**	2,850,102,189
Total Noncurrent Liabilities	**51,751,945,026**	49,425,248,031
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 15 and 23)	**13,917,800,067**	13,917,800,067
Additional paid-in capital - net (Notes 2 and 15)	**8,219,067,298**	8,219,067,298
Unrealized gain on available-for-sale investments (Notes 12 and 15)	**737,392**	3,745,323
Cumulative translation adjustment (Note 15)	**789,826,163**	589,700,365
Retained earnings (Note 15):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**31,222,087,485**	28,562,329,066
Treasury stock (Notes 15 and 23)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 21)	**61,048,043,700**	58,191,167,414
Non-controlling Interests (Notes 2 and 15)	**745,262,076**	758,715,232
Total Stockholders' Equity	**61,793,305,776**	58,949,882,646
	₱123,542,028,924	₱116,342,512,963

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	2011	2010
REVENUE		
Rent (Notes 11, 19 and 20)	**₱16,450,872,412**	₱14,324,382,831
Cinema ticket sales	**2,072,661,470**	2,043,262,282
Others	**742,265,539**	666,633,629
	19,265,799,421	17,034,278,742
OPERATING EXPENSES (Notes 11, 16, 18, 19 and 20)	**9,123,143,734**	8,142,099,101
INCOME FROM OPERATIONS	**10,142,655,687**	8,892,179,641
OTHER INCOME (CHARGES) – Net		
Interest and dividend income (Notes 6, 7, 8, 12 and 19)	**311,927,347**	163,484,118
Interest expense (Notes 14, 19 and 22)	**(1,437,957,083)**	(1,501,239,897)
Others - net (Notes 8, 14 and 22)	**(404,763,724)**	117,564,307
	(1,530,793,460)	(1,220,191,472)
INCOME BEFORE INCOME TAX	**8,611,862,227**	7,671,988,169
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**2,061,945,078**	1,796,929,883
Deferred	**(102,799,880)**	41,396,469
	1,959,145,198	1,838,326,352
NET INCOME	**₱6,652,717,029**	₱5,833,661,817
Attributable to		
Equity holders of the parent (Note 23)	**₱6,412,473,034**	₱5,622,959,433
Non-controlling interests (Notes 2 and 15)	**240,243,995**	210,702,384
	₱6,652,717,029	₱5,833,661,817
Basic/Dilutive Earnings Per Share (Note 23)	**₱0.462**	₱0.422

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30	
	2011	2010
NET INCOME	**₱6,652,717,029**	₱5,833,661,817
OTHER COMPREHENSIVE INCOME (LOSS) - Net		
Unrealized gain (loss) on available-for-sale investments -net of tax (Notes 12 and 15)	**(3,007,931)**	(391,823)
Cumulative translation adjustment (Note 15)	**200,125,798**	(150,393,653)
	197,117,867	(150,785,476)
TOTAL COMPREHENSIVE INCOME	**₱6,849,834,896**	₱5,682,876,341
Attributable to		
Equity holders of the parent	**₱6,609,590,901**	₱5,472,173,957
Non-controlling interests (Notes 2 and 15)	**240,243,995**	210,702,384
	₱6,849,834,896	₱5,682,876,341

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30	
	2011	2010
REVENUE		
Rent (Notes 11, 19 and 20)	**₱5,517,183,771**	₱4,832,584,708
Cinema ticket sales	**777,780,804**	671,203,239
Others	**265,772,162**	224,354,705
	6,560,736,737	5,728,142,652
OPERATING EXPENSES (Notes 11, 16, 18, 19 and 20)	**3,205,183,795**	2,818,725,547
INCOME FROM OPERATIONS	**3,355,552,942**	2,909,417,105
OTHER INCOME (CHARGES) – Net		
Interest and dividend income (Notes 6, 7, 8, 12 and 19)	**115,253,632**	49,063,510
Interest expense (Notes 14, 19 and 22)	**(521,592,394)**	(500,638,896)
Others - net (Notes 8, 14 and 22)	**(90,143,712)**	114,972,764
	(496,482,474)	(336,602,622)
INCOME BEFORE INCOME TAX	**2,859,070,468**	2,572,814,483
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**660,556,136**	590,666,061
Deferred	**(23,159,937)**	43,753,656
	637,396,199	634,419,717
NET INCOME	**₱2,221,674,269**	₱1,938,394,766
Attributable to		
Equity holders of the parent (Note 23)	**₱2,139,431,817**	₱1,865,140,841
Non-controlling interests (Notes 2 and 15)	**82,242,452**	73,253,925
	₱2,221,674,269	₱1,938,394,766

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to Equity Holders of the Parent									
	Capital Stock (Notes 15 and 23)	Additional Paid-in Capital - Net (Notes 2 and 15)	Unrealized Gain on Available-for-Sale Investments (Notes 12 and 15)	Cumulative Translation Adjustment (Note 15)	Retained Earnings: Appropriated (Note 15)	Retained Earnings: Unappropriated (Note 15)	Treasury Stock (Notes 15 and 23)	Total	Non-controlling Interests (Notes 2 and 15)	Total
At January 1, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱3,745,323**	**₱589,700,365**	**₱7,000,000,000**	**₱28,562,329,066**	**(₱101,474,705)**	**₱58,191,167,414**	**₱758,715,232**	**₱58,949,882,646**
Total comprehensive income	**–**	–	**(3,007,931)**	**200,125,798**	**–**	**6,412,473,034**	**–**	**6,609,590,901**	**240,243,995**	**6,849,834,896**
Cash dividends - ₱0.27 a share	**–**	**–**	**–**	**–**	**–**	**(3,752,714,615)**	**–**	**(3,752,714,615)**	**–**	**(3,752,714,615)**
Dividends of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**		**–**	**(253,697,151)**	**(253,697,151)**
At September 30, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱737,392**	**₱789,826,163**	**₱7,000,000,000**	**₱31,222,087,485**	**₱(101,474,705)**	**₱61,048,043,700**	**₱745,262,076**	**₱61,793,305,776**
At January 1, 2010	₱13,348,191,367	₱2,375,440,999	₱2,515,239	₱681,470,739	₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
Total comprehensive income	–	–	(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)
At September 30, 2010	₱13,348,191,367	₱2,375,440,999	₱2,123,416	₱531,077,086	₱7,000,000,000	₱26,328,939,710	(₱101,474,705)	₱49,484,297,873	₱685,633,000	₱50,169,930,873

