COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Building A, SM Corporate Offices, 1000 JW 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)

12	31
Month	*Day*

(Fiscal Year)

20-IS

(Form Type)

04	27
Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

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

1. Check the appropriate box:

   [✓] Preliminary Information Statement

   [ ] Definitive Information Statement

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

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

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

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

6. **SM Corporate Offices, Bldg. A, 1000 JW Diokno Boulevard, Mall of Asia Complex, Pasay City** **1300**
   Address of principal office Postal Code

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

8. **April 27, 2010, 2:30 P.M., Function Room 1, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders:
   March 26, 2010

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

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	**13,329,334,367**

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

    Yes __✓___ No _______

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

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

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

The annual stockholders' meeting of SM Prime Holdings, Inc. is scheduled to be held on April 27, 2010 at 2:30 p.m. at the Function Room 1, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300. The complete mailing address of the principal office of the registrant is SM Corporate Offices, Building A, 1000 JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on March 26, 2010.

Statement that proxies are not solicited

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 29, 2010. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 13,329,334,367 shares (net of 18,857,000 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

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

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

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

(a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;

(b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
(c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation

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

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

There is no matter to be acted upon in which any Director or Executive Officer is involved or had a direct, indirect or substantial interest. No Director has informed the Company of his opposition to any matter to be acted upon.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities And Principal Holders Thereof

(1) Number of Common Shares Outstanding

The Company has 13,329,334,367 (net of 18,857,000 treasury shares) common shares outstanding as of February 28, 2010. Each share is entitled to one vote. All stockholders of record as 29 March 2010 are entitled to notice of and to vote at the Annual Stockholders' Meeting.

(2) Manner of Voting

Each share is entitled to one vote. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of share he owns entitles him, for as many persons as are to be elected as Directors, or he may give to one candidate as many votes as, the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected.

(3) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2010

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

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**SM Land, Inc.** ***(Related Company)***[1] OneEcom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SM Land, Inc.**[2]	Filipino	5,945,158,593 (b)	44.54

-do-	**SM Investments Corporation (SMIC)** ***(Parent Company)***[3] OneEcom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SMIC**[4]	Filipino	2,757,559,722 (b)	20.66
-do-	**PCD Nominee Corp.** [5] MSE Bldg., Ayala Ave., Makati City	**PCD Participants**[5, 6]	Filipino - 3.65% Non Filipino - 30.22%	4,521,134,590 (r)	33.87

1. The following are the individuals holding the direct beneficial ownership of SM Land, Inc.: Henry Sy, Sr.-4.80%, Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy – 4.72% each.
2. Henry Sy, Sr, and Henry Sy, Jr. are the Chairman and Vice Chairman/ President of SM Land, Inc., respectively.
3. The following are the individuals holding the direct beneficial ownership of SMIC: Henry Sy, Sr.-15.99%, Felicidad T. Sy-9.85%, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy-9.85% each, Harley T. Sy-9.43%,, Teresita T. Sy-8.62% and Elizabeth Sy -.07%.
4. Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC.
5. The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.
6 The PCD is not related to the Company.

(3) Security Ownership of Management as of February 28, 2010

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Direct Beneficial Ownership	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	4,394,894 (b)	Voting	0.03
-do-	Jose L. Cuisia, Jr.	Filipino	326,827 (b)	Voting	0.00
-do-	Senen T. Mendiola	Filipino	638,575 (b)	Voting	0.00
-do-	Teresita T. Sy	Filipino	1,082,322 (b)	Voting	0.01
-do-	Henry T. Sy, Jr.	Filipino	12,522 (b)	Voting	0.00
-do-	Hans T. Sy	Filipino	12,522 (b)	Voting	0.00
-do-	Herbert T. Sy	Filipino	388,103 (b)	Voting	0.00
-do-	Gregorio U. Kilayko	Filipino	10,000 (b)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,626,488 (b)	Voting	0.01
-do-	Jeffrey C. Lim	Filipino	40,000 (b)	Voting	0.00
-do-	Christopher S. Bautista	Filipino	30,000 (b)	Voting	0.00
	All directors and executive officers as a group		8,562,253	Voting	0.07

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

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

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

ITEM 5. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman	Henry Sy, Sr.	Filipino	85
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	66
Independent Director	Gregorio U. Kilayko	Filipino	55
Director and President	Hans T. Sy	Filipino	54
Director	Senen T. Mendiola	Filipino	83
Director	Henry T. Sy, Jr.	Filipino	56
Director	Herbert T. Sy	Filipino	53
Adviser to the Board of Directors	Teresita T. Sy	Filipino	59
Executive Vice President and Chief Finance Officer	Jeffrey C. Lim	Filipino	48
Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary	Corazon I. Morando	Filipino	68
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	57
Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	51
Vice President – Internal Audit Head	Christopher S. Bautista	Filipino	50
Vice President – Information Technology	Kelsey Hartigan Y. Go	Filipino	44
Vice President – Project Development	Erickson Y. Manzano	Filipino	39
Vice President – Finance (China Projects)	Diana R. Dionisio	Filipino	37
Vice President – Finance	Teresa Cecilia H. Reyes	Filipino	35
Corporate Secretary/ Asst. Compliance Officer	Emmanuel C. Paras	Filipino	60

Board of Directors

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

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

Gregorio U. Kilayko* is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. At present, he is also an independent director of Highlands Prime, Inc. He was elected as Independent Director in 2008.

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

Hans T. Sy, President, has served as Director since 1994 and as President since 2004. He holds many key positions in the SM Group, among which are First Executive Vice President of SM Investments Corporation, Director and Vice Chairman of China Banking Corporation, Director of Highlands Prime, Inc. and SM Land, Inc. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

Senen T. Mendiola has served as Director since 1994. He is Vice Chairman of a number of SM Group companies and holds a number of board positions within the Group. A graduate of the San Beda College with a Bachelor's degree in commerce, he has worked closely with Mr. Henry Sy, Sr. for more than four decades.

Henry T. Sy, Jr. has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is also Vice Chairman/ President of SM Land, Inc., Vice Chairman of SM Investments Corporation and SM Development Corporation, President of Highlands Prime, Inc., Director in Banco de Oro Unibank, Inc. and Chairman of Pico de Loro Beach and Country Club Inc. He graduated with a management degree from De La Salle University.

Herbert T. Sy has served as Director since 1994. He is the First Executive Vice President of SM Investments Corporation and is currently the President of Supervalue Inc. and Super Shopping Market Inc. and Director of SM Land, Inc. and China Banking Corporation. He holds a Bachelor's degree in management from De La Salle University. He also holds board positions in several companies within the SM Group.

Teresita T. Sy has served as Adviser to the Board since May 2008. She was previously a Director since 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of Banco de Oro Unibank, Inc., Vice Chairman of SM Investments Corporation and Director of SM Land, Inc. She also holds board positions in several companies within the SM Group.

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

Senior Management

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

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

Elizabeth T. Sy, Senior Vice President for Marketing, is also involved in investor relations of the Company. She is a Director of SM Development Corporation and SM Land, Inc., Co-Chairman of Pico de Loro Beach and Country Club Inc. and Treasurer of SM Investments Corporation. She is also actively involved in the Group's other tourism and leisure business endeavors, overseeing operations as well as other marketing and real estate activities.

Ronald G. Tumao is the Vice President for Market Research & Planning. He graduated from De La Salle University with a degree in BSC - Management of Financial Institutions. He later took his MBA at the Ateneo Graduate School in Makati City. He has over 10 years of experience in banking and finance and more than 10 years experience in brand management and consumer marketing. He is in charge of property acquisition for SM. He joined the Company in 2001.

Christopher S. Bautista is the Vice President for Internal Audit (Chief Audit Executive). He was formerly the Chief Finance Officer of a large palm oil manufacturer based in Jakarta, Indonesia and was a partner (principal) for several years of an audit and management consulting firm based also in Jakarta. He started his professional career as staff auditor of SyCip, Gorres, Velayo & Co. He joined the Company in 1998.

Kelsey Hartigan Y. Go is the Vice-President for Information Technology. He holds a Bachelor's Degree in Electronics & Communications Engineering and a Masters of Science Degree in Computer Science, both from the De La Salle University, Manila. He was previously a professor of a university in the Philippines and was concurrently the Director of the Information Systems Center of the same university. He joined the Company in 1997.

Erickson Y. Manzano is the Vice President for Project Development. He graduated from the University of the Philippines with a Bachelor of Science in Civil Engineering degree, later took his Masters of Science in Civil Engineering at De La Salle University, and his MBA (Major in Finance) from the Asian Institute of Management. He has over 15 years of experience in project development, property management and construction management, gained mostly from one of the major conglomerates in the country. He joined the Company in 2009.

Diana R. Dionisio is the Vice President for Finance (China Projects). She holds a Bachelor's degree in Accountancy from the University of Santo Tomas. Prior to joining the company, she was the accounting manager of a real property company. She started her professional career as staff auditor of Sycip, Gorres, Velayo & Co. She joined the Company in 1999.

Teresa Cecilia H. Reyes is the Vice President for Finance. Prior to her joining the Company in June 2004 as a Senior Manager in the Finance Group, she was an Associate Director in the business audit and advisory group of Sycip Gorres Velayo & Co (SGV). Before joining SGV in 1997, she graduated from De La Salle University with degrees in Bachelor of Science in Accountancy and Bachelor of Arts in Economics and placed 16th in the 1997 Certified Public Accountants board examinations.

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

All the Directors and executive officers of the Company, except those otherwise stated, have held their positions since the Company started operations in 1994.

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

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

The following are directorships held by Directors and Executive Officers in other reporting companies at least, in the last five years:

Henry Sy, Sr.

Name of Corporation	***Position***
SM Investments Corporation.	Chairman
Highlands Prime, Inc...	Chairman
SM Development Corporation	Chairman
China Banking Corporation..	Honorary Chairman
Banco de Oro Unibank, Inc...	Chairman Emeritus

Jose L. Cuisia, Jr.

Name of Corporation	***Position***
The Philippine American Life & General Co. (Philamlife).	Director
Philam Care Health Systems, Inc..................................	Chairman
Philam Asset Management, Inc.....................................	Chairman
Philam Equitable Life Assurance Co...	Chairman
AIG Philam Savings Bank...	Vice Chairman
Philam Plans Inc..	Chairman
Tower Club, Inc...	Chairman
Bacnotan Consolidated Industries, Inc...	Director
Holcim Philippines, Inc....	Director
Investment Capital Corporation of the Philippines.........	Director
Union Galvasteel Corporation...	Director
Bauang Private Power Corporation...	Director

Gregorio U. Kilayko

Name of Corporation	***Position***
Highlands Prime, Inc..	Director
Belle Corporation..	Director

Henry T. Sy, Jr.

Name of Corporation	***Position***
SM Development Corporation.......................................	Director/ Vice Chairman/ Chief Executive Officer
Highlands Prime, Inc..	Director/ President
SM Investments Corporation..	Director/Vice Chairman
Pico de Loro Beach and Country Club Inc....	Chairman
Banco de Oro Unibank, Inc..	Director

Hans T. Sy

Name of Corporation	***Position***
China Banking Corporation	Director/ Vice Chairman/ Chairman of ExCom
Highlands Prime, Inc..	Director
SM Investments Corporation.	First Executive Vice President
Pico de Loro Beach and Country Club Inc....	Director

Herbert T. Sy

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

Teresita T. Sy

Name of Corporation	***Position***
Banco de Oro Unibank, Inc.	Chairperson
SM Investments Corp..	Director/Vice Chairperson

Elizabeth T. Sy

Name of Corporation	***Position***
Pico de Loro Beach and Country Club Inc...	Co-Chairman
SM Development Corporation.......................................	Director
SM Investments Corporation...	Treasurer

Involvement in Legal Proceedings

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

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

The members of the Audit and Corporate Governance Committee are:

JOSE L. CUISIA, JR.	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
SENEN T. MENDIOLA	-	Member
JOSE T. SIO	-	Member
SERAFIN U. SALVADOR	-	Member
CORAZON I. MORANDO	-	Member

The members of the Compensation Committee are:

HANS T. SY	-	Chairman
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSE T. SIO	-	Member

The members of the Nomination Committee are:

HENRY SY, SR.	-	Chairman
JOSE L. CUISIA, JR.	-	Member (Independent Director)
CORAZON I. MORANDO	-	Member

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

Henry Sy, Sr.
Jose L. Cuisia, Jr.
Gregorio U. Kilayko
Henry T. Sy, Jr.
Hans T. Sy
Herbert T. Sy
Senen T. Mendiola

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

Jose L. Cuisia, Jr.
Gregorio U. Kilayko

Mr. Jeffrey C. Lim is not related to Jose L. Cuisia and Gregorio U. Kilayko.

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

Henry Sy, Sr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman
Hans T. Sy	-	President
Jeffrey C. Lim	-	Executive Vice President and Chief Finance Officer
Corazon I. Morando	-	Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary
Elizabeth T. Sy	-	Senior Vice President – Marketing
Ronald G. Tumao	-	Vice President – Market Research and Planning
Christopher S. Bautista	-	Vice President – Internal Audit Head
Kelsey Hartigan Y. Go	-	Vice President – Information Technology
Erickson Y. Manzano	-	Vice President – Project Development
Diane R. Dionisio	-	Vice President – Finance (China Projects)
Teresa Cecilia H. Reyes	-	Vice President – Finance
Emmanuel C. Paras	-	Corporate Secretary/ Asst. Compliance Officer

Family Relationships

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

ITEM 6. Compensation of Directors and Executive Officers

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

Name and Position	Salary	Bonus
1. Hans T. Sy President		
2. Jeffrey C. Lim Executive Vice-President		
3. Corazon I. Morando SVP – Legal and Corp. Affairs/ Compliance Officer/ Asst. Corporate Secretary		
4. Elizabeth T. Sy SVP - Marketing		
5. Ronald G. Tumao VP – Market Research and Planning		
6. Christopher S. Bautista VP – Internal Audit Head		
7. Kelsey Hartigan Y. Go VP – Information Technology		
8. Erickson Y. Manzano VP – Project Development		
9. Diana R. Dionisio VP – Finance (China Projects)		
10. Teresa Cecilia H. Reyes VP – Finance		

Summary Compensation Table

Aggregate compensation paid to all officers and directors as a group *(estimate)*	Year 2010	₱56,000,000	₱43,500,000
	2009	51,000,000	43,500,000
	2008	18,000,000	32,500,000
	2007	16,000,000	32,500,000

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

There are no actions to be taken with regard to election, any bonus or profit-sharing, change in pension/ retirement plan, granting of or extension of any options, warrants or rights to purchase any securities.

ITEM 7. Certain Relationships and Related Transactions

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

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

Please refer to Note 21 of the attached 2009 consolidated financial statements.

ITEM 8. Independent Public Accountants

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

Pursuant to SRC Rule 68.1 (Qualification and Reports of Independent Auditors), the Company engaged Mr. Ramon D. Dizon of SGV & Co starting year 2009. Previously, the Company engaged Ms. Melinda G. Manto of SGV & Co for the examination of the Company's financial statements from 2006 up to 2008.

The Company and its subsidiaries paid SGV & Co P1.7 million and P1.6 million for external audit services for the years 2009 and 2008, respectively. There were no other professional services rendered by SGV & Co during the period. Tax consultancy services are secured from entities other than the external auditor.

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

ITEM 9. Employee Compensation Plans

There are no existing or planned stock options.

C. ISSUANCE AND EXCHANGE OF SECURITIES

ITEM 10. Authorization or Issuance of Securities Other Than for Exchange

- NA -

D. FINANCIAL AND OTHER INFORMATION

ITEM 11. Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2009, 2008 and 2007 are incorporated herein by reference.

Brief Description Of The General Nature And Scope Of The Registrant's Business And Its Subsidiaries

SM Prime Holdings, Inc. ("SMPHI" or the "Company") was incorporated in the Philippines on January 6, 1994 to develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The Company currently has 36 SM Supermalls in the country and 3 SM Supermalls in China.

The subsidiaries of the Company follow:

Company	Date and Place of Incorporation	Percentage of Ownership	Malls Owned
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	74.19	SM Megamall
Premier Central, Inc.	March 16, 1998, Philippines	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	March 25, 1998, Philippines	100.00	SM City Dasmarinas
Premier Southern Corp. (PSC)	April 7, 1998, Philippines	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	March 7, 2001, Philippines	100.00	-na-
First Leisure Ventures Group, Inc.	March 28, 2007, Philippines	50.00	San Miguel by the Bay
Southernpoint Properties Corporation	June 10, 2008, Philippines	100.00	-na-
Mega Make Enterprises Limited (Mega Make)	July 6, 2007, British Virgin Islands	100.00	SM City Jinjiang
Affluent Capital Enterprises Limited (Affluent)	March 20, 2006, British Virgin Islands	100.00	SM City Xiamen SM City Chengdu
SM Land (China) Limited (SM Land (China))	August 9, 2006 Hong Kong	100.00	-na-
Springfield Global Enterprises Limited	September 6, 2007 British Virgin Islands	100.00	-na-

All the malls are under SMPHI except for the 8 malls which are under the subsidiaries mentioned in the above table. The San Miguel by the Bay is an expansion of the Mall of Asia shopping mall.

Management's Discussion and Analysis or Plan of Operation

2009

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

	Twelve months ended Dec 31		
	2009	**2008**	**% Change**
Profit & Loss Data			
Revenues	20,497	17,839	15%
Operating Expenses	9,746	8,208	19%
Operating Income	10,752	9,631	12%
Net Income	7,023	6,412	10%
EBITDA	14,022	12,297	14%

	Dec 31 2009	**Dec 31 2008**	**% Change**
Balance Sheet Data			
Total Assets	97,860	95,505	2%
Total Debt	33,456	30,555	9%
Net Debt	27,254	17,121	59%
Total Stockholders' Equity	47,349	46,829	1%
Financial Ratios			
Investment Properties to Total Assets	0.86	0.79	
Current Ratio	1.47	1.09	
Debt to Equity	0.41 : 0.59	0.39 : 0.61	
Net Debt to Equity	0.37 : 0.63	0.27 : 0.73	
Return on Equity	0.15	0.14	
Debt to EBITDA	2.39	2.48	
EBITDA to Interest Expense	9.90	14.33	
Operating Income to Revenues	0.52	0.54	
EBITDA Margin	0.68	0.69	
Net Income to Revenues	0.34	0.36	
Debt Service Coverage Ratio	6.85	1.62	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 36 malls in the Philippines and 3 malls in China, posts 15% increase in gross revenues for the year 2009 to P20.50 billion from P17.84 billion in the same period 2008. Rental revenues remain the largest portion, with a growth of 15% amounting to P17.66 billion from last year's P15.36 billion. This is largely due to rentals from new SM Supermalls opened in 2007, namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. In addition, three malls were also expanded in 2007, namely, SM City

Pampanga, SM City Cebu and Mall of Asia. Towards the end of 2008, three malls were opened -- SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, as well as expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. Excluding the new malls and expansions opened in 2008 and 2009, same-store rental growth is at 5%.

In terms of gross revenues, the three malls in China contributed P1.04 billion in 2009 and P0.83 billion in 2008, or 5% of total consolidated operating revenues. Likewise, in terms of rental revenues, the China operations contributed P1.02 billion in 2009 and P0.81 billion in 2008, or 6% and 5% of SM Prime's consolidated rental revenue, respectively. Rental revenue of the three malls in China increased 26% in 2009 compared to the same period in 2008 largely due to improvements in the average occupancy rate and the opening of the SM Xiamen Lifestyle which added 110,000 square meters of gross floor area. Average occupancy rate for the three malls is now at 86%.

For the year 2009, cinema ticket sales increased by 13% due to more blockbuster movies shown in 2009 compared to the same period of 2008. In 2009, major blockbusters shown were "Transformers 2," "Twilight Saga: New Moon," "2012," "You Changed My Life," "Harry Potter & The Half Blood Prince," and "Avatar" towards the tail-end of 2009. In the same period 2008, major films shown were "A Very Special Love," "Twilight," "Iron Man," "For The First Time," "Batman: The Dark Knight," and "Forbidden Kingdom."

Amusement and other income likewise increased by 17% to P740 million in 2009 from P632 million in 2008. 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 19% in 2009 from P8.21 billion to P9.75 billion mainly due to the new malls. Likewise, income from operations posted a 12% growth from P9.63 billion in 2008 to P10.75 billion in 2009. In terms of operating expenses, the three malls in China contributed P0.63 billion in 2009 and P0.57 billion in 2008, or 6% and 7% of SM Prime's consolidated operating expenses, respectively.

Interest and dividend income increased by 9% in 2009 compared to 2008 due to higher balance of temporary investments in the latter part of 2008 up to early 2009.

Interest expense likewise increased by 65%, from P858.4 million in 2008 to P1.42 billion in 2009, mainly due to increasing loan availments for capital expenditures. While accounting standards allow us to capitalize a portion of our borrowing costs, we can only capitalize while the asset is still under construction.

Net income for the twelve months ended 2009 increased by 10% to P7.02 billion from same period last year of P6.41 billion. Meanwhile, the net income of the three malls in China significantly increased to P273 million in 2009 compared to P96 million in 2008. On a stand-alone basis, net income of the Philippine operations grew 7% at P6.75 billion from P6.32 billion in 2008.

On the balance sheet side, cash and cash equivalents decreased from P8.3 billion to P3.8 billion mainly due to capital expenditure requirements and payments for debt maturities.

Investments held for trading account increased from P143.9 million to P389.2 million as of December 31, 2009 due to additional investments in government securities and corporate bonds.

Receivables account also grew to P3.7 billion from P3.3 billion as of December 31, 2008 due to increase in rental receivables usually expected during the Christmas season. Prepaid expenses and other current assets decreased by 30% mainly due to subsequent application of input taxes and amortization of prepaid expenses.

Total available-for-sale investments mainly consists of investments in BDO preferred shares amounting to USD50 million which are carried at marked-to-market. This investment matured last October 2009 hence, the decrease of P2.5 billion in this account by end-2009.

Derivative assets increased to P355 million from P34 million due to additional interest rate swaps and non-deliverable forwards entered into during the period.

Investment properties increased by 12% mainly because of new mall openings and expansions in 2009. As mentioned earlier, the Company opened SM Naga, SM Center Las Piñas, SM City Rosario and SM Xiamen Lifestyle and expanded existing malls - - SM North Edsa Sky Garden, SM Rosales and SM Fairview Annex.

Loans payable decreased by 65% due to subsequent payments. Long-term debt increased mainly due to new loans availed during the period for capital expansion and debt refinancing.

Current portion of derivative liabilities account in 2008 mainly pertains to marked-to-market losses on the plain vanilla cross currency swap entered into in 2004 which was fully settled last October 2009.

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

The balance sheet remains robust with investment properties accounting for 86% and 79% of total assets as of December 31, 2009 and 2008, respectively. The Company's current ratio increased to 1.47:1 from 1.09:1 as of December 31, 2009 and 2008, respectively.

Interest-bearing debt to stockholders' equity increased to 0.41:0.59 from 0.39:0.61 as of December 31, 2009 and 2008, respectively, due to new loan availments. Likewise, net interest-bearing debt to stockholders' equity also increased to 0.37:0.63 from 0.27:0.73 as of December 31, 2009 and 2008, respectively. Debt service coverage ratio increased to 6.85:1 from 1.62:1 for years ended December 31, 2009 and 2008, respectively, due to fewer debt maturities in 2010.

In terms of profitability, ROE slightly improved at 15% for the year ended December 31, 2009 from 14% in 2008.

EBITDA increased 14% to P14.02 billion in the year 2009 from P12.30 billion in 2008. Debt to EBITDA is almost steady at 2.39:1 from 2.48:1 as of December 31, 2009 and 2008, respectively. Likewise, EBITDA to interest expense decreased from 14.33:1 to 9.90:1 for the periods ended December 31, 2008 and 2009, respectively, due to increase in interest expense.

Consolidated operating income to revenues slightly decreased to 52% in 2009 compared to 54% in 2008 due to the new malls. On a stand-alone basis, operating income margin of the Philippine and China operations is at 53% and 39%, respectively, in 2009.

EBITDA margin remains strong at 68% and 69% for the years ended December 31, 2009 and 2008, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 68% and 70%, respectively, in 2009.

On the other hand, net income to revenues decreased to 34% from 36% for the periods ended December 31, 2009 and 2008, respectively, mainly due to increase in interest expense. On a stand-alone basis, net income margin of the Philippines and China operations is at 35% and 26%, respectively, in 2009.

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

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

SM Prime currently has 36 Supermalls strategically located in the Philippines with a total gross floor area of 4.5 million square meters. Likewise, the Company also has 3 Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.6 million square meters.

In 2010, SM Prime is set to open five new malls in the Philippines. These will be located in Calamba, Laguna; Novaliches, Quezon City; Tarlac City, Tarlac; Masinag, Antipolo; and San Pablo, Laguna. These new malls will add 280,000 sqm to our total GFA. By the end of 2010, SM Prime will have 41 malls in the country, with a total combined GFA of 4.8 million sqm. In China, we will also open SM Suzhou located in Jiangsu Province. This mall will have a GFA of 70,000 sqm. Like the first three cities we penetrated in China, Suzhou is an emerging city with a market profile that is fast expanding in terms of spending capacity, making it an ideal host for an SM Supermall.

2008
Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31		
	2008	**2007**	**% Change**
Profit & Loss Data			
Revenues	17,839	15,970	12%
Operating Expenses	8,208	7,139	15%
Operating Income	9,631	8,830	9%
Net Income	6,412	5,972	7%
EBITDA	12,297	11,330	9%

	Dec 31 2008	**Dec 31 2007**	**% Change**
Balance Sheet Data			
Total Assets	95,505	76,449	25%
Total Debt	30,555	20,690	48%
Net Debt	17,121	15,818	8%
Total Stockholders' Equity	46,829	42,518	10%
Financial Ratios			
Fixed Assets to Total Assets	0.79	0.86	
Current Ratio	1.09	1.01	
Debt to Equity	0.39 : 0.61	0.33 : 0.67	
Net Debt to Equity	0.27 : 0.73	0.27 : 0.73	
Return on Equity	0.14	0.14	
Debt to EBITDA	2.48	1.83	
EBITDA to Interest Expense	14.33	14.28	
Operating Income to Revenues	0.54	0.55	
EBITDA Margin	0.69	0.71	
Net Income to Revenues	0.36	0.37	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 33 malls in the Philippines and 3 malls in China, posts 12% increase in gross revenues for the year 2008 to P17.84 billion from P15.97 billion in 2007. Rental revenues remain the largest portion, with a growth of 15% amounting to P15.36 billion from last year's P13.40 billion. This is largely due to rentals from new SM Supermalls opened in 2007, namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. In addition, three malls were also expanded in 2007, namely, SM City Pampanga, SM City Cebu and Mall of Asia. Towards the end of 2008, three malls were opened -- SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. The new malls and expansions added 705,000 square meters to total gross floor area. Currently, the new malls have an average occupancy level of 93%. Same store rental growth is at 5%.