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax and non-controlling interests	**₱8,611,862,227**	₱7,671,988,169
Adjustments for:		
Depreciation and amortization (Notes 12 and 16)	**2,873,260,649**	2,657,885,189
Interest expense (Notes 14, 19 and 22)	**1,437,957,083**	1,501,239,897
Interest and dividend income (Notes 6, 7, 8, 12 and 19)	**(311,927,347)**	(163,484,118)
Unrealized marked-to-market loss on derivatives (Note 22)	**220,684,842**	107,433,726
Unrealized foreign exchange loss (gain) – net	**126,159,726**	(58,559,815)
Marked-to-market loss on derivatives (Note 22)	**40,851,257**	–
Unrealized marked-to-market gain on investments held for trading (Note 8)	**(1,788,000)**	(11,723,462)
Operating income before working capital changes	**12,997,060,437**	11,704,779,586
Decrease (increase) in:		
Receivables	**359,876,110**	(240,392,266)
Prepaid expenses and other current assets	**(67,654,116)**	(196,909,301)
Increase in:		
Accounts payable and other current liabilities	**2,062,106,244**	829,951,419
Tenants' deposits	**654,896,451**	656,575,658
Cash generated from operations	**16,006,285,126**	12,754,005,096
Income taxes paid	**(2,070,468,474)**	(1,973,699,035)
Net cash provided by operating activities	**13,935,816,652**	10,780,306,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Investment properties (Note 11)	**(10,646,514,776)**	(7,711,609,684)
Other noncurrent assets	**390,617,892**	(170,841,090)
Investments held for trading	**(298,791,882)**	119,280,249
Decrease in other noncurrent liabilities	**(11,835,327)**	(2,168,477)
Interest and dividend received	**292,763,575**	155,846,005
Net cash used in investing activities	**(10,273,760,518)**	(7,609,492,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans (Notes 14 and 19)	**14,624,744,348**	5,844,950,500
Payments of:		
Loans (Notes 14 and 19)	**(13,040,216,042)**	(1,185,121,880)
Dividends	**(3,752,714,615)**	(3,337,047,842)
Interest	**(1,378,126,297)**	(1,501,864,414)
Payments to unwinding - net (Note 22)	**(45,598,300)**	–
Decrease in non-controlling interests	**(253,697,151)**	(206,197,713)
Net cash used in financing activities	**(3,845,608,057)**	(385,281,349)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**6,015,863**	(78,382,250)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(177,536,060)**	2,707,149,465
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,719,718,284**	3,786,466,722
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱9,542,182,224**	₱6,493,616,187

See accompanying Notes to Consolidated Financial Statements.

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

1. Corporate Information

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

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

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

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

2. Basis of Preparation

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

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

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

- PAS 24, *Related Party Disclosures (Amended)*

- PAS 32, *Financial Instruments: Presentation (Amendment)* **-** *Classification of Rights Issues*,

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

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

Basis of Consolidation

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

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

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

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

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

The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included under “Additional paid-in capital - net” account in the stockholders’ equity section of the consolidated balance sheets (see Note 15).

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Rent income amounted to ₱16,451 million and ₱14,324 million for the nine months ended September 30, 2011 and 2010, respectively.

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

Rent expense amounted to ₱437 million and ₱353 million for the nine months ended September 30, 2011 and 2010, respectively.

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

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

The carrying amount of receivables amounted to ₱3,845 million and ₱4,189 million as of September 30, 2011 and December 31, 2010, respectively (see Note 9).

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

The Company's AFS investments amounted to ₱1,101 million and ₱1,104 million as of September 30, 2011 and December 31, 2010, respectively (see Note 12).

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

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

The net book value of investment properties amounted to ₱102,245 million and ₱93,940 million as of September 30, 2011 and December 31, 2010, respectively (see Note 11).

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

Deferred tax assets amounted to ₱277 million and ₱223 million as of September 30, 2011 and December 31, 2010, respectively (see Note 17).

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 18 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 22.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative assets. The carrying values of financial assets under this category amounted to ₱886 million and ₱1,238 million as of September 30, 2011 and December 31, 2010, respectively.

Included under financial liabilities at FVPL are the Company's derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱273 million and ₱710 million as of September 30, 2011 and December 31, 2010, respectively (see Note 22).

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

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

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The carrying values of financial assets under this category amounted to ₱14,261 million and ₱14,786 million as of September 30, 2011 and December 31, 2010, respectively (see Note 22).

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, 2011 and December 31, 2010.

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

Classified under this category are the Company's investments in corporate notes and redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱1,101 million and ₱1,104 million as of September 30, 2011 and December 31, 2010, respectively (see Note 22).

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

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

This category includes accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The carrying values of financial liabilities under this category amounted to ₱59,201 million and ₱54,330 million as of September 30, 2011 and December 31, 2010, respectively (see Note 22).

<u>Classification of Financial Instruments Between Debt and Equity</u>
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.

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

<u>Derivative Financial Instruments and Hedging</u>
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 22). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

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

<u>Derecognition of Financial Assets and Liabilities</u>

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

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments

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

Business Combinations

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

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

Acquisition of Non-controlling Interests

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

Investment Properties

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

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

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Capital Stock

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

Treasury Stock

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

Revenue Recognition

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

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

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

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

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

Management Fees

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

Expenses

Operating and interest expenses are recognized as incurred.

Pension Cost

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

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

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

<u>Foreign Currency Translations</u>
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.

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

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

<u>Basic/Diluted Earnings Per Share (EPS)</u>
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.

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

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

<u>Subsequent Events</u>
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. Segment Information

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

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

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

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

Geographical Segment Data

	2011			
	Philippines	**China**	**Eliminations**	**Consolidated**
	(In Thousands)			
Revenue	**₱17,771,201**	**₱1,494,598**	**₱–**	**₱19,265,799**
Segment results:				
Income before income tax	**₱8,141,003**	**₱470,859**	**₱–**	**₱8,611,862**
Provision for income tax	**1,798,407**	**160,738**	**–**	**1,959,145**
Net income	**₱6,342,596**	**₱310,121**	**₱–**	**₱6,652,717**
Net income attributable to:				
Equity holders of the Parent	**₱6,102,352**	**₱310,121**	**₱–**	**₱6,412,473**
Non-controlling interests	**240,244**	**–**	**–**	**240,244**
Segment profit	**₱9,526,802**	**₱615,854**	**₱–**	**₱10,142,656**
Other information:				
Depreciation and amortization	**₱2,544,235**	**₱329,026**	**₱–**	**₱2,873,261**
Capital expenditures	**8,862,016**	**1,784,499**	**–**	**10,646,515**

	2010			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenues	₱16,078,703	₱955,576	₱–	₱17,034,279
Segment results:				
Income before income tax	₱7,450,352	₱221,636	₱–	₱7,671,988
Provision for income tax	1,771,259	67,067	–	1,838,326
Net income	₱5,679,093	₱154,569	₱–	₱5,833,662
Net income attributable to:				
Equity holders of the Parent	₱5,468,391	₱154,569	₱–	₱5,622,960
Non-controlling interests	210,702	–	–	210,702
Segment profit	₱8,549,699	₱342,481	₱–	₱8,892,180
Other information:				
Depreciation and amortization	₱2,373,865	₱284,020	₱–	₱2,657,885
Capital expenditures	6,475,157	1,236,453	–	7,711,610

6. Cash and Cash Equivalents

This account consists of:

	September 30, 2011	December 31, 2010
Cash on hand and in banks (see Note 19)	**₱2,280,932,423**	₱4,132,648,248
Temporary investments (see Note 19)	**7,261,249,801**	5,587,070,036
	₱9,542,182,224	₱9,719,718,284

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

Interest income earned from bank deposits and temporary investments amounted to ₱195 million and ₱71 million for the nine months ended September 30, 2011 and 2010, respectively.