In terms of gross revenues, the three malls in China contributed P0.83 billion in 2008 and P0.62 billion in 2007, or 5% and 4% of total consolidated operating revenues, respectively. Likewise, in terms rental revenues, the China operations contributed P0.81 billion in 2008 and P0.60 billion in 2007, or 5% and 4%, respectively, of SM Prime's consolidated rental revenue. Rental revenue of these three malls in China increased 35% in 2008 compared to the same period in 2007. Average occupancy rate for the three malls is at 88% in 2008 compared to 81% in 2007.

For the year 2008, cinema ticket sales were flat due to fewer movies shown and lack of blockbuster movies compared to 2007. In 2008, major blockbusters shown were "A Very Special Love," "Twilight," "Iron Man," "For The First Time," "Batman: The Dark Knight," and "Forbidden Kingdom." In the same period 2007, major films shown were "Spiderman 3," "Transformers," "Harry Potter 5," "Ang Cute ng Ina Mo," "One More Chance." In addition, there were also more Filipino movies shown in 2007 compared to 2008.

Amusement and other income also decreased by 13% from P724 million to P632 million. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center.

Operating expenses increased by 15% in 2008 from P7.14 billion to P8.21 billion mainly due to the new malls. Likewise, income from operations posted a 9% growth from P8.83 billion in 2007 to P9.63 billion in 2008. In terms of operating expenses, the three malls in China contributed P0.56 billion in 2008 and P0.52 billion in 2007, or 7% of SM Prime's consolidated operating expenses.

Interest and dividend income decreased significantly by 44% in 2008 compared to 2007 due to maturity of high-yield time deposit instruments in the last quarter of 2007 and the early redemption of Ayala preferred shares in the second half of 2007. The proceeds from these investments were used to prepay maturing short-term loans and a portion of long-term debt.

Net income for the year 2008 increased 7% at P6.41 billion from same period last year of P5.97 billion. Meanwhile, the net income of the three malls in China also grew to P96 million in 2008 compared to a net loss of P3 million in 2007. On a stand-alone basis, net income of the Philippine operations grew 6% at P6.32 billion for the year 2008 from P5.97 billion in the same period 2007.

On the balance sheet side, cash and cash equivalents, including investments held for trading increased 310% mainly due to subsequent collections and new temporary investments. Also, proceeds from loans taken in the last quarter of 2008 for capital expenditures have yet to be disbursed and are still included under this account.

Receivables increased by 12% due to increase in rental receivables usually expected during the holiday season. Prepaid expenses and other current assets likewise increased by 14% mainly due to advances to contractors for shopping malls under construction offset by subsequent application of input taxes.

Total available-for-sale investments increased from P2.22 billion to P2.55 billion mainly due to foreign exchange restatement of the $50 million BDO preferred shares. This investment will mature in October 2009.

The decrease in derivative assets of 90% is due to settlement of various non-deliverable forwards entered into in 2007. Deferred tax assets increased by 46% due to additional NOLCO of the China subsidiaries.

Investment properties and shopping mall under construction increased by 14% mainly because of completed and ongoing mall projects e.g. Marikina, Rosales, Baliwag, Naga, and expansion of existing malls - - Fairview, Megamall and Xiamen. Of these projects, Naga and Xiamen are scheduled to open in 2009 while the rest were opened in 2008 and Fairview Expansion was opened last January 15, 2009.

Other noncurrent assets increased 70% due to additional deposits paid and advances to contractors for mall construction and deposits paid for leases of real properties.

Loans payable increased 130% due to availments for working capital. Long-term debt increased mainly due to availment of a Php3 billion long-term facility in June 2008, a Rmb500 million facility in the third quarter of 2008, and a US$75 million loan in November 2008 for capital expansion projects.

The decrease in derivative liabilities is due to settlement of various non-deliverable forwards entered into in 2007 and the continued weakening of the Php against the Usd.

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

The balance sheet remains robust with total investment properties accounting for 79% and 86% of total assets as of December 31, 2008 and 2007, respectively. The Company's current ratio is steady at 1.09:1 and 1.01:1 as of December 31, 2008 and 2007, respectively.

Interest-bearing debt to stockholders' equity increased to 0.39:0.61 as of December 31, 2008 from 0.33:0.67 as December 31, 2007 due to additional loans for the period as mentioned earlier. Net interest-bearing debt to stockholders' equity remains healthy at 0.27:0.73 as of December 31, 2008 and 2007.

In terms of profitability, ROE remains steady at 14% for both years 2008 and 2007.

EBITDA increased 9% to P12.30 billion in 2008 from P11.33 billion in 2007. Debt to EBITDA increased to 2.48:1 from 1.83:1 as of December 31, 2008 and 2007, respectively. Likewise, EBITDA to interest expense slightly increased from 14.28:1 to 14.33:1 for the years ended December 31, 2007 and 2008, respectively. This is due to additional loans in 2008.

Consolidated operating income to revenues remains steady at 54% in 2008 and 55% in 2007, despite the opening of new malls due to cost cutting measures implemented. On a stand-alone basis, operating income margin of the Philippine and China operations is at 55% and 32%, respectively, in 2008.

EBITDA margin remains strong at 69% and 71% for the periods ended December 31, 2008 and 2007, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 69% in 2008.

Likewise, net income to revenues is stable at 36% and 37% for the years ended December 31, 2008 and 2007. On a stand-alone basis, net income margin of the Philippines and China operations is at 37% and 12%, respectively, in 2008.

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

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

SM Prime currently has 33 Supermalls strategically located in the Philippines with a total gross floor area of 4.3 million square meters. Likewise, the Company also has 3 Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.5 million square meters.

In 2008, the Company opened SM City Marikina, SM City Baliwag and SM Supercenter Rosales. The expansions of SM Megamall Atrium and The Annex at SM City North Edsa were also opened. Total gross floor area, including the three malls in China, is now at 4.7 million square meters from 4.4 million square meters as of end-2007.

Last November 13, 2007, the Board of SM Prime approved the acquisition of the three SM malls in China. The SM malls in China are similar to the SM malls in the Philippines, and are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu. The move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer. On May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. Pursuant to the subscription agreements entered into among SM Prime, Grand China and Oriental Land, the 912,897,212 were exchanged for 1,000 shares (100%) of Affluent Capital Enterprises Limited, holding company of the malls in Xiamen and Chengdu, and 1 share (100%) of Mega Make Enterprises Limited, holding company of the mall in Jinjiang, at a total swap price of P10,826 million. The listing of the shares was completed on June 18, 2008.

As discussed in the consolidated financial statements, the acquisition of the three malls in China was accounted for using the pooling of interests method of accounting. This method of accounting is applied as the transaction involves businesses under common control. Prior to the acquisition, the three SM malls in China were owned and controlled by the Sy Family. PFRS 3, Business Combinations, provides for the purchase method in accounting for business combinations except for business combinations of entities or businesses under common control. Under the pooling of interests method, the assets and liabilities of the acquired companies are recorded at book values and comparative amounts are restated as if the business combination had taken place at the beginning of the earliest comparative period presented.

2007

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

	Twelve months ended Dec 31		
Philippines	**2007**	**2006**	**% Change**
Profit & Loss Data			
Revenues	15,350	13,222	16%
Operating Expenses	6,621	5,565	19%
Operating Income	8,728	7,657	14%
Net Income	5,975	5,449	10%
EBITDA	10,989	9,444	16%

	Dec 31 2007	**Dec 31 2006**	**% Change**
Balance Sheet Data			
Total Assets	67,434	70,792	-5%
Total Debt	17,196	25,873	-34%
Net Debt	12,713	12,727	0%
Total Stockholders' Equity	38,858	35,672	9%
Financial Ratios			
Fixed Assets to Total Assets	0.85	0.73	
Stockholders' Equity to Total Assets	0.58	0.50	
Current Ratio	1.24	1.03	
Debt to Equity	0.31 : 0.69	0.42 :0.58	
Net Debt to Equity	0.25 : 0.75	0.26 : 0.74	
Return on Equity	0.15	0.15	
Debt to EBITDA	1.56	2.74	
EBITDA to Interest Expense	16.79	12.37	
Operating Income to Revenues	0.57	0.58	
EBITDA Margin	0.72	0.71	
Net Income to Revenues	0.39	0.41	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts 16% increase in gross revenues for the year ended December 31, 2007 to P15.35 billion from P13.22 billion in the year 2006. Rental revenues remain the largest portion, with a significant growth of 17% amounting to P12.81 billion from last year's P10.97 billion. This is largely due to rentals from new SM Supermalls opened in 2006 and 2007, namely, SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM City North Edsa, SM Supercenter Pasig, SM City Lipa, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. The new malls opened with a total gross floor area of almost 1 million square meters. Currently, these new malls have an average occupancy level of 96%. Same store rental growth is at 7%.

For the year 2007, cinema ticket sales showed a strong performance of 15% growth due to more cinemas and the IMAX Theatre. For 2007, major blockbuster films shown were "Spiderman 3," "Transformers," "Harry Potter 5," "Ang Cute ng Ina Mo," and "One More Chance." In 2006, major films shown were "Superman Returns," "Sukob," "X – Men 3," "Mission Impossible 3," and "Pirates of the Carribean 2."

Operating expenses increased by 19% from P5.56 billion to P6.62 billion mainly due to the new malls. Likewise, income from operations enjoyed a favorable growth of 14% from P7.66 billion in 2006 to P8.73 billion in 2007.

Net income for the year ended 2007 increased 10% at P5.97 billion from same period last year of P5.45 billion.

On the balance sheet side, cash and cash equivalents, including investments held for trading decreased 71% mainly due to principal and interest payments on loans and capital expenditures.

Receivables increased 5% due to rentals, interest and dividend receivables. Prepaid expenses and other current assets decreased 15% mainly due to subsequent application of input VAT.

The significant decrease in available-for-sale investments of 58% mainly pertains to the early redemption of Ayala preferred shares amounting to P2.5 billion. The shares were redeemed in July and August 2007 and were used to prepay a portion of long-term debt.

The decrease in derivative assets of 55% is due to the pre-termination of the interest rate swap related to the prepayment of the underlying obligation last July 2007.

Other noncurrent assets decreased 3% due to subsequent liquidation and application of deposits paid and advances to contractors.

The increase in investment properties and shopping malls under construction of 11% is mainly due to completed projects e.g. SM City Bacolod, SM City Taytay, SM City Cebu Annex, SM Supercenter Muntinlupa, SM City Pampanga Expansion, the Science Discovery Center at the Mall of Asia, and the San Miguel by the Bay. Included under shopping malls under construction are SM City Marikina and SM North Edsa Expansion.

Loans payable decreased 93% due to principal payments. Likewise, long-term debt also decreased 7% due to principal amortization and prepayment of loans amounting to P3.5 billion. In 2007, the Company availed P4 billion used for capital expenditure requirements and to prepay a portion of long-term debt.

The increase in accounts payable and accrued expenses of 37% is due to construction activities, accrued operating expenses and liability for purchased land. Tenants' deposits and others increased 10% due to the new malls in 2007.

The increase in derivative liabilities is due to the non-deliverable forwards in 2007 with a notional amount of $160 million and the additional marked-to-market losses arising from the cross currency swap entered into in 2004 and maturing in 2009.

Unrealized gain on available-for-sale investments included under "Stockholders' Equity" account in the balance sheets decreased 73% due to adjustments related to early redemption of Ayala preferred shares.

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

The balance sheet remains robust with total investment properties accounting for 85% and 73% of total assets as of December 31, 2007 and 2006, respectively. The Company's current ratio is steady at 1.24:1 and 1.03:1 as of December 31, 2007 and 2006, respectively.

Interest-bearing debt to stockholders' equity significantly decreased to 0.31:0.69 from 0.42:0.58 as of December 31, 2007 and 2006, respectively, due to principal amortizations and debt prepayments. Net interest-bearing debt to stockholders' equity remains strong at 0.25:0.75 and 0.26:0.74 as of December 31, 2007 and 2006, respectively.

In terms of profitability, ROE remains steady at 15% for the years ended December 31, 2007 and 2006.

EBITDA increased 16% to P10.99 billion for the year 2007 from P9.44 billion in 2006. Debt to EBITDA decreased at 1.56:1 from 2.74:1 as of December 31, 2007 and 2006, respectively. Likewise, EBITDA to interest expense increased from 12.37:1 to 16.79:1 for the years ended December 31, 2006 and 2007, respectively.