7. Short-term Investments

This account includes time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱874 million and ₱877 million as of September 30, 2011 and December 31, 2010, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated at anytime by the Company.

Interest income earned from short-term investments amounted to ₱21 million for the nine months ended September 30, 2011 and 2010.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱801 million and ₱500 million as of September 30, 2011 and December 31, 2010, respectively, with yields ranging from 3.18% to 12.29%. The investments are Philippine peso-denominated and U.S. dollar-denominated with various maturities ranging from 2012 to 2018.

Investments held for trading include unrealized marked-to-market gain amounting to ₱2 million and ₱12 million for the nine months ended September 30, 2011 and 2010, respectively, the amounts of which are included under “Others - net” account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱31 million and ₱7 million for the nine months ended September 30, 2011 and 2010, respectively.

9. Receivables

This account consists of:

	September 30, 2011	December 31, 2010
Rent (see Note 19)	**₱3,204,619,176**	₱3,526,843,004
Advances to suppliers	**350,417,930**	370,314,070
Accrued interest (see Note 19)	**52,456,844**	33,293,073
Others	**237,356,327**	258,865,201
	₱3,844,850,277	₱4,189,315,348

Rent receivables generally have terms of 30-90 days.

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

The aging analysis of receivables follows:

	September 30, 2011	December 31, 2010
Neither past due nor impaired	**₱3,502,140,754**	₱3,944,764,764
Past due but not impaired:		
91-120 days	**44,089,923**	31,851,507
Over 120 days	**298,619,600**	212,699,077
	₱3,844,850,277	₱4,189,315,348

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

	September 30, 2011	December 31, 2010
Input taxes	**₱461,476,757**	₱398,885,734
Prepaid expenses	**331,495,915**	314,094,794
Advances to contractors	**208,847,413**	215,722,567
Others	**175,157,794**	175,514,387
	₱1,176,977,879	₱1,104,217,482

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

11. **Investment Properties**

This account consists of:

	September 30, 2011				
	Land and Land Use Rights	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Shopping Mall Complex Under Construction**	**Total**
Cost					
Balance at beginning of year	**₱19,524,757,159**	**₱72,278,698,603**	**₱15,707,347,346**	**₱9,817,096,213**	**₱117,327,899,321**
Additions	**1,331,835,950**	**1,035,004,859**	**344,309,330**	**7,954,202,908**	**10,665,353,047**
Transfers	**631,214,391**	**5,275,018,752**	**358,066,270**	**(6,264,299,413)**	**–**
Translation adjustments	**110,532,653**	**279,979,605**	**46,472,062**	**134,545,817**	**571,530,137**
Balance at end of year	**21,598,340,153**	**78,868,701,819**	**16,456,195,008**	**11,641,545,525**	**128,564,782,505**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**401,895,611**	**15,111,732,471**	**7,873,969,685**	**–**	**23,387,597,767**
Depreciation and amortization (see Note 16)	**47,646,153**	**1,853,538,730**	**972,075,766**	**–**	**2,873,260,649**
Translation adjustments	**5,579,109**	**36,970,513**	**16,375,025**	**–**	**58,924,647**
Balance at end of year	**455,120,873**	**17,002,241,714**	**8,862,420,476**	**–**	**26,319,783,063**
Net Book Value	**₱21,143,219,280**	**₱61,866,460,105**	**₱7,593,774,532**	**₱11,641,545,525**	**₱102,244,999,442**

	December 31, 2010				
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Shopping Mall Complex Under Construction	Total
Cost					
Balance at beginning of year	₱14,543,163,919	₱64,660,558,173	₱14,399,227,393	₱10,337,428,196	₱103,940,377,681
Additions	4,600,051,172	1,072,467,305	360,723,984	7,749,521,932	13,782,764,393
Reclassification	(40,000,000)	–	(59,738,975)	–	(99,738,975)
Transfers	477,532,899	6,671,339,375	1,030,868,446	(8,179,740,720)	–
Translation adjustments	(55,990,831)	(125,666,250)	(23,733,502)	(90,113,195)	(295,503,778)
Balance at end of year	19,524,757,159	72,278,698,603	15,707,347,346	9,817,096,213	117,327,899,321
Accumulated Depreciation and Amortization					
Balance at beginning of year	345,222,016	12,832,794,501	6,827,594,244	–	20,005,610,761
Depreciation and amortization (see Note 16)	95,275,186	2,295,528,096	1,110,380,695	–	3,501,183,977
Reclassification	(35,684,162)	–	(55,750,198)	–	(91,434,360)
Translation adjustments	(2,917,429)	(16,590,126)	(8,255,056)	–	(27,762,611)
Balance at end of year	401,895,611	15,111,732,471	7,873,969,685	–	23,387,597,767
Net Book Value	₱19,122,861,548	₱57,166,966,132	₱7,833,377,661	₱9,817,096,213	₱93,940,301,554

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱470 million and ₱475 million as of September 30, 2011 and December 31, 2010, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land 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 ₱633 million and ₱623 million as of September 30, 2011 and December 31, 2010, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 14).

Rent income from investment properties amounted to ₱16,451 million and ₱14,324 million for the nine months ended September 30, 2011 and 2010, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱9,123 million and ₱8,142 million for the nine months ended September 30, 2011 and 2010, respectively (see Note 16).

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

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

Shopping mall complex under construction includes cost of land amounting to ₱1,335 million and ₱1,966 million as of September 30, 2011 and December 31, 2010, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱36,120 million and ₱27,509 million as of September 30, 2011 and December 31, 2010, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of September 30, 2011 and December 31, 2010 are valued at ₱9,856 million and ₱5,745 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱34 million and ₱233 million for the nine months ended September 30, 2011 and 2010, respectively. Capitalization rates used were 6.27% and 7.70% in 2011 and 2010, respectively.

12. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by a local entity with annual dividend rate of 8.25% and investments in corporate notes issued by BDO amounting to ₱1,000 million as of September 30, 2011 and December 31, 2010 with fixed interest rate of 6.80%. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The remaining shares are mandatorily redeemable in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

Interest income earned from AFS investments amounted to ₱65 million and ₱64 million for the nine months ended September 30, 2011 and 2010, respectively.

13. Accounts Payable and Other Current Liabilities

This account consists of:

	September 30, 2011	December 31, 2010
Trade	**₱4,184,162,777**	₱4,060,325,504
Accrued operating expenses (see Note 19)	**3,625,714,377**	2,022,473,343
Accrued interest (see Notes 14 and 19)	**433,701,164**	338,463,012
Others	**679,929,823**	375,585,463
	₱8,923,508,141	₱6,796,847,322

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

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

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

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

14. **Long-term Debt**

This account consists of:

	September 30, 2011	December 31, 2010
Parent Company:		
U.S. dollar-denominated loans:		
Five-year term loans	**₱6,079,052,079**	₱–
Five-year, three-year and two-year bilateral loans	**1,080,793,146**	1,079,807,116
Three-year club loan	–	1,713,138,278
Three-year term loans	–	3,897,276,056
Other U.S. dollar loans	**3,022,155,329**	3,019,052,497
Philippine peso-denominated loans:		
Five-year, seven-year and ten-year corporate notes	**6,951,852,663**	5,000,000,000
Five-year floating rate notes	**4,960,380,549**	–
Five-year and ten-year corporate notes	**4,958,300,165**	4,958,173,719
Five-year, seven-year and ten-year fixed rate notes	**1,985,165,554**	2,969,868,110
Five-year floating rate notes	**–**	2,985,437,634
Other bank loans	**7,907,265,460**	9,734,160,361
Subsidiaries:		
China yuan renminbi-denominated loans:		
Five-year loan	**2,151,339,600**	2,216,223,600
Eight-year loan	**548,112,000**	763,071,000
Three-year loan	**530,178,087**	–
Five-year loan	**417,250,260**	398,124,000
Philippine peso-denominated loans - Five-year bilateral loan	**62,277,225**	108,917,440
	40,654,122,117	38,843,249,811
Less current portion	**678,938,000**	766,703,000
	₱39,975,184,117	₱38,076,546,811

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This represents a US$145 million unsecured loans out of a US$270 million facility obtained as of September 30, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate

(LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US$125 million is expected to be fully drawn before end of 2011(see Notes 21 and 22).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million and ₱6 million in 2010 and 2009, respectively (see Notes 21 and 22).

U.S. Dollar-denominated Three-Year Club Loan
The US$40 million unsecured loans were drawn on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012. A portion of the loans amounting to US$20 million was prepaid on May 9, 2011 and the balance of US$20 million was prepaid on July 28, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 21 and 22).

U.S. Dollar-denominated Three-Year Term Loans
The US$90 million unsecured loans were obtained in April and May 2009. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 23, 2012. The loan was prepaid on May 16, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 21 and 22).

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

- US$30 million and a US$20 million five-year bilateral unsecured loan drawn on November 30, 2010 and April 15, 2011, respectively. The loans bear interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 21 and 22).

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013 (see Notes 21 and 22).

- US$20 million three-year bilateral unsecured loan obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012. The loan was prepaid on April 15, 2011 and the related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 21).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱5,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, obtained on various dates on December 20, 2010 and June 13, 2011. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 21).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate

based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 21).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.40% and 10.11% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively (see Note 21).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000 million was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4 million (see Notes 21 and 22).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan amounting to ₱1,000 million and ₱3,000 million was prepaid on December 20, 2010 and March 18, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱3 million in 2010 and ₱6 million in 2011 (see Note 21).

Other Bank Loans
This account consists of the following:

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 21).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015 (see Notes 21 and 22).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 21).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 21).

- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million. The loans bear an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 and October 16, 2012, respectively. The Company prepaid the ₱830 million loan on April 13, 2011, the related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 21).

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin. The loan was prepaid on October 17, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Notes 21 and 22).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%. The loan was prepaid on March 3, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Note 21).

- 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 21).

Subsidiaries

<u>China Yuan Renminbi-denominated Five-Year Loan</u>
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.210% in 2011 and 5.184% in 2010 (see Note 21).

<u>China Yuan Renminbi-denominated Eight-Year Loan</u>
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.350% in 2011 and 5.346% 2010 (see Note 21).

<u>China Yuan Renminbi-denominated Three-Year Loan</u>
This represents a three-year loan obtained on March 28, 2011 amounting to ¥250 million to finance the construction of shopping malls. Partial drawdown amounting to ¥77 million was made as of September 30, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears interest rate of 6.318% in 2011 (see Note 21).

<u>China Yuan Renminbi-denominated Five-Year Loan</u>
This represents a five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown amounting to ¥60 million and ¥0.90 million was made in 2010 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.210% in 2011 and 5.598% in 2010 (see Note 21).

<u>Philippine Peso-denominated Five-Year Bilateral Loan</u>
This represents a five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 21).

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, 2011 and December 31, 2010, the Company is in compliance with the terms of its loan covenants.

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

	September 30, 2011	December 31, 2010
Balance at beginning of year	**₱263,713,789**	₱255,565,332
Additions	**403,542,722**	128,934,570
Amortization	**(193,868,681)**	(120,786,113)
Balance at end of year	**₱473,387,830**	₱263,713,789

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

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

Year	Amount
2011	₱375,306,000
2012	716,202,000
2013	3,299,581,000
2014	9,380,794,687
2015	12,293,526,260
2016 to 2020	15,062,100,000
	₱41,127,509,947

15. **Stockholders’ Equity**

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

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

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

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

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

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

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

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

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

	2011			2010		
	Before Tax Amount	**Tax Benefit**	**Net-of-tax Amount**	Before Tax Amount	Tax Expense	Net-of-tax Amount
Unrealized gain (loss) on AFS investments	**(₱3,342,146)**	**₱334,215**	**(₱3,007,931)**	(₱435,359)	₱43,536	(₱391,823)
Cumulative translation adjustment	**200,125,798**	**–**	**200,125,798**	(150,393,653)	–	(150,393,653)
	₱196,783,652	**₱334,215**	**₱197,117,867**	(₱150,829,012)	₱43,536	(₱150,785,476)

Retained Earnings

The retained earnings account is restricted for the payment of dividends to the extent of ₱5,312 million and ₱4,729 million as of September 30, 2011 and December 31, 2010, respectively, representing the cost of shares held in treasury (₱101 million in 2011 and 2010) and accumulated equity in net earnings of the subsidiaries totaling ₱5,211 million and ₱4,628 million as of September 30, 2011 and December 31, 2010, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

Treasury Stock

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

16. Operating Expenses

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

	2011	2010
Depreciation and amortization (see Note 11)	**₱2,873,260,649**	₱2,657,885,189
Administrative (see Notes 18, 19 and 20)	**2,674,788,138**	2,250,911,199
Business taxes and licenses	**1,183,501,437**	989,493,064
Film rentals	**1,121,762,675**	1,099,121,203
Others (see Note 19)	**1,269,830,835**	1,144,688,446
	₱9,123,143,734	₱8,142,099,101

17. Income Tax

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

	September 30, 2011	December 31, 2010
Deferred tax assets -		
Unrealized foreign exchange losses and others	**₱276,590,007**	₱223,266,010
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,273,315,237**	₱1,322,799,401

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

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

For the period ended September 30, 2011 and December 31, 2010, the Company opted to use OSD in computing their taxable income.