Operating income to revenues remains steady at 57% and 58% in 2007 and 2006, respectively, despite the new malls, due to cost cutting measures implemented in the malls. EBITDA margin remains strong at 72% for the year ended December 31, 2007 and 71% in the year ended December 31, 2006. Likewise, net income to revenues decreased to 39% for the year ended December 31, 2007 compared to 41% for the year ended December 31, 2006, mainly due to decrease in dividend income and increase in provision for income tax.

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

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

SM Prime currently has 30 Supermalls strategically located nationwide with a total gross floor area of 3.9 million square meters.

In 2007, the Company opened SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. Expansion of existing malls -- SM City Cebu – Annex, The Science Discovery Center in the Mall of Asia, SM City Pampanga and the San Miguel by the Bay at the Mall of Asia Complex were also completed.

In 2008, the Company is scheduled to open SM City Marikina, SM City Baliuag and SM Supercenter Rosales. Expansion of SM Megamall and SM City Fairview are also underway. Total gross floor area will increase to 4.1 million square meters by end 2008 from 3.9 million square meters as of December 31, 2007.

Last November 13, 2007, the Board of SM Prime approved the acquisition of the three SM malls in China. The SM malls in China are similar to the SM malls in the Philippines, and are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu. The move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer.

Changes in and disagreements with accountants on accounting and financial disclosure

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

ITEM 12. Acquisition or Disposition of Property

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

ITEM 13. Restatement of Accounts

- NA -

D. OTHER MATTERS

ITEM 14. Action with Respect to Reports

The following are to be submitted for approval during the stockholders' meeting:
(a) Minutes of the annual meeting of stockholders held on April 28, 2009.
(b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:
(a) Approval of projects and land acquisitions;
(b) Treasury matters related to opening of accounts and transactions with banks;
(c) Appointments of signatories and amendments thereof.

ITEM 15. Other Proposed Action

The following are to be proposed for approval during the stockholders' meeting:
(a) Election of directors for 2010 –2011;
(b) Appointment of external auditors; and,
(c) Other matters.

ITEM 16. Amendment of Charter, By-Laws or Other Documents

- NA -

ITEM 17. Voting Procedures

Vote required for approval

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

Methods by which votes will be counted

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

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

The external auditor of the Company, SGV & Co, will validate the ballots when voting is done by secret ballot. Likewise, SGV & Co will count the number of hands raised when voting by show of hands is done.

ITEM 18. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE **-** ₱ 0.24 in 2009, ₱ 0.24 in 2008 and ₱ 0.22* in 2007.

	2009		**2008**	
Stock Prices	High	Low	High	Low
First Quarter	₱ 8.00	₱ 6.80	₱ 10.00	₱ 7.50
Second Quarter	9.90	6.80	8.50	6.90
Third Quarter	11.00	8.70	9.00	6.30
Fourth Quarter	10.80	9.50	8.60	5.80

* *Cash dividends per share were retroactively adjusted for stock dividends declared in 2007.*

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

As of February 28, 2010, the closing price of the Company's shares of stock is ₱9.50/share. For the two months ending February 28, 2010, stock prices of SMPHI were at a high of ₱9.90 and a low of ₱8.70.

The number of shareholders of record as of February 28, 2010 was 2,726. Capital stock issued and outstanding as of February 28, 2010 was 13,329,334,367. As of December 31, 2009, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 17 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2010 are as follows:

Name	No. of Shares Held	% to Total
1. SM Land, Inc.	5,945,158,593	44.54
2. PCD Nominee Corp. (Non-Filipino)	4,033,483,275	30.22
3. SM Investments Corp.	2,757,559,722	20.66
4. PCD Nominee Corp. (Filipino)	487,651,315	3.65
5. Sysmart Corporation	29,381,729	0.22
6. SM Prime Holdings, Inc. (treasury shares)	18,857,000	0.14
7. Sybase Equity Investments Corporation	7,035,000	0.05
8. Henry Sy, Sr.	4,394,894	0.03
9. Regina Capital Dev. Corp.	4,257,163	0.03
10. Lucky Securities, Inc.	3,274,259	0.02
11. Macario Gaw Jr.	1,726,053	0.01
12. Philippine Air Force Educational Fund, Inc.	1,712,739	0.01
13. Southwood Mindanao Corporation	1,627,739	0.01
14. Elizabeth Sy	1,626,488	0.01
15. Morgan Guaranty Trust Co.	1,589,005	0.01
16. Teresita Sy	1,082,322	0.01
17. Jorge T. Mendiola	1,000,000	0.01
18. TTC Development Corporation	838,912	0.01
19. Harry Robert Taylor	741,999	0.01
20. Jose T. Tan &/or Pacita L. Tan	713,701	0.01

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction, except with respect to Notes 16 and 17 of the 2009 consolidated financial statements. The Company has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

As discussed in Note 16, the Company issued a ₱5 billion floating and fixed rate notes facility in April 2009. The deal was arranged by BDO Capital & Investment Corporation with PNB Capital & Investment Corporation acting as co-lead arranger. The notes issued are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (the Securities Regulation Code (SRC)).

As discussed in Note 17, on May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China and Oriental Land and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. The listing of the shares was completed on June 18, 2008

As discussed in Note 17, the BOD and the stockholders approved the declaration of a 25% stock dividend or approximately 2.5 billion shares during the last April 23, 2007 stockholders' meeting. The stock dividend declaration was approved by the SEC on May 29, 2007 and subsequently issued on July 24, 2007. The securities issued are considered as exempt security pursuant to Section 10.1 of the SRC.

ITEM 19. Corporate Governance

The Board of Directors, officers and staff have committed themselves to the principles and best practices contained in the Company's Corporate Governance Manual, in the belief that good corporate governance is a necessary component of sound strategic business management.

The Manual establishes the company's compliance system and plan of compliance. It states that compliance with the principles of good corporate governance starts with the Board of Directors. To this end, a director must act in a manner characterized by transparency, accountability and fairness. The Manual further enumerates the general responsibilities and specific duties and functions of the Board, as well as those of the Board Committees, Corporate Secretary, and the external and internal auditors.

The Manual mandates the conduct of communication and training programs on corporate governance. It further provides for the rights of all shareholders and the protection of the interests of minority stockholders. The Manual likewise sets the penalties for non-compliance with its provisions.

The Company also adopted policies to govern the acceptance of gifts, insider trading and placement of advertisements. The Company issued a policy to prohibit its directors, officers and employees from soliciting or accepting gifts in any form from any business partner, except for corporate give-aways, tokens or promotional items of nominal value. The Company also adopted guidelines to prohibit its directors, officers and employees from buying or selling shares of stock of the listed SM companies while in possession of material and confidential information. The Company further issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or executive is one of the nominees vying for the award. This is to avoid any misconception that the Company influenced the award in any way through the payment for the advertisement. These rules supplement the existing corporate governance policies in the Manual on Corporate Governance and Code of Ethics.

In accordance with the requirements of the SEC Revised Code of Corporate Governance, we have revised the SM Prime Manual on Corporate Governance to incorporate the additions and changes introduced in the new Code, among which are as follows, to wit:

The Board of Directors (and not merely the Chairman of the Board) shall appoint the Compliance Officer. The Board shall have at least two independent directors or such number as will constitute 20% of the members of the Board, but in no case less than two. The Board shall formulate and implement policies to ensure the integrity of related party transactions; and establish and maintain an alternative dispute resolution system to settle conflicts involving the Company. In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications. These may include practical understanding of the Company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience. The absence of a director from a Board meeting due to illness, death in the immediate family, or serious accident exempts him from the rule that absence for more than 50% of all meetings of the Board is a ground for temporary disqualification. An independent director whose beneficial equity ownership in a Company or its subsidiaries and affiliates exceeds 2% of the subscribed capital stock is temporarily disqualified from being a director of the Company, until his beneficial equity ownership reverts to the 2% limit. The threshold was set at 10% in the old SEC Code. To make the Manual consistent with the By-Laws, we also revised the provision on disqualification as a director on grounds of engaging in a competing or antagonistic business. Likewise, the Audit Committee shall be chaired by an independent director. An additional qualification for the Corporate Secretary is that he must have a working knowledge of the operations of the company. The stockholders' right to appoint a proxy is also expressly provided.

NOTE: The Company will provide without charge a copy of the Company's Annual Report on SRC Form 17-A to its stockholders upon receipt of a written request addressed to Ms. Teresa Cecilia H. Reyes, Vice President, at SM Corporate Offices, Building A., J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

SM PRIME HOLDINGS

Notice of Regular Annual Stockholders' Meeting
April 27, 2010, 2:30 p.m.
Function Room I, SMX Convention Center
Seashell Drive, J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City

To all Stockholders:

Please take notice that the 2010 annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on April 27, 2010 at 2:30 p.m. at the Function Room I, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City. The proposed agenda of the meeting is set forth below:

AGENDA

1. Call to order.
2. Certification of notice and quorum.
3. Approval of minutes of annual meeting of stockholders held on April 28, 2009.
4. Annual Report.
5. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
6. Election of directors for 2010-2011.
7. Appointment of external auditors.
8. Other matters.
9. Adjournment.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 29, 2010 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you are requested to accomplish the attached proxy form and return the same to the office of the Secretary at 4th Floor, SSHG Law Centre, 105 Paseo de Roxas, Makati City at least seventy-two (72) hours before the date set for the annual meeting, as provided in the By-laws.

For your convenience in registering your attendance, please bring some form of identification, such as a passport, driver's license, or company I.D.

Makati City, March 8, 2010.

BY THE ORDER OF THE BOARD OF DIRECTORS

Emmanuel C. Paras

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

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 21, 23 and 24)	**₱3,786,466,722**	₱8,311,596,836
Short-term investments (Notes 8, 21, 23 and 24)	**1,924,000,000**	2,425,600,000
Investments held for trading (Notes 9, 21, 23 and 24)	**389,186,100**	143,857,296
Receivables (Notes 10, 21, 23 and 24)	**3,664,884,416**	3,345,742,058
Available-for-sale investments (Notes 13, 21, 23 and 24)	**–**	2,452,705,199
Prepaid expenses and other current assets (Note 11)	**808,962,181**	1,156,139,389
Total Current Assets	**10,573,499,419**	17,835,640,778
Noncurrent Assets		
Investment properties - net (Notes 12 and 21)	**83,934,766,920**	75,173,909,141
Available-for-sale investments (Notes 13, 21, 23 and 24)	**102,794,710**	99,994,541
Derivative assets (Notes 23 and 24)	**355,235,235**	34,130,728
Deferred tax assets (Note 19)	**243,120,374**	209,171,802
Other noncurrent assets	**2,650,662,977**	2,152,342,598
Total Noncurrent Assets	**87,286,580,216**	77,669,548,810
	₱97,860,079,635	₱95,505,189,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 21, 23 and 24)	**₱1,000,000,000**	₱2,830,000,000
Accounts payable and other current liabilities (Notes 15, 21, 23 and 24)	**5,230,439,925**	4,141,819,171
Current portion of long-term debt (Notes 16, 23 and 24)	**421,467,200**	7,784,521,000
Derivative liability (Notes 23 and 24)	**–**	901,634,262
Income tax payable	**526,145,990**	763,691,021
Total Current Liabilities	**7,178,053,115**	16,421,665,454
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 21, 23 and 24)	**32,034,600,468**	19,940,459,631
Deferred tax liabilities (Note 19)	**1,132,255,738**	1,087,254,617
Tenants' deposits (Notes 22, 23 and 24)	**5,708,755,024**	4,865,774,815
Derivative liability (Notes 23 and 24)	**386,828,566**	–
Other noncurrent liabilities (Notes 12, 21, 23 and 24)	**3,389,286,638**	5,330,503,515
Total Noncurrent Liabilities	**42,651,726,434**	31,223,992,578
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 5, 17 and 25)	**13,348,191,367**	13,348,191,367
Additional paid-in capital - net (Notes 5 and 17)	**2,375,440,999**	5,493,656,403
Unrealized gain on available-for-sale investments (Notes 13, 17 and 24)	**2,515,239**	48,346,550
Cumulative translation adjustment (Note 17)	**681,470,739**	821,103,222
Retained earnings (Note 17):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**24,043,028,119**	20,218,718,131
Treasury stock (Notes 17 and 25)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 23)	**47,349,171,758**	46,828,540,968
Minority Interests (Notes 2 and 17)	**681,128,328**	1,030,990,588
Total Stockholders' Equity	**48,030,300,086**	47,859,531,556
	₱97,860,079,635	₱95,505,189,588