18. Pension Cost

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

19. 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 nine months ended September 30, 2011 and 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

a. The Company has existing lease agreements with its affiliates, the SM Retail Group and SM Banking Group. Total rent income amounted to ₱5,184 million and ₱4,710 million for the nine months ended September 30, 2011 and 2010, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,182 million and ₱1,418 million as of September 30, 2011 and December 31, 2010, respectively.

b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱164 million and ₱149 million for the nine months ended September 30, 2011 and 2010, respectively. Rent payable to SMIC and SM Land included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱32 million and ₱35 million as of September 30, 2011 and December 31, 2010, respectively.

c. The Company pays management fees to its affiliates, Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱574 million and ₱483 million for the nine months ended September 30, 2011 and 2010, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱89 million and ₱59 million as of September 30, 2011 and December 31, 2010, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group and SMIC. Cash and cash equivalents, short-term investments and investments held for trading amounted to ₱6,653 million and ₱7,125 million as of September 30, 2011 and December 31, 2010, respectively. Interest income amounted to ₱193 million and ₱93 million for the nine months ended September 30, 2011 and 2010, respectively. Accrued interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱36 million and ₱17 million as of September 30, 2011 and December 31, 2010, respectively.

e. As of September 30, 2011 and December 31, 2010, the outstanding long-term debt from the SM Banking Group and SMIC amounted to ₱698 million and ₱1,529 million, respectively. Advances from SMIC, included under "Other noncurrent liabilities" account in the consolidated balance sheets amounting to ₱2,000 million was prepaid in November 2010.

Interest expense amounted to ₱55 million and ₱205 million for the nine months ended September 30, 2011 and 2010, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱27 million and ₱23 million as of September 30, 2011 and December 31, 2010, respectively.

f. AFS investments include investments in corporate notes issued by BDO amounting to ₱1,000 million as of September 30, 2011 and December 31, 2010. Interest income amounted to ₱51 million for the nine months ended September 30, 2011 and 2010. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱6 million as of September 30, 2011 and December 31, 2010.

g. On January 2, 2008, the SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 170,082 square meters, 19,952 square meters and 33,440 square meters, respectively. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.

h. The total compensation paid to key management personnel of the Company amounted to ₱24 million and ₱21 million for the nine months ended September 30, 2011 and 2010, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

20. Lease Agreements

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

Rent income amounted to ₱16,451 million and ₱14,324 million for the nine months ended September 30, 2011 and 2010, respectively.

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

Rent expense included under "Operating expenses" account in the consolidated statements of income amounted to ₱437 million and ₱353 million for the nine months ended September 30, 2011 and 2010, respectively.

21. **Financial Risk Management Objectives and Policies**

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

The Company also enters into derivative transactions, principally interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 22).

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

Interest Rate Risk

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

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of September 30, 2011 and December 31, 2010, after taking into account the effect of interest rate swaps, approximately 52% and 53% respectively, of the Company's long-term borrowings are at a fixed rate of interest (see Note 22).

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 22).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱10,227 million (US$234 million) and ₱10,929 million (US$250 million), respectively, as of September 30, 2011 and ₱9,653 million (US$220 million) and ₱10,090 million (US$230 million), respectively, as of December 31, 2010.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱43.72 to US$1.00 and ₱43.84 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of September 30, 2011 and December 31, 2010, respectively.

Credit Risk

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

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

Interest Rate Risk Table

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

	September 30, 2011								
	1-<2 Years	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**5-<6 Years**	**>6 Years**	**Total**	**Debt Issuance**	**Carrying Value**
Fixed rate:									
Philippine peso-denominated corporate notes	₱45,550,000	₱25,550,000	₱3,697,800,000	₱1,097,300,000	₱8,660,000	₱1,914,040,000	₱6,788,900,000	(42,556,224)	₱6,746,343,776
Interest rate	5.79%–8.40%	5.79%–8.40%	5.79%–8.40%	5.79%–6.65%	5.89%–6.65%	5.89%–10.11%			
Philippine peso-denominated fixed rate notes	₱990,000	₱990,000	₱990,000	₱1,194,060,000	₱–	₱800,000,000	1,997,030,000	(11,864,446)	1,985,165,554
Interest rate	9.60%	9.60%	9.60%	9.60%		9.85%			
Other bank loans	₱–	₱–	₱–	₱–	₱1,200,000,000	₱–	1,200,000,000	(6,595,489)	1,193,404,511
Interest rate					9.75%				
Floating rate:									
U.S. dollar-denominated five-year term loans	$–	$–	$–	$–	$145,000,000	$–	6,339,400,000	(260,347,921)	6,079,052,079
Interest rate					LIBOR+spread				
U.S. dollar-denominated bilateral loans	$–	$25,000,000	$–	$–	$–	$–	1,093,000,000	(12,206,854)	1,080,793,146
Interest rate		LIBOR+spread							
Other U.S. dollar loans	$–	$20,000,000	$–	$50,000,000	$–	$–	3,060,400,000	(38,244,671)	3,022,155,329
Interest rate		LIBOR+spread		LIBOR+spread					
Philippine peso-denominated corporate notes	₱100,300,000	₱50,300,000	₱248,800,000	₱4,800,000,000	₱–	₱–	5,199,400,000	(35,590,948)	5,163,809,052
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
Philippine peso-denominated five-year floating rate notes	₱50,000,000	₱50,000,000	₱50,000,000	₱50,000,000	₱4,800,000,000	₱–	5,000,000,000	(39,619,451)	4,960,380,549
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Philippine peso-denominated five-year bilateral loans	₱62,500,000	₱–	₱–	₱–	₱–	₱–	62,500,000	(222,775)	62,277,225
Interest rate	PDST-F+margin%								
Other bank loans	₱10,000,000	₱760,000,000	₱3,010,000,000	₱2,960,000,000	₱–	₱–	6,740,000,000	(26,139,051)	6,713,860,949
Interest rate	PDST-F+margin%	PHIREF+margin%	PDST-F+margin%	PDST-F+margin%					
China yuan renminbi-denominated loans	¥120,000,000	¥65,000,000	¥346,382,446	¥900,000	¥–	¥–	3,646,879,947	–	3,646,879,947
Interest rate	6.21%-6.35%	6.21%-6.35%	6.21%-6.35%	6.21%-6.35%					
							₱41,127,509,947	(₱473,387,830)	₱40,654,122,117

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

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

Credit Quality of Financial Assets

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

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

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

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

	September 30, 2011			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱9,501,204,180**	**₱–**	**₱–**	**₱9,501,204,180**
Short-term investments	**874,400,000**	**–**	**–**	**874,400,000**
Receivables from:				
Rent	**–**	**2,861,909,653**	**342,709,523**	**3,204,619,176**
Accrued interest	**52,456,844**	**–**	**–**	**52,456,844**
Advances to suppliers and others	**–**	**587,774,257**	**–**	**587,774,257**
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	**800,562,260**	**–**	**–**	**800,562,260**
Derivative assets	**85,728,533**	**–**	**–**	**85,728,533**
AFS Investments				
Debt securities	**1,100,819,324**	**–**	**–**	**1,100,819,324**
	₱12,415,171,141	**₱3,449,683,910**	**₱342,709,523**	**₱16,207,564,574**

**Excluding cash on hand amounting to ₱31 million.*

	December 31, 2010			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱9,690,188,157	₱–	₱–	₱9,690,188,157
Short-term investments	876,800,000	–	–	876,800,000
Receivables from:				
Rent	–	3,282,292,420	244,550,584	3,526,843,004
Accrued interest	33,293,073	–	–	33,293,073
Advances to suppliers and others	–	629,179,271	–	629,179,271
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	500,134,177	–	–	500,134,177
Derivative assets	738,228,976	–	–	738,228,976
AFS Investments				
Debt securities	1,104,161,471	–	–	1,104,161,471
	₱12,942,805,854	₱3,911,471,691	₱244,550,584	₱17,098,828,129

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

Liquidity Risk

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through 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 ₱9,542 million, ₱874 million and ₱801 million, respectively, as of September 30, 2011 and ₱9,720 million, ₱877 million and ₱500 million, respectively, as of December 31, 2010. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,101 million and ₱1,104 million as of September 30, 2011 and December 31, 2010, respectively.