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Rent (Notes 12, 21 and 22)	**₱17,658,833,905**	₱15,357,821,624	₱13,402,488,334
Cinema ticket sales	**2,098,612,638**	1,849,312,511	1,843,187,522
Others	**740,052,372**	631,933,142	723,998,014
	20,497,498,915	17,839,067,277	15,969,673,870
OPERATING EXPENSES (Notes 12, 18, 20, 21 and 22)	**9,745,824,414**	8,208,089,081	7,139,186,145
INCOME FROM OPERATIONS	**10,751,674,501**	9,630,978,196	8,830,487,725
OTHER INCOME (CHARGES) - net			
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	**423,658,528**	388,208,683	699,223,153
Interest expense (Notes 14, 16 and 21)	**(1,416,807,840)**	(858,356,033)	(793,545,467)
Others - net (Notes 9 and 24)	**(112,043,124)**	319,595,127	133,887,323
	(1,105,192,436)	(150,552,223)	39,565,009
INCOME BEFORE INCOME TAX	**9,646,482,065**	9,480,425,973	8,870,052,734
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Current	**2,323,879,054**	2,592,012,734	2,678,694,046
Deferred	**45,765,632**	155,126,540	(91,857,158)
	2,369,644,686	2,747,139,274	2,586,836,888
NET INCOME	**₱7,276,837,379**	₱6,733,286,699	₱6,283,215,846
Attributable to:			
Equity holders of the parent (Note 25)	**₱7,023,350,225**	₱6,412,215,308	₱5,972,394,019
Minority interest (Notes 2 and 17)	**253,487,154**	321,071,391	310,821,827
	₱7,276,837,379	₱6,733,286,699	₱6,283,215,846
Earnings Per Share (Note 25)	**₱0.527**	₱0.481	₱0.448

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2009	2008	2007
NET INCOME	**₱7,276,837,379**	₱6,733,286,699	₱6,283,215,846
OTHER COMPREHENSIVE INCOME (LOSS) - net			
Unrealized gain (loss) on available-for-sale investments - net of tax (Notes 13 and 17)	**(45,831,311)**	7,610,503	(112,350,157)
Cumulative translation adjustment (Note 17)	**(139,632,483)**	870,463,323	4,732,219
	(185,463,794)	878,073,826	(107,617,938)
TOTAL COMPREHENSIVE INCOME	**₱7,091,373,585**	₱7,611,360,525	₱6,175,597,908
Attributable to:			
Equity holders of the parent	**₱6,837,886,431**	₱7,290,289,134	₱5,864,776,081
Minority interest (Notes 2 and 17)	**253,487,154**	321,071,391	310,821,827
	₱7,091,373,585	₱7,611,360,525	₱6,175,597,908

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to Equity Holders of the Parent									
	Capital Stock (Notes 5, 17 and 25)	**Additional Paid-in Capital - Net** (Notes 5 and 17)	**Unrealized Gain on Available-for-Sale Investments** (Notes 13, 17 and 24	**Cumulative Translation Adjustments** (Note 17)	**Retained Earnings** **Appropriated** (Note 17)	**Unappropriated** (Note 17)	**Treasury Stock** (Notes 17 and 25)	**Total**	**Minority Interest** (Notes 13 and 17)	**Total**
At January 1, 2009	**₱13,348,191,367**	**₱5,493,656,403**	**₱48,346,550**	**₱821,103,222**	**₱7,000,000,000**	**₱20,218,718,131**	**(₱101,474,705)**	**₱46,828,540,968**	**₱1,030,990,588**	**₱47,859,531,556**
Net income	**–**	**–**	**–**	**–**	**–**	**7,023,350,225**	**–**	**7,023,350,225**	**253,487,154**	**7,276,837,379**
Other comprehensive income	**–**	**–**	**(45,831,311)**	**(139,632,483))**	**–**	**–**	**–**	**(185,463,794)**	**–**	**(185,463,794)**
Total comprehensive income	**–**	–	**(45,831,311)**	**(139,632,483)**	**–**	**7,023,350,225**	**–**	**6,837,886,431**	**253,487,154**	**7,091,373,585**
Acquisition of minority interest in FARDC	**–**	**(3,073,952,352)**	**–**	**–**	**–**	**–**	**–**	**(3,073,952,352)**	**(310,260,212)**	**(3,384,212,564)**
Equity adjustment from business combination	**–**	**(44,263,052)**	**–**	**–**	**–**	**–**	**–**	**(44,263,052)**	**–**	**(44,263,052)**
Cash dividends - ₱0.24 a share	**–**	**–**	**–**	**–**	**–**	**(3,199,040,237)**	**–**	**(3,199,040,237)**	**–**	**(3,199,040,237)**
Dividends of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(293,089,202)**	**(293,089,202)**
At December 31, 2009	**₱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**
At January 1, 2008	₱13,348,191,367	₱5,493,656,403	₱40,736,047	(₱49,360,101)	₱7,000,000,000	₱16,786,447,729	(₱101,474,705)	₱42,518,196,740	₱934,295,890	₱43,452,492,630
Net income	–	–	–	–	–	6,412,215,308	–	6,412,215,308	321,071,391	6,733,286,699
Other comprehensive income	–	–	7,610,503	870,463,323	–	–	–	878,073,826	–	878,073,826
Total comprehensive income	–	–	7,610,503	870,463,323	–	6,412,215,308	–	7,290,289,134	321,071,391	7,611,360,525
Cash dividends - ₱0.24 a share	–	–	–	–	–	(2,979,944,906)	–	(2,979,944,906)	–	(2,979,944,906)
Dividends of subsidiary	–	–	–	–	–	–	–	–	(224,376,693)	(224,376,693)
At December 31, 2008	₱13,348,191,367	₱5,493,656,403	₱48,346,550	₱821,103,222	₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556
At January 1, 2007	₱10,848,191,367	₱5,493,656,403	₱153,086,204	(₱54,092,320)	₱7,000,000,000	₱15,991,491,733	(₱101,474,705)	₱39,330,858,682	₱954,270,465	₱40,285,129,147
Net income	–	–	–	–	–	5,972,394,019	–	5,972,394,019	310,821,827	6,283,215,846
Other comprehensive income	–	–	(112,350,157)	4,732,219	–	–	–	(107,617,938)	–	(107,617,938)
Total comprehensive income	–	–	(112,350,157)	4,732,219	–	5,972,394,019	–	5,864,776,081	310,821,827	6,175,597,908
Cash dividends - ₱0.27 a share	–	–	–	–	–	(2,677,438,023)	–	(2,677,438,023)	–	(2,677,438,023)
Stock dividends – 25.2% share	2,500,000,000	–	–	–	–	(2,500,000,000)	–	–	–	–
Dividends of subsidiary	–	–	–	–	–	–	–	–	(330,796,402)	(330,796,402)
At December 31, 2007	₱13,348,191,367	₱5,493,656,403	₱40,736,047	(₱49,360,101))	₱7,000,000,000	₱16,786,447,729	(₱101,474,705)	₱42,518,196,740	₱934,295,890	₱43,452,492,630

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interest	**₱9,646,482,065**	₱9,480,425,973	₱8,870,052,734
Adjustments for:			
Depreciation (Notes 12 and 18)	**3,270,784,779**	2,666,307,523	2,499,137,968
Interest expense (Notes 14, 16 and 21)	**1,416,807,840**	858,356,033	793,545,467
Unrealized marked-to-market loss (gain) on derivatives (Note 24)	**65,724,059**	(608,707,480)	567,691,997
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	**(423,658,528)**	(388,208,683)	(699,223,153)
Realized marked-to-market loss (gain) on derivatives	**(286,034,262)**	54,940,698	138,638,574
Unrealized foreign exchange loss (gain) - net	**(26,539,451)**	417,893,121	(514,303,435)
Unrealized marked-to-market loss (gain) on investments held for trading (Note 9)	**(5,564,136)**	(2,719,321)	1,894,445
Operating income before working capital changes	**13,658,002,366**	12,478,287,864	11,657,434,597
Decrease (increase) in:			
Receivables	**(382,977,478)**	(352,682,570)	499,360,286
Prepaid expenses and other current assets	**339,523,982**	(126,914,174)	195,675,399
Increase (decrease) in:			
Accounts payable and other current liabilities	**698,656,743**	975,885,887	(383,889,774)
Tenants' deposits and others	**848,888,049**	499,861,525	285,100,301
Cash generated from operations	**15,162,093,662**	13,474,438,532	12,253,680,809
Income taxes paid	**(2,561,674,952)**	(2,667,843,679)	(2,401,184,550)
Net cash provided by operating activities	**12,600,418,710**	10,806,594,853	9,852,496,259
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 12)	**(10,623,591,536)**	(9,016,568,316)	(8,375,760,674)
Available-for-sale investments	**2,383,633,239**	–	2,500,000,000
Short-term investments	**475,200,000**	(1,000,000,000)	(1,470,900,000)
Other noncurrent assets	**(502,434,787)**	(860,897,895)	70,369,776
Investments held for trading	**(248,996,193)**	5,497,479	114,372,281
Increase (decrease) in other noncurrent liabilities	**(2,201,019,638)**	3,688,913,847	477,685,553
Acquisition of minority interest in FARDC (Note 2)	**(3,384,212,564)**	–	–
Interest and dividend received	**479,604,831**	431,754,596	1,077,981,022
Net cash used in investing activities	**(13,621,816,648)**	(6,751,300,289)	(5,606,252,042)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 15 and 17)	**17,364,465,000**	14,638,264,359	13,537,701,316
Payments to maturity of cross currency swap	**(615,600,000)**	–	–
Proceeds from termination of interest rate swap (Note 24)	**–**	–	438,379,132
Payments of:			
Loans (Notes 14 and 16)	**(14,065,349,963)**	(6,476,852,777)	(19,841,117,926)
Dividends	**(3,492,129,439)**	(3,204,321,599)	(3,008,234,425)
Interest	**(2,482,588,750)**	(1,934,055,414)	(1,967,703,014)
Net cash provided by (used in) financing activities	**(3,291,203,152)**	3,023,034,569	(10,840,974,917)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(212,529,024)**	(32,513,244)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,525,130,114)**	7,045,815,889	(6,594,730,700)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**8,311,596,836**	1,265,780,947	7,860,511,647
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,786,466,722**	₱8,311,596,836	₱1,265,780,947

See accompanying Notes to Consolidated Financial Statements.

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1. Corporate Information

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

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

On May 20, 2008, the SEC approved the Parent Company’s acquisition of the 100% ownership of SM Shopping Center (Chengdu) Co. Ltd. (SM Chengdu), Xiamen SM City Co. Ltd and Xiamen SM Mall Management Co. Ltd. (together, SM Xiamen) and SM International Square Jinjiang City Fujian (SM Jinjiang) [collectively, the SM China Companies] through share swap agreements with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) (see Notes 5, 12 and 17).

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

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

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

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

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 18, 2010.

2. Basis of Preparation

The consolidated financial statements have been prepared on the 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.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which the Company has adopted during the year:

New Standards and Interpretations
- PAS 1, *Presentation of Financial Statements*
- PAS 23, *Borrowing Costs* (Revised)
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards
- PAS 32 and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendment, *Vesting Conditions and Cancellations*
- PFRS 7 Amendments, *Improving Disclosures about Financial Instruments*
- Improvements to PFRSs (2008)
- Improvements to PFRSs (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

Standards or interpretations that have been adopted and that are deemed to have an impact on the financial statements or performance of the Parent Company are described below:

- PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statements of comprehensive income which presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present separate statements of comprehensive income.

- PFRS 7 Amendments **-** *Improving Disclosures about Financial Instruments*, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 24. The liquidity risk disclosures are presented in Note 23.

- PAS 40, *Investment Property*, revises the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time that fair value can be determined or construction is complete. It revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and clarifies that the carrying amount of investment property held under lease is the valuation obtained, increased by any recognized liability. The shopping mall complex under construction disclosures are presented in Note 12.

Future Changes in Accounting Policies
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective:

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended), will become effective for annual periods beginning on or after July 1, 2009. The revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised PFRS 3 and amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The revised PFRS 3 will be applied prospectively while amended PAS 27 will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, will become effective for annual periods beginning on or after January 1, 2012. It aims to cover accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*, will become effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

- PAS 39 Amendment, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, will become effective for annual periods beginning on or after July 1, 2009. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow

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variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- PFRS 2 Amendments, *Share-based Payments,* will become effective for annual periods beginning on or after January 1, 2010. It clarifies the scope and the accounting for group cash-settled share-based payment transactions.

Except as otherwise indicated, the Company does not expect the adoption of these new standards and interpretations to have a significant impact on its financial statements.

Improvements to PFRSs 2009
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010 except otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payments*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets,* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following: (a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract, (b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken, and (c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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 2009	2008	SM Malls Owned
First Asia Realty Development Corporation (FARDC)	Philippines	74.19	54.37	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 Corporation	- do -	100.00	–	–
First Leisure Ventures Group Inc. (FLVGI)	- do -	50.00	50.00	San Miguel by the Bay
Affluent Capital Enterprises Limited (Affluent)	British Virgin Islands	100.00	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make)	- do -	100.00	100.00	SM City Jinjiang
Springfield Global Enterprises Limited (Springfield)	- do-	100.00	–	–
SM Land (China) Limited (SM Land (China))	Hong Kong	100.00	100.00	–

On April 15, 2009, the Parent Company acquired 24,376,743 additional FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such minority interest amounting to ₱3,384 million is accounted for as an equity transaction. The carrying amounts of SMPH's investment and the share of minority interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the minority interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of

"Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets (see Note 17).

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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 ₱17,659 million, ₱15,358 million and ₱13,402 million for the years ended December 31, 2009, 2008 and 2007, 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 ₱438 million, ₱368 million and ₱321 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

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 ₱3,665 million and ₱3,346 million as of December 31, 2009 and 2008, respectively (see Note 10).