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

	September 30, 2011			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities*	**₱8,786,413,456**	**₱–**	**₱–**	**₱8,786,413,456**
Long-term debt (including current portion)	**2,517,155,772**	**43,704,331,277**	**3,341,152,851**	**49,562,639,900**
Derivative liabilities	**–**	**273,347,158**	**–**	**273,347,158**
Tenants' deposits	**–**	**7,135,447,081**	**–**	**7,135,447,081**
Other noncurrent liabilities*	**–**	**2,625,044,820**	**–**	**2,625,044,820**
	₱11,303,569,228	**₱53,738,170,336**	**3,341,152,851**	**₱68,382,892,415**

* *Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱137 million and ₱470 million, respectively.*

	December 31, 2010			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	₱6,646,207,309	₱–	₱–	₱6,646,207,309
Long-term debt (including current portion)	2,691,093,533	39,907,704,664	4,833,260,283	47,432,058,480
Derivative liabilities	–	709,909,803	–	709,909,803
Tenants' deposits	–	6,465,889,827	–	6,465,889,827
Other noncurrent liabilities*	–	2,375,075,078	–	2,375,075,078
	₱9,337,300,842	₱49,458,579,372	₱4,833,260,283	₱63,629,140,497

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

Capital Management

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

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

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

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

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

	September 30, 2011	December 31, 2010
Current portion of long-term debt	**₱678,938,000**	₱766,703,000
Long-term debt - net of current portion	**39,975,184,117**	38,076,546,811
Total interest-bearing debt (a)	**40,654,122,117**	38,843,249,811
Total equity attributable to equity holders of the Parent	**61,048,043,700**	58,191,167,414
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱101,702,165,817**	₱97,034,417,225
Gearing ratio (a/b)	**40%**	40%

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

	September 30, 2011	December 31, 2010
Current portion of long-term debt	**₱678,938,000**	₱766,703,000
Long-term debt - net of current portion	**39,975,184,117**	38,076,546,811
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(12,317,963,808)**	(12,200,813,932)
Total net interest-bearing debt (a)	**28,336,158,309**	26,642,435,879
Total equity attributable to equity holders of the Parent	**61,048,043,700**	58,191,167,414
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱89,384,202,009**	₱84,833,603,293
Gearing ratio (a/b)	**32%**	31%

22. Financial Instruments

Carrying Values

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

	September 30, 2011	June 30, 2011	March 31, 2011
Financial Assets			
Loans and receivables	**₱14,261,432,501**	₱14,046,335,691	₱15,928,033,851
Financial assets at FVPL	**886,290,793**	1,279,269,723	1,281,082,672
AFS investments	**1,100,819,324**	1,101,854,142	1,103,461,465
	₱16,248,542,618	₱16,427,459,556	₱18,312,577,988

	September 30, 2011	June 30, 2011	March 31, 2011
Financial Liabilities			
Financial liabilities at FVPL	**₱273,347,158**	₱578,791,779	₱603,886,928
Other financial liabilities	**59,201,027,474**	57,130,501,883	55,243,241,841
	₱59,474,374,632	₱57,709,293,662	₱55,847,128,769

Fair Values

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

Derivative Financial Instruments

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

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

		2011	
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed:			
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$145,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%-3.28%**	**2.91%-3.28%**	**2.91%-3.28%**
Outstanding notional amount	**$50,000,000**	**$50,000,000**	**$50,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.18%-3.53%**	**3.18%-3.53%**	**3.18%-3.53%**
Outstanding notional amount	**$25,000,000**	**$25,000,000**	**$25,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**4.10%**	**4.10%**	**4.10%**
Outstanding notional amount	**$20,000,000**	**$20,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.41%**	**3.41%**	
Outstanding notional amount	**₱750,000,000**	**₱–**	**₱–**
Receive-floating rate	**3 months PHIREF+margin%**		
Pay-fixed rate	**8.20%**		
Fixed-Floating:			
Outstanding notional amount	**₱1,000,000,000**	**₱1,000,000,000**	**₱1,000,000,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱1,000,000,000**	**₱1,000,000,000**	**₱1,000,000,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F +margin%**	**3MPDST-F +margin%**	**3MPDST-F +margin%**

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

Interest Rate Swaps. In 2011, the Parent Company entered into US$ interest rate swap agreement with notional amount of US$145 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated bilateral loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 15). As of September 30, 2011, the floating to fixed interest rate swap has negative fair value of ₱131 million.

The Parent Company also entered into US$ interest rate swap agreement with notional amount of US$30 million in 2010 and US$20 million in 2011. Under these agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 and 2015 (see Note 15). As of September 30, 2011 and December 31, 2010, the floating to fixed interest rate swaps have negative fair values of ₱51 million and positive values of ₱20 million, respectively.

In 2010, the Parent Company entered into two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 14). As of September 30, 2011 and December 31, 2010, these swaps have positive fair values of ₱86 million and ₱87 million, respectively.

Also in 2010, the Parent Company entered into US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 14). On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Realized losses from the pretermination recognized in the consolidated statements of income amounted to ₱4 million in 2011.

Also in 2010, the Parent Company entered into US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 14). As of September 30, 2011 and December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱5 million and ₱2 million, respectively.

In 2009, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$145 million. Under these agreements, the Parent Company effectively converts the floating rate US$30 million two-year bilateral loan, US$90 million three-year term loan and US$25 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 14). The Parent Company preterminated the US$30 million on November 30, 2010 and the US$90 million on May 16, 2011. The pretermination resulted to a ₱6 million gain in 2010 and ₱9 million loss in 2011, recognized in the consolidated statements. As of September 30, 2011 and December 31, 2010, the outstanding floating to fixed interest rate swaps have net negative fair values of ₱56 million and ₱130 million, respectively.

Also in 2009, the Parent Company entered into Philippine peso interest rate swap agreement with notional amount of ₱750 million. Under the agreement, the Parent Company effectively converts the floating rate Philippine peso-denominated four-year bullet term loan into fixed rate loan with quarterly payment intervals up to April 2013 (see Note 14). As of September 30, 2011 and December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱30 million. On October 17, 2011, the interest rate swap was preterminated as a result of the prepayment of the underlying loan.