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

The Company's AFS investments amounted to ₱103 million and ₱2,553 million as of December 31, 2009 and 2008, respectively.

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

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

The net book value of investment properties amounted to ₱83,935 million and ₱75,174 million as of December 31, 2009 and 2008, respectively (see Note 12).

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

Deferred tax assets amounted to ₱243 million and ₱209 million as of December 31, 2009 and 2008, respectively (see Note 19).

Pension. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rate, expected

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rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value 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 equity.

The methods and assumptions used to estimate fair value of financial assets and liabilities are discussed in Note 24.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these claims (see Note 26).

4. Summary of Significant Accounting and Financial Reporting Policies

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

Financial Instruments

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 Profit. 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 profit) 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 profit 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 or recognizing gains or losses on a different basis; or

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

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

Classified as financial assets at FVPL are the Company's investments held for trading and derivative financial instruments. The carrying values of financial assets under this category amounted to ₱744 million and ₱178 million as of December 31, 2009 and 2008, respectively. Included under financial liabilities at FVPL are the Company's derivative financial instruments with negative fair values. The carrying values of financial liabilities at FVPL amounted to ₱387 million and ₱902 million as of December 31, 2009 and 2008, respectively (see Note 24).

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

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

Classified under this category are the Company's cash and cash equivalents, short-term investments and receivables. The carrying values of financial assets under this category amounted to ₱9,375 million and ₱14,083 as of December 31, 2009 and 2008, respectively (see Note 24).

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

The Company has no investments classified as HTM as of December 31, 2009 and 2008.

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

Classified under this category are the Company's investments in redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱103 million and ₱2,553 million as of December 31, 2009 and 2008, respectively (see Note 24).

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

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

This category includes loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The carrying values of financial liabilities under this category amounted to ₱47,297 million and ₱44,388 million as of December 31, 2009 and 2008, respectively (see Note 23).

Classification of Financial Instruments Between Debt and Equity

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

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

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

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

Debt Issuance Costs

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

Derivative Financial Instruments and Hedging

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

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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 non-derivative 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, cancelled or expired.

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

Impairment of Financial Assets

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

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AFS Investments. In the case of equity investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income - is removed from equity 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 equity.

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 companies 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 any comparative periods presented, are included in the consolidated financial statements of the Parent Company at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Parent Company. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

Acquisition of Minority Interest

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

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

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

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

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

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

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

Treasury Stock

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

Revenue

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. Revenue is recognized as earned based on the terms of the management contracts.

Management Fees

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

Pension Cost

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

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

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

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

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

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

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market

assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized

as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

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

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

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

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

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

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

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

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

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

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

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

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

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

5. Business Combinations

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

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

On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. Pursuant to the agreements entered into among SMPH, Grand China and Oriental Land, the 912,897,212 shares of SMPH were exchanged for 1,000 shares (100% ownership) of Affluent and 1 share (100% ownership) of Mega Make at a total swap price of ₱10,827 million. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE. As a result of the acquisition, Affluent and Megamake became wholly-owned subsidiaries of SMPH (see Notes 12 and 17).

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

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

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

Cost:	
Shares issued, at fair value	₱4,809,598,537
Costs associated with the acquisition	24,918,802
	₱4,834,517,339
Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	₱558,441
Cash paid	(24,918,802)
	(₱24,360,361)

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

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

Cost:	
Shares issued, at fair value	₱3,315,186,650
Costs associated with the acquisition	17,316,456
	₱3,332,503,106
Net cash outflow on acquisition:	
Net cash and cash equivalents acquired	₱17,890
Cash paid	(17,316,456)
	(₱17,298,566)

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

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

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

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

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

The acquisitions of the SM China Companies and SM Land (China) were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to pooling of interest method.

The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities amounting to ₱4,818 million is included under “Additional paid-in capital - net” account in the stockholders’ equity section of the consolidated balance sheets (see Note 17).

Acquisition of Alpha Star
On September 3, 2009, SM Land (China) further completed the acquisition of 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).

The acquisition was not restated in the earliest period presented of the acquired company due to immateriality. The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included as “equity adjustment from business combinations” under “Additional paid-in capital-net” account in the stockholders’ equity section of the consolidated balance sheets (see Note 17).

6. Segment Information

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

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

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

Inter-segment Transactions

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

Geographical Segment Data

	2009			
	Philippines	**China**	**Eliminations**	**Consolidated**
	(In Thousands)			
Revenues	**₱19,459,991**	**₱1,037,508**	**₱–**	**₱20,497,499**
Segment results:				
Income before income tax	**₱9,304,085**	**₱342,397**	**₱–**	**₱9,646,482**
Provision for income tax	**2,300,711**	**68,934**	**–**	**2,369,645**
Net income	**₱7,003,374**	**₱273,463**	**₱–**	**₱7,276,837**
Net income attributable to:				
Equity holders of the Parent	**₱6,749,887**	**₱273,463**	**₱–**	**₱7,023,350**
Minority interests	**253,487**	**–**	**–**	**253,487**
Segment assets (excluding deferred tax assets)	**₱88,323,916**	**₱14,771,346**	**(₱5,478,303)**	**₱97,616,959**
Segment liabilities (excluding deferred tax liabilities)	**₱43,985,612**	**₱10,147,968**	**(₱5,436,057)**	**₱48,697,523**
Net cash flows provided by (used in):				
Operating activities	**₱11,528,148**	**₱1,072,271**	**₱–**	**₱12,600,419**
Investing activities	**(11,493,241)**	**(2,128,576)**	**–**	**(13,621,817)**
Financing activities	**(5,228,081)**	**1,936,878**	**–**	**(3,291,203)**
Other information:				
Depreciation and amortization	**₱2,950,973**	**₱319,812**	**₱–**	**₱3,270,785**
Capital expenditures	**7,577,400**	**3,046,191**	**–**	**10,623,591**

	2008			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenues	₱17,013,597	₱825,470	₱–	₱17,839,067
Segment results:				
Income before income tax	₱9,396,548	₱83,878	₱–	₱9,480,426
Provision for (benefit from) income tax	2,759,266	(12,127)	–	2,747,139
Net income	6,637,282	96,005	–	6,733,287
Net income attributable to:				
Equity holders of the Parent	6,316,211	96,005	–	6,412,216
Minority interests	321,071	–	–	321,071
Segment assets (excluding deferred tax assets)	₱84,537,422	₱12,210,040	(₱1,451,444)	₱95,296,018

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	2008			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Segment liabilities (excluding deferred tax liabilities)	₱40,315,230	₱7,147,306	(₱904,133)	₱46,558,403
Net cash flows provided by (used in):				
Operating activities	₱10,576,204	₱230,391	₱–	₱10,806,595
Investing activities	(6,762,763)	11,463	–	(6,751,300)
Financing activities	3,218,590	(195,555)	–	3,023,035
Other information:				
Depreciation and amortization	₱2,362,785	₱303,522	₱–	₱2,666,307
Capital expenditures	7,973,086	1,043,482	–	9,016,568

	2007			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenues	₱15,349,855	₱619,819	₱–	₱15,969,674
Segment results:				
Income (loss) before income tax	₱8,911,052	(₱40,999)	₱–	₱8,870,053
Provision for (benefit from) income tax	2,625,244	(38,407)	–	2,586,837
Net income (loss)	₱6,285,808	(₱2,592)	₱–	₱6,283,216
Net income attributable to:				
Equity holders of the Parent	₱5,974,986	(₱2,592)	₱–	₱5,972,394
Minority interests	310,822	–	–	310,822
Segment assets (excluding deferred tax assets)	₱67,394,350	₱9,046,452	(₱135,468)	₱76,305,334
Segment liabilities (excluding deferred tax liabilities)	₱26,805,687	₱4,990,611	₱319,837	₱32,116,135
Net cash flows provided by (used in):				
Operating activities	₱9,696,057	₱156,439	₱–	₱9,852,496
Investing activities	(4,511,052)	(1,095,200)	–	(5,606,252)
Financing activities	(11,889,772)	1,408,797	–	(10,840,975)
Other information:				
Depreciation and amortization	₱2,260,923	₱238,215	₱–	₱2,499,138
Capital expenditures	6,914,638	1,461,123	–	8,375,761

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7. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash on hand and in banks (see Note 21)	**₱1,617,067,434**	₱956,578,714
Temporary investments (see Note 21)	**2,169,399,288**	7,355,018,122
	₱3,786,466,722	₱8,311,596,836

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 ₱211 million, ₱86 million and ₱303 million for the years ended December 31, 2009, 2008 and 2007, respectively.

8. Short-term Investments

This account includes investment in time deposits purchased from Banco de Oro Unibank, Inc. amounting to ₱1,924 million and ₱2,426 million as of December 31, 2009 and 2008, respectively, with fixed interest rates ranging from 3.24% to 6.80%.

Interest income earned from short-term investments amounted to ₱74 million, ₱130 million and ₱85 million for the years ended December 31, 2009, 2008 and 2007, respectively.

9. Investments Held for Trading

This account consists of investment in Philippine government and corporate bonds amounting to ₱389 million and ₱144 million as of December 31, 2009 and 2008, respectively, with yields ranging from 6.71% to 12.29%. The investments are U.S. dollar-denominated with various maturities ranging from 2008-2012.

Investments held for trading include unrealized marked-to-market gain amounting to ₱6 million and ₱3 million in 2009 and 2008, respectively, and unrealized marked-to-market loss amounting to ₱2 million in 2007, 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 ₱5 million, ₱9 million and ₱16 million for the years ended December 31, 2009, 2008 and 2007, respectively.

10. Receivables

This account consists of:

	2009	2008
Rent (see Note 21)	**₱3,072,689,836**	₱2,667,539,796
Accrued interest and others (see Note 21)	**592,194,580**	678,202,262
	₱3,664,884,416	₱3,345,742,058

Rent receivables generally have terms of 30-90 days.

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

The aging analysis of rent receivables follows:

	2009	2008
Neither past due nor impaired	**₱2,883,381,289**	₱2,504,676,634
Past due but not impaired:		
91-120 days	**20,907,490**	15,926,599
Over 120 days	**168,401,057**	146,936,563
	₱3,072,689,836	₱2,667,539,796

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

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2009	2008
Prepaid taxes	**₱289,693,040**	₱317,282,193
Input taxes	**277,561,997**	384,427,769
Advances to contractors and others	**241,707,144**	454,429,427
	₱808,962,181	₱1,156,139,389

12. Investment Properties

This account consists of:

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

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	2008				
	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	₱10,262,851,392	₱51,633,767,935	₱11,332,328,841	₱6,393,481,283	₱79,622,429,451
Additions	650,022,849	711,049,319	604,872,573	8,114,905,744	10,080,850,485
Transfers / Reclassifications	764,282,113	5,275,863,081	342,035,774	(6,241,104,565)	141,076,403
Translation adjustments	429,132,291	1,222,469,363	230,210,718	214,050,280	2,095,862,652
Balance at end of year	12,106,288,645	58,843,149,698	12,509,447,906	8,481,332,742	91,940,218,991
Accumulated Depreciation and Amortization					
Balance at beginning of year	81,224,697	8,898,246,755	4,822,588,150	–	13,802,059,602
Depreciation and amortization	24,667,859	1,774,141,956	867,497,708	–	2,666,307,523
Reclassifications	141,076,403	–	–	–	141,076,403
Translation adjustments	18,827,649	88,383,453	49,655,220	–	156,866,322
Balance at end of year	265,796,608	10,760,772,164	5,739,741,078	–	16,766,309,850
Net Book Value	₱11,840,492,037	₱48,082,377,534	₱6,769,706,828	₱8,481,332,742	₱75,173,909,141

Included under “Land” account are the 223,474 square meters of real estate properties with a carrying value of ₱487 million and ₱505 million as of December 31, 2009 and 2008, 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 is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets (see Note 5).

A portion of investment properties located in China with a carrying value of ₱647 million and ₱678 million as of December 31, 2009 and 2008, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

Rental income from investment properties amounted to ₱17,659 million, ₱15,358 million and ₱13,402 million for the years ended December 31, 2009, 2008 and 2007, respectively. Direct operating expenses from investment properties that generated rental income amounted to ₱9,746 million, ₱8,208 million and ₱7,139 million for the years ended 2009, 2008 and 2007, respectively.

The fair value of investment properties amounted to ₱193,689 million as of December 31, 2006 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.

While fair value of the investment properties was not determined as of December 31, 2009 and 2008, the Company’s management believes that there were no conditions present in 2009 and 2008 that would significantly reduce the fair value of the investment properties from that determined in 2006.

In 2009, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Tarlac, SM Calamba, SM San Pablo, SM Novaliches, SM Masinag, SM Suzhou and SM Chongqing.

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In 2008, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Naga, SM Center Las Piñas, SM City Rosario, SM North EDSA Expansion and SM Xiamen Lifestyle Center.

Shopping mall complex under construction includes cost of land amounting to ₱2,088 million and ₱2,173 million as of December 31, 2009 and 2008, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱13,734 million and ₱8,902 million as of December 31, 2009 and 2008, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2009 and 2008 are valued at ₱2,887 million and ₱1,361 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,037 million and ₱1,064 million in 2009 and 2008, respectively. Capitalization rates used were 8.30% and 8.67% in 2009 and 2008, respectively.

13. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by local entities with annual dividend rates ranging from 6.5% to 8.25%. Interest income earned from AFS investments amounted to ₱133 million, ₱163 million and ₱295 million for the years ended December 31, 2009, 2008 and 2007, respectively. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. Preferred shares amounting to ₱2,453 million (US$50 million) were redeemed in October 2009. The remaining shares as of December 31, 2009 are mandatorily redeemable in 2011 at par.

The movements in net unrealized gain on AFS investments for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	**₱48,346,550**	₱40,736,047
Gain/(loss) due to changes in fair value of AFS investments	**20,693,666**	7,610,503
Transferred to income and expenses	**(66,524,977)**	–
Balance at end of year	**₱2,515,239**	₱48,346,550

14. Loans Payable

Loans payable consist of unsecured Philippine peso-denominated loans, with maturities of less than one year, obtained from banks amounting to ₱1,000 million and ₱2,830 million as of December 31, 2009 and 2008, respectively. The loans bear interest rate of 5.38% in 2009 and interest rates ranging from 8.5% to 9.0% in 2008.

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15. Accounts Payable and Other Current Liabilities

This account consists of:

	2009	2008
Trade	**₱2,764,043,291**	₱2,317,620,956
Accrued operating expenses (see Note 22)	**1,410,984,518**	856,519,132
Accrued interest (see Notes 14, 16 and 21)	**318,328,554**	348,849,937
Others	**737,038,562**	618,829,146
	₱5,230,439,925	₱4,141,819,171

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

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

16. Long-term Debt

This account consists of:

	2009	2008
Parent Company:		
U.S. dollar-denominated loans:		
Three-year term loans	**₱4,072,557,494**	₱–
Five-year, three-year and two-year bilateral loans	**2,507,295,023**	3,513,895,390
Three-year bilateral loans	**919,562,465**	–
Five-year syndicated loan	**–**	7,089,004,155
Philippine peso-denominated loans:		
Five-year and ten-year corporate notes	**4,956,605,289**	–
Five-year floating rate notes	**3,977,760,426**	3,975,094,444
Five-year bilateral loan	**2,989,904,839**	2,986,513,483
Five-year, seven-year and ten-year fixed rate notes	**2,972,411,897**	2,976,017,384
Other bank loans	**6,742,204,472**	2,184,847,577
Subsidiaries:		
China yuan renminbi-denominated loans:		
Five-year loan	**2,368,520,000**	–
Eight-year loan	**778,228,000**	1,009,185,500
Ten-year bilateral loan	**–**	3,445,150,500
Philippine peso-denominated loans:		
Five-year bilateral loan	**171,017,763**	248,500,000
Five-year syndicated loans	**–**	296,772,198
	32,456,067,668	27,724,980,631
Less current portion	**421,467,200**	7,784,521,000
	₱32,034,600,468	₱19,940,459,631

Parent Company

U.S. Dollar-denominated Three-Year Term Loans
The US$90 million unsecured loans were obtained in April and May 2009. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 23, 2012 (see Note 24).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million unsecured loan on June 1, 2009, with an original maturity date of November 19, 2010. The related unamortized balance of debt issuance costs charged to expense amounted to ₱4 million (see Note 24).

U.S. Dollar-denominated Three-Year Bilateral Loan
The US$20 million unsecured loan was obtained on October 15, 2009. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on October 15, 2012.

U.S. Dollar-denominated Five-Year Syndicated Loan
The US$150 million unsecured loan was obtained on October 18, 2004 and matured on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on LIBOR plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1% (see Note 24).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively.

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 amounting to ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin.

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

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, and will mature on June 17, 2013, 2015 and 2018, respectively (see Note 24).

Other Bank Loans
This account consists of the following:

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

- Five-year bullet loan obtained on October 16, 2009 amounting to ₱2,830 million and will mature on October 16, 2014. The loan carries an interest rate based on PDST-F plus an agreed margin.

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin (see Note 24).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%.

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 24).

- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on March 3, 2008. The related unamortized balance of debt issuance costs charged to expense amounted to ₱4 million.

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan carries an interest rate of 5.184% in 2009.

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 5.346% in 2009 and interest rates ranging from 6.156% to 7.047% in 2008.

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

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 12).

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

Philippine Peso-denominated Five-Year Syndicated Loans
In 2004, CPDC and PSC obtained a five-year term loan, which originally amounted to ₱1,600 million, to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100 million starting October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. Starting April 2007, the fixed interest rate of 9.66% was reduced to 6.75%.

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 December 31, 2009 and 2008, the Company is in compliance with the terms of its loan covenants.

Debt Issuance Costs
The movements in unamortized debt issuance cost in 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	**₱169,355,369**	₱161,828,945
Additions	**196,823,826**	95,831,066
Amortization	**(110,613,863)**	(88,304,642)
Balance at end of year	**₱255,565,332**	₱169,355,369

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

Year	Amount
2010	₱421,467,200
2011	4,868,372,000
2012	9,606,419,000
2013	4,162,528,000
2014	9,358,786,800
2015 to 2018	4,294,060,000
	₱32,711,633,000

17. **Stockholders' Equity**

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2009 and 2008 are 13,348,191,367 shares.

As discussed in Note 5, on November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE.

On April 23, 2007, the BOD and the stockholders approved the increase in authorized capital stock from ₱10,000 million, divided into 10,000,000,000 shares, to ₱20,000 million, divided into

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱4,142 million and ₱3,628 million as of December 31, 2009 and 2008, respectively, representing the cost of shares held in treasury (₱101 million in 2009 and 2008) and accumulated equity in net earnings of the subsidiaries totaling ₱4,041 million and ₱3,527 million as of December 31, 2009 and 2008, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

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

	2009	2008
Balance at beginning of year	**₱5,493,656,403**	₱5,493,656,403
Adjustments from:		
Acquisition of Alpha Star	**(44,263,052)**	–
Acquisition of minority interest in FARDC	**(3,073,952,352)**	–
Balance at end of year	**₱2,375,440,999**	₱5,493,656,403

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

	2009			2008		
	Before tax amount	**Tax benefit**	**Net-of-tax amount**	Before tax amount	Tax expense	Net-of-tax amount
Unrealized loss (gain) on available-for-sale investments	**(₱50,923,679)**	**₱5,092,368**	**(₱45,831,311)**	₱11,708,466	(₱4,097,963)	₱7,610,503
Cumulative translation adjustment	**(139,632,483)**	**–**	**(139,632,483)**	870,463,323	–	870,463,323
Balance at end of year	**(190,556,162)**	**₱5,092,368**	**(₱185,463,794)**	₱882,171,789	(₱4,097,963)	₱878,073,826

18. Operating Expenses

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

	2009	2008	2007
Depreciation and amortization (see Note 12)	**₱3,270,784,779**	₱2,666,307,523	₱2,499,137,968
Administrative (see Notes 20, 21 and 22)	**2,689,127,059**	2,234,579,230	1,819,324,119
Business taxes and licenses	**1,146,588,071**	1,095,863,965	906,915,236
Film rentals	**1,118,015,199**	978,937,584	965,464,907
Others (see Note 21)	**1,521,309,306**	1,232,400,779	948,343,915
	₱9,745,824,414	₱8,208,089,081	₱7,139,186,145

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19. **Income Tax**

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

	2009	2008
Deferred tax assets -		
Unrealized foreign exchange loss and others	**₱243,120,374**	₱209,171,802
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	**₱1,132,255,738**	₱1,087,254,617

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 year ended December 31, 2009, the Company opted to use OSD in computing their taxable income.

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

	2009	2008	2007
Statutory tax rates	**30.0%**	35.0%	35.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(1.3)**	(1.4)	(2.8)
Change in enacted tax rates and others	**(4.1)**	(4.6)	(3.1)
Effective tax rates	**24.6%**	29.0%	29.1%

20. **Pension Cost**

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

Net Pension Cost

	2009	2008	2007
Current service cost	**₱1,633,774**	₱2,728,816	₱2,518,520
Interest cost on benefit obligation	**1,864,154**	2,056,792	1,544,607
Expected return on plan assets	**(1,295,123)**	(719,745)	(593,527)
Net actuarial loss recognized	**77,448**	401,546	368,777
Net pension cost	**₱2,280,253**	₱4,467,409	₱3,838,377
Actual return on plan assets	**₱3,131,449**	(₱477,554)	₱619,837

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Net Pension (Asset) Liability

	2009	2008	2007
Defined benefit obligation	**₱32,745,187**	₱18,098,581	₱24,632,241
Fair value of plan assets	**30,494,754**	(15,807,447)	(7,706,515)
Unfunded obligation	**2,250,433**	2,291,134	16,925,726
Unrecognized net actuarial losses	**(11,742,995)**	(4,055,842)	(14,509,600)
Net pension (asset) liability	**(₱9,492,562)**	(₱1,764,708)	₱2,416,126

The changes in the present value of the defined benefit obligation are as follows:

	2009	2008	2007
Balance at beginning of year	**₱18,098,581**	₱24,632,241	₱18,632,172
Current service cost	**1,633,774**	2,728,816	2,518,520
Interest cost on benefit obligation	**1,864,154**	2,056,792	1,544,607
Transfer (from)/to the plan	**1,547,751**	–	–
Benefits paid	**–**	(69,757)	(41,228)
Actuarial losses (gains) on obligation	**9,600,927**	(11,249,511)	1,978,170
Balance at end of year	**₱32,745,187**	₱18,098,581	₱24,632,241

The changes in the fair value of plan assets are as follows:

	2009	2008	2007
Balance at beginning of year	**₱15,807,447**	₱7,706,515	₱4,946,058
Expected return on plan assets	**1,295,123**	719,745	593,527
Transfer (from) / to the plan	**1,547,751**	–	
Benefits paid	**–**	(69,757)	(41,228)
Contributions	**10,008,107**	8,648,243	2,181,848
Actuarial gains (losses)	**1,836,326**	(1,197,299)	26,310
Balance at end of year	**₱30,494,754**	₱15,807,447	₱7,706,515

The Company expects to contribute ₱10 million to its defined benefit pension plan in 2010.

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

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

	2009	2008	2007
Discount rate	**11.3%**	10.3%	8.3%
Expected rate of return on plan assets	**6.0%**	6.0%	6.0%
Future salary increases	**11.0%**	10.0%	10.0%

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

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The amounts for the current and previous four years are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	**₱32,745,187**	₱18,098,581	₱24,632,241	₱18,632,672	₱5,334,567
Plan assets	**30,494,754**	15,807,447	7,706,515	4,946,058	3,319,755
Deficit	**2,250,433**	2,291,134	16,925,726	13,686,114	2,014,812
Experience adjustments on plan liabilities	**9,761,099**	1,426,249	1,895,714	12,075,079	1,615,999
Experience adjustments on plan assets	**1,836,326**	1,197,299	56,146	107,422	(50,076)

21. Related Party Disclosures

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 the SM Retail Group and SM Banking Group. Total rent revenue amounted to ₱5,996 million, ₱5,265 million and ₱4,146 million in 2009, 2008 and 2007, respectively. Rent receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱1,198 million and ₱1,151 million as of December 31, 2009 and 2008, respectively.

b. The Company leases the land where two of its malls are located from SMIC and SM Land, Inc. (formerly Shoemart, Inc.) for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱179 million, ₱158 million and ₱164 million in 2009, 2008 and 2007, respectively. Rent payable to SMIC and SM Land, Inc., included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱17 million and ₱19 million as of December 31, 2009 and 2008, respectively.

c. The Company pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱596 million, ₱508 million and ₱473 million in 2009, 2008 and 2007, respectively. Accrued management fees, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱65 million and ₱42 million as of December 31, 2009 and 2008, 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 totaled ₱4,539 million and ₱10,349 million as of December 31, 2009 and 2008, respectively. Interest income amounted to ₱271 million, ₱210 million and ₱386 million in 2009, 2008 and 2007, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱13 million and ₱37 million as of December 31, 2009 and 2008, respectively.

e. As of December 31, 2009 and 2008, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱3,530 million and ₱4,700 million, respectively. Interest expense amounted to ₱141 million, ₱27 million and ₱115 million in

2009, 2008 and 2007, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱26 million and ₱4 million as of December 31, 2009 and 2008, respectively.

f. As of December 31, 2008, a portion of AFS investments amounting to ₱2,453 million pertains to mandatorily redeemable preferred shares of BDO which matured last October 18, 2009 (see Note 13). Interest income amounted to ₱124 million, ₱154 million and ₱138 million in 2009, 2008 and 2007, respectively. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱31 million as of December 31, 2008.

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 ₱51 million, ₱18 million and ₱16 million in 2009, 2008 and 2007, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

22. Lease Agreements

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

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

23. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of bank loans, AFS investments, investments held for trading, cash and cash equivalents, short-term investments and accrued interest receivables. 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 and non-deliverable forwards. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 24).

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

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 9, 13, 14 and 16.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2009 and 2008, after taking into account the effect of interest rate swaps, approximately 50% and 42% respectively, of the Company's long-term borrowings are at a fixed rate of interest.

Interest Rate Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax. The impact on the Company's equity, due to changes in fair value of AFS investments, is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2009	**100**	**(₱42,056,486)**
	50	**(21,028,243)**
	(100)	**42,056,486**
	(50)	**21,028,243**
2008	100	(46,855,361)
	50	(23,427,680)
	(100)	46,855,361
	(50)	23,427,680

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

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

	2009								
	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	**₱5,550,000**	**₱5,550,000**	**₱5,550,000**	**₱5,550,000**	**₱3,677,800,000**	**₱1,100,000,000**	**₱4,800,000,000**	**(₱41,658,923)**	**₱4,758,341,077**
Interest rate	**8.40%**	**8.40%**	**8.40%**	**8.40%**	**8.40%**	**10.11%**			
Philippine peso-denominated loans fixed rate notes	**5,990,000**	**5,990,000**	**5,990,000**	**980,990,000**	**990,000**	**1,994,060,000**	**2,994,010,000**	**(21,598,103)**	**2,972,411,897**
Interest rate	**9.31%-9.60%**	**9.31%-9.60%**	**9.31%-9.60%**	**9.31%-9.60%**	**9.60%**	**9.60%-9.85%**			
Other bank loans	**–**	**–**	**–**	**1,000,000,000**	**–**	**1,200,000,000**	**2,200,000,000**	**(13,877,458)**	**2,186,122,542**
Interest rate				**7.18%**		**9.75%**			
Floating rate:									
U.S. dollar-denominated three-year term loans	**$–**	**$–**	**$90,000,000**	**$–**	**$–**	**$–**	**4,158,000,000**	**(85,442,506)**	**4,072,557,494**
Interest rate			**LIBOR+spread**						
Philippine peso-denominated five-year floating rate loan	**₱2,000,000**	**₱2,000,000**	**₱3,992,000,000**	**₱–**	**₱–**	**₱–**	**3,996,000,000**	**(18,239,574)**	**3,977,760,426**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
Philippine peso-denominated five-year bilateral loans	**₱62,500,000**	**₱3,062,500,000**	**₱46,875,000**	**₱–**	**₱–**	**₱–**	**3,171,875,000**	**(10,952,398)**	**3,160,922,602**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**						
U.S. dollar-denominated bilateral loans	**$–**	**$30,000,000**	**$–**	**$25,000,000**	**$–**	**$–**	**2,541,000,000**	**(33,704,977)**	**2,507,295,023**
Interest rate		**LIBOR+spread**		**LIBOR+spread**					
China yuan renminbi-denominated five-year loan	**¥16,000,000**	**¥20,000,000**	**¥30,000,000**	**¥40,000,000**	**¥244,000,000**	**¥–**	**2,368,520,000**	**–**	**2,368,520,000**
Interest rate	**5.184%**	**5.184%**	**5.184%**	**5.184%**	**5.184%**				
U.S. dollar-denominated three-year term loans	**$–**	**$–**	**$20,000,000**	**$–**	**$–**	**$–**	**924,000,000**	**(4,437,535)**	**919,562,465**
Interest rate			**LIBOR+spread**						
China yuan renminbi-denominated eight-year bilateral loan	**¥35,000,000**	**¥40,000,000**	**¥40,000,000**	**¥–**	**¥–**	**¥–**	**778,228,000**	**–**	**778,228,000**
Interest rate	**5.35%**	**5.35%**	**5.35%**						
Philippine peso-denominated corporate notes	**₱300,000**	**₱300,000**	**₱300,000**	**₱300,000**	**₱198,800,000**	**₱–**	**200,000,000**	**(1,735,788)**	**198,264,212**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**				
Other bank loans	**₱–**	**₱–**	**₱–**	**750,000,000**	**₱3,830,000,000**	**₱–**	**4,580,000,000**	**(23,918,070)**	**4,556,081,930**
Interest rate				**PHIREF+margin%**	**PDST-F+margin%**				
							₱32,711,633,000	**(₱255,565,332)**	**₱32,456,067,668**

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	2008								
	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 five-year syndicated loan	₱300,000,000	₱–	₱–	₱–	₱–	₱–	₱300,000,000	(₱3,227,802)	₱296,772,198
Interest rate	6.75%								
Philippine peso-denominated loans fixed rate notes	–	–	–	–	1,000,000,000	2,000,000,000	3,000,000,000	(23,982,616)	2,976,017,384
Interest rate					9.31%	9.60%-9.85%			
Other bank loans	–	–	–	–	1,000,000,000	1,200,000,000	2,200,000,000	(15,152,423)	2,184,847,577
Interest rate					7.18%	9.75%			
Floating rate:									
U.S. dollar-denominated five-year syndicated loan	$150,000,000	$–	$–	$–	$–	$–	7,128,000,000	(38,995,845)	7,089,004,155
Interest rate	LIBOR+margin%								
U.S. dollar-denominated bilateral loans	$–	$20,000,000	$30,000,000	$–	$25,000,000	$–	3,564,000,000	(50,104,610)	3,513,895,390
Interest rate		LIBOR+spread	LIBOR+spread		LIBOR+spread				
China yuan renminbi-denominated eight-year bilateral loan	¥30,000,000	¥35,000,000	¥40,000,000	¥40,000,000	¥–	¥–	1,009,185,500	–	1,009,185,500
Interest rate	6.16%–7.05%	6.16%–7.05%	6.16%–7.05%	6.16%–7.05%					
China yuan renminbi-denominated ten-year loan	¥10,000,000	¥10,000,000	¥30,000,000	¥40,000,000	¥60,000,000	¥345,000,000	3,445,150,500	–	3,445,150,500
Interest rate	7.13%–9.40%	7.13%–9.40%	7.13%–9.40%	7.13%–9.40%	7.13%–9.40%	7.13%–9.40%			
Philippine peso-denominated five-year floating rate loan	₱–	₱–	₱–	₱3,998,000,000	₱–	₱–	3,998,000,000	(22,905,556)	3,975,094,444
Interest rate				PDST-F+margin%					
Philippine peso-denominated five-year bilateral loans	₱78,125,000	₱62,500,000	₱3,062,500,000	₱46,875,000	₱–	₱–	3,250,000,000	(14,986,517)	3,235,013,483
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
							₱27,894,336,000	(₱169,355,369)	₱27,724,980,631

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

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱7,910 million (US$171 million) and ₱7,755 million (US$168 million), respectively, as of December 31, 2009 and ₱6,716 million (US$141 million) and ₱7,500 million (US$158 million), respectively, as of December 31, 2008.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱46.20 to US$1.00 and ₱47.52 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2009 and 2008, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in US$ exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Increase (Decrease) in ₱ to US$ rate	Effect on Income before Income Tax
2009	**₱1.50**	**(₱1,254,612)**
	1.00	**(836,408)**
	(1.50)	**1,254,612**
	(1.00)	**836,408**
2008	1.50	13,036,240
	1.00	8,690,827
	(1.50)	(13,036,240)
	(1.00)	(8,690,827)

The increase in ₱ to US$ rate means stronger peso against the U.S. dollar while a decrease in ₱ to US$ means stronger U.S. dollar against the peso.

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 financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 24.

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

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

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

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

As of December 31, 2009 and 2008, the credit quality of the Company's financial assets is as follows:

	2009			
	Neither Past Due Nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**But Not Impaired**	**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱3,755,924,815**	**₱–**	**₱–**	**₱3,755,924,815**
Short-term investments	**1,924,000,000**	**–**	**–**	**1,924,000,000**
Receivables from				
Tenants	**–**	**2,867,537,789**	**189,308,547**	**3,056,846,336**
Exhibitors	**–**	**15,843,500**	**–**	**15,843,500**
Accrued interest receivables	**21,725,664**	**–**	**–**	**21,725,664**
Other receivables	**–**	**570,468,916**	**–**	**570,468,916**
Financial Asset at FVPL				
Held for trading -				
Corporate and government bonds	**389,186,100**	**–**	**–**	**389,186,100**
Derivative assets	**355,235,235**	**–**	**–**	**355,235,235**
AFS investments -				
Equity securities - unquoted	**102,794,710**	**–**	**–**	**102,794,710**
	₱6,548,866,524	**₱3,453,850,205**	**₱189,308,547**	**₱10,192,025,276**

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

	2008			
	Neither Past Due Nor Impaired		Past Due	
	High Quality	Standard Quality	But Not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱8,254,845,432	₱–	₱–	₱8,254,845,432
Short-term investments	2,425,600,000	–	–	2,425,600,000
Receivables from				
Tenants	–	2,452,866,038	162,863,161	2,615,729,199
Exhibitors	–	51,810,597	–	51,810,597
Accrued interest receivables	77,671,967	–	–	77,671,967
Other receivables	–	600,530,295	–	600,530,295
Financial Asset at FVPL				
Held for trading -				
Corporate and government bonds	143,857,296	–	–	143,857,296
Derivative assets	34,130,728	–	–	34,130,728
AFS investments -				
Equity securities - unquoted	2,552,699,740	–	–	2,552,699,740
	₱13,488,805,163	₱3,105,206,930	₱162,863,161	₱16,756,875,254

**Excluding cash on hand amounting to ₱57 million*

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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 objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cashflow 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 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.

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

	2009			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Loans payable	**₱1,005,972,222**	**₱–**	**₱–**	**₱1,005,972,222**
Accounts payable and other current liabilities	**5,230,439,925**	**–**	**–**	**5,230,439,925**
Long-term debt (including current portion)	**2,335,788,158**	**33,848,773,149**	**5,226,568,028**	**41,411,129,335**
Derivative liability				
Interest rate swaps	**95,271,808**	**(2,393,981)**	**–**	**92,877,827**
Forward currency contracts	**403,012,500**	**–**	**–**	**403,012,500**
Tenants' deposits	**–**	**5,708,755,024**	**–**	**5,708,755,024**
Other noncurrent liabilities*	**–**	**2,901,839,861**	**–**	**2,901,839,861**
	₱9,070,484,613	**₱42,456,974,053**	**₱5,226,568,028**	**₱56,754,026,694**

**Excluding nonfinancial liabilities amounting to ₱487 million.*

	2008			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱2,924,884,028	₱–	₱–	₱2,924,884,028
Accounts payable and other current liabilities	4,141,819,171	–	–	4,141,819,171
Long-term debt (including current portion)	9,674,452,851	19,229,151,578	6,690,172,021	35,593,776,450
Derivative liability				
Cross currency swaps	962,830,101	–	–	962,830,101
Interest rate swaps	29,221,545	–	–	29,221,545
Tenants' deposits	–	4,865,774,815	–	4,865,774,815
Other noncurrent liabilities*	–	4,825,437,836	–	4,825,437,836
	₱17,733,207,696	₱28,920,364,229	₱6,690,172,021	₱53,343,743,946

**Excluding nonfinancial liabilities amounting to ₱505 million.*

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.

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

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

As of December 31, 2009 and 2008, the Company's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital are as follows:

Interest-bearing Debt to Total Capital

	2009	2008
Loans payable	**₱1,000,000,000**	₱2,830,000,000
Current portion of long-term debt	**421,467,200**	7,784,521,000
Long-term debt - net of current portion	**32,034,600,468**	19,940,459,631
Total interest-bearing debt (a)	**33,456,067,668**	30,554,980,631
Total equity attributable to equity holders of the Parent	**47,349,171,758**	46,828,540,968
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱80,805,239,426**	₱77,383,521,599
Gearing ratio (a/b)	**41%**	39%

Net Interest-bearing Debt to Total Capital

	2009	2008
Loans payable	**₱1,000,000,000**	₱2,830,000,000
Current portion of long-term debt	**421,467,200**	7,784,521,000
Long-term debt - net of current portion	**32,034,600,468**	19,940,459,631
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(6,202,447,532)**	(13,433,753,872)
Total net interest-bearing debt (a)	**27,253,620,136**	17,121,226,759
Total equity attributable to equity holders of the Parent	**47,349,171,758**	46,828,540,968
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱74,602,791,894**	₱63,949,767,727
Gearing ratio (a/b)	**37%**	27%

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24. Financial Instruments

Fair Values

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

	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Asset				
Loans and receivables:				
Cash and cash equivalents	**₱3,786,466,722**	**₱3,786,466,722**	₱8,311,596,836	₱8,311,596,836
Short-term investments	**1,924,000,000**	**1,924,000,000**	2,425,600,000	2,425,600,000
Receivables from:				
Tenants	**3,056,846,336**	**3,056,846,336**	2,615,729,199	2,615,729,199
Exhibitors	**15,843,500**	**15,843,500**	51,810,597	51,810,597
Accrued interest receivables	**21,725,664**	**21,725,664**	77,671,967	77,671,967
Other receivables	**570,468,916**	**570,468,916**	600,530,295	600,530,295
	9,375,351,138	**9,375,351,138**	14,082,938,894	14,082,938,894
Financial assets at FVPL:				
Held for trading - corporate and government bonds	**389,186,100**	**389,186,100**	143,857,296	143,857,296
Derivative assets	**355,235,235**	**355,235,235**	34,130,728	34,130,728
	744,421,335	**744,421,335**	177,988,024	177,988,024
AFS investments:				
Equity securities - unquoted	**102,794,710**	**102,794,710**	2,552,699,740	2,552,699,740
	₱10,222,567,183	**₱10,222,567,183**	₱16,813,626,658	₱16,813,626,658
Financial