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

23. **Basic/Diluted EPS Computation**

Basic/diluted EPS is computed as follows:

	2011	2010
Net income attributable to equity holders of the Parent (a)	**₱6,412,473,034**	₱5,622,959,433
Common shares issued	**13,348,191,367**	13,348,191,367
Weighted average number of shares issued in equity placement (see Note 15)	**545,875,004**	–
Common shares issued at end of year	**13,894,066,371**	13,348,191,367
Less treasury stock	**18,857,000**	18,857,000
Weighted average number of common shares outstanding (b)	**13,875,209,371**	13,329,334,367
Earnings per share (a/b)	**₱0.462**	₱0.422

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 September 30				
	2011	**% to Revenues**	**2010**	**% to Revenues**	**% Change**	**2011**	**% to Revenues**	**2010**	**% to Revenues**	**% Change**
Profit & Loss Data										
Revenues	6,561	100%	5,728	100%	15%	19,266	100%	17,034	100%	13%
Operating Expenses	3,205	49%	2,819	49%	14%	9,123	47%	8,142	48%	12%
Operating Income	3,356	51%	2,909	51%	15%	10,143	53%	8,892	52%	14%
Net Income	2,139	33%	1,865	33%	15%	6,412	33%	5,623	33%	14%
EBITDA	4,338	66%	3,810	67%	14%	13,016	68%	11,550	68%	13%

	Sep 30 2011	**% to Total Assets**	**Dec 31 2010**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	123,542	100%	116,343	100%	6%
Investment Properties	102,245	83%	93,940	81%	9%
Total Debt	40,654	33%	38,843	33%	5%
Net Debt	28,336	23%	26,642	23%	6%
Total Stockholders' Equity	61,048	49%	58,191	50%	5%

Financial Ratios	**Sep 30 2011**	**Dec 31 2010**
Current Ratio	1.73	2.20
Debt to Equity	0.40 : 0.60	0.40 : 0.60
Net Debt to Equity	0.32 : 0.68	0.31 : 0.69

	Sep 30	
(annualized)	**2011**	**2010**
Return on Equity	0.14	0.15
Return on Investment Properties	0.10	0.10
Debt to EBITDA	2.34	2.44
EBITDA to Interest Expense	9.05	7.69
Operating Income to Revenues	0.53	0.52
EBITDA Margin	0.68	0.68
Net Income to Revenues	0.33	0.33
Debt Service Coverage Ratio	7.16	2.64

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 41 malls in the Philippines and four malls in China, posts 13% increase in gross revenues for the first nine months of 2011 to ₱19.27 billion from ₱17.03 billion in the same period 2010. Rental revenues, accounting for 85% of total revenues, grew by 15% amounting to ₱16.45 billion from same period last year of ₱14.32 billion. This is largely due to rentals from new SM Supermalls opened in 2010, namely, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches. SM Masinag was also opened in May 2011. The new malls added 380,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 7%.

In terms of gross revenues, the four malls in China contributed ₱1.49 billion in 2011 and ₱0.96 billion in 2010, or 8% and 6% of total consolidated operating revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 9% and 7% to SM Prime's consolidated rental revenues in 2011 and 2010, respectively. Gross revenues of the four malls in China increased 56% in 2011 compared to the same period in 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 183,000 square meters of gross floor area. Average occupancy rate for the four malls is now at 94%.

For the nine months ending 2011, cinema ticket sales was flat at ₱2.04 billion in 2010 to ₱2.07 billion in 2011. In 2011, major blockbusters shown were "Transformers 3: Dark of the Moon", "Harry Potter & the Deathly Hallow 2 ," "Kung Fu Panda 2," "Thor" and "Pirates of the Caribbean 4." In the same period 2010, major films shown were "Twilight Saga: Eclipse," "Iron Man 2," "Avatar," "Clash of the Titans" and "Shrek Forever After."

Amusement and other income increased by 11% to ₱742 million in 2011 from ₱667 million in 2010 mainly due to sponsorship revenues. 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 12% from ₱8.14 billion in 2010 to ₱9.12 billion in 2011 mainly due to new malls and increase in administrative and depreciation expenses. Likewise, income from operations posted a 14% growth from ₱8.89 billion in 2010 to ₱10.14 billion in 2011. In terms of operating expenses, the four malls in China contributed ₱0.88 billion in 2011 and ₱0.61 billion in 2010, or 10% and 8% of SM Prime's consolidated operating expenses, respectively.

Interest and dividend income increased significantly by 91% to ₱312 million in 2011 compared to ₱163 million in 2010 mainly due to higher balance of temporary investments as of September 30, 2011 compared to same period last year.

On the other hand, interest expense for the period decreased by 4% despite the new loans, at ₱1.44 billion in 2011 from ₱1.50 billion in 2010, due to decrease in market interest rates and interest reduction initiatives where we prepaid some of our high-interest bearing loans using refinancing.

Net income for the nine months ended 2011 increased by 14% at ₱6.41 billion from same period last year of ₱5.62 billion. On a stand-alone basis, the net income of the four malls in China doubled to P310 million in 2011 compared to ₱155 million in 2010. While net income of the Philippine operations grew 12% at ₱6.10 billion in 2011 from ₱5.47 billion in 2010.

On the balance sheet side, cash and cash equivalents slightly decreased by 2% from ₱9.72 billion as of December 31, 2010 to ₱9.54 billion as of September 30, 2011. This account includes the remaining proceeds raised from the equity placement done last October 2010 amounting to ₱3.2 billion.

Investments held for trading increased by 60%, from ₱500 million as of December 31, 2010 to ₱801 million as of September 30, 2011, due to additional investments in corporate bonds.

Receivables decreased by 8% from ₱4.19 billion as of December 31, 2010 to ₱3.84 billion as of September 30, 2011 due to subsequent collections of rental receivables. On the other hand, prepaid expenses and other current assets increased by 7% from ₱1.10 billion as of December 31, 2010 to ₱1.18 billion as of September 30, 2011 mainly due to input taxes.

Investment properties increased 9% from ₱93.9 billion as of December 31, 2010 to ₱102.2 billion as of September 30, 2011 mainly because of on-going new mall projects located in Taguig, Cavite, Pampanga, Olongapo, Cebu City, General Santos and Davao City and SM Chongqing and SM Zibo in China. In addition, SM Megamall, SM Dasmariñas and SM Davao are under expansion.

The decrease in derivative assets by 88% from ₱738 million as of December 31, 2010 to ₱86 million as of September 30, 2011 and derivative liabilities by 62% from ₱710 million as of December 31, 2010 to ₱273 million as of September 30, 2011, is mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans.

Deferred tax assets increased 24% from ₱223 million as of December 31, 2010 to ₱277 million as of September 30, 2011 due to unrealized marked-to-market losses on interest rate swaps.

Other noncurrent assets decreased by 9% from ₱3.95 billion as of December 31, 2010 to ₱3.59 billion as of September 30, 2011 mainly due to refund of a bid bond for acquisition of a certain real property in China, offset by additional deposits paid and advances to contractors for mall construction.

The increase in accounts payable and other current liabilities of 31% from ₱6.80 billion as of December 31, 2010 to ₱8.92 billion as of September 30, 2011 is mainly due to accrued operating expenses and payables to mall contractors.

Current portion of long-term debt decreased by 11% from ₱767 million as of December 31, 2010 to ₱679 million as of September 30, 2011 due to subsequent payments while long-term debt increased 5% from ₱38.08 billion as of December 31, 2010 to ₱39.98 billion as of September 30, 2011 due to loans availed for the period.

Tenants' deposits increased 10% from ₱6.47 billion as of December 31, 2010 to ₱7.14 billion as of September 30, 2011 due to the new malls and expansions. Other noncurrent liabilities likewise increased by 9% from ₱2.85 billion as of December 31, 2010 to ₱3.09 billion as of September 30, 2011 mainly due to increase in liability for purchased real estate properties.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) return on investment properties (ROI) which measures the ratio of net income to investment properties excluding shopping mall complex under construction; (7) earnings before interest, income taxes, depreciation and amortization (EBITDA); (8) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (9) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (10) operating income to revenues which basically measures the gross profit ratio; (11) EBITDA margin which measures the ratio of EBITDA to gross revenues and (12) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The Company's current ratio decreased to 1.73:1 from 2.20:1 as of September 30, 2011 and December 31, 2010, respectively, due to increase in accounts payable and other current liabilities.

Interest-bearing debt to stockholders' equity is unchanged at 0.40:0.60 as of September 30, 2011 and December 31, 2010. Net interest-bearing debt to stockholders' equity slightly increased to 0.32:0.68 from 0.31:0.69 as of September 30, 2011 and December 31, 2010, respectively. Debt service coverage ratio increased to 7.16:1 from 2.64:1 for the nine months ended September 30, 2011 and 2010, respectively, due to prepayment of debt maturities scheduled for 2012.

In terms of profitability, ROE slightly decreased to 14% from 15% for the nine months ended September 30, 2011 and 2010, respectively, as a result of the equity placement done last October 2010.

EBITDA increased 13% to ₱13.02 billion in 2011 from ₱11.55 billion in 2010. Debt to EBITDA is almost steady at 2.34:1 from 2.44:1 as of September 30, 2011 and 2010, respectively. EBITDA to interest expense increased from 7.69:1 to 9.05:1 for the periods ended September 30, 2010 and 2011, respectively, due to higher cash flows from operations and decrease in interest expense.

Consolidated operating income to revenues slightly increased to 53% from 52% for the periods ended September 30, 2011 and 2010. On a stand-alone basis, operating income margin of the Philippines and China operations is at 54% and 41% in 2011, compared to 53% and 36% in 2010, respectively.

EBITDA margin remains strong at 68% for both periods ended September 30, 2011 and 2010, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 68% and 63% in 2011 and 68% and 66% in 2010, respectively.

Net income to revenues is stable at 33% for the periods ended September 30, 2011 and 2010. On a stand-alone basis, net income margin of the Philippines and China operations is at 34% and 21% in 2011 and 34% and 16% in 2010, respectively.

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

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

Earlier this year, SM Prime inaugurated SM City Masinag in Antipolo City and SM City Suzhou in China. For the rest of 2011, SM Prime is scheduled to open SM City San Fernando in Pampanga, SM City Olongapo in Zambales, and SM Marketmall in Dasmariñas, Cavite. The company is also set to expand two of its existing malls namely, SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. By year-end, SM Prime will have 48 malls in the Philippines and in China with an estimated combined gross floor area of 5.9 million sqm.

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 3, 2011

JEFFREY C. LIM
Executive Vice-President

SM PRIME HOLDINGS, INC.

AGING OF RENT RECEIVABLE

AS OF SEPTEMBER 30, 2011

MALL	BALANCE	CURRENT	Over 30 days
SM NORTH EDSA	353,356,237	259,977,467	93,378,770
SM MEGAMALL	305,379,344	248,822,570	56,556,774
SM MALL OF ASIA	262,468,511	222,491,418	39,977,093
SM FAIRVIEW	180,818,955	144,582,110	36,236,845
SM CEBU	130,103,111	118,788,652	11,314,459
SM SOUTHMALL	114,706,565	99,933,059	14,773,505
SM PAMPANGA	113,073,880	105,676,602	7,397,277
SM MANILA	107,116,336	84,169,597	22,946,739
SM BACOOR	106,870,492	93,398,527	13,471,965
SM SAN LAZARO	79,233,782	77,763,381	1,470,401
SM ILOILO	79,503,861	67,214,220	12,289,641
SM STA MESA	64,465,222	59,743,257	4,721,965
SM DASMARINAS	69,172,009	64,365,099	4,806,911
SM CLARK	67,497,740	62,757,767	4,739,974
SM BAGUIO	55,128,736	52,920,392	2,208,343
SM DAVAO	57,302,350	52,449,364	4,852,986
SM MARILAO	57,370,994	56,169,368	1,201,626
SM STA ROSA	56,375,134	55,457,309	917,826
SM BICUTAN	54,095,066	51,742,460	2,352,605
SM SUCAT	51,505,692	47,583,254	3,922,438
SM TAYTAY	46,252,857	41,694,535	4,558,321
SM MARIKINA	49,790,720	47,771,416	2,019,304
SM LIPA	48,926,408	47,539,569	1,386,839
SM BACOLOD	44,447,903	42,394,700	2,053,203
SM BATANGAS	47,320,095	42,369,577	4,950,518
SM CALAMBA	40,918,670	40,723,396	195,273
SM NAGA	36,432,648	34,743,075	1,689,573
SM TARLAC	36,032,481	34,430,362	1,602,119
SM BY THE BAY	34,628,637	19,545,945	15,082,692
SM ROSALES	35,094,083	33,077,107	2,016,977
SM LUCENA	35,850,170	34,288,671	1,561,500
SM BALIWAG	35,959,625	34,721,388	1,238,237
SM CAGAYAN DE ORO	30,884,708	26,341,141	4,543,566
SM ROSARIO	31,071,106	30,086,415	984,690
SM VALENZUELA	33,003,169	31,119,005	1,884,164
SM MASINAG	48,768,533	46,431,084	2,337,450
SM MOLINO	30,731,924	30,435,038	296,886
SM NOVALICHES	27,611,350	25,771,145	1,840,206
SM MUNTINLUPA	28,522,700	27,421,357	1,101,343
SM SAN PABLO	24,523,780	24,114,328	409,451
SM PASIG	23,892,197	22,093,001	1,799,196
SM LAS PINAS	23,093,901	21,380,811	1,713,091
SM NAGTAHAN	6,182,879	6,181,618	1,261
SM CHINA MALLS	39,134,613	6,969,609	32,165,004
	3,204,619,176	**2,777,650,167**	**426,969,009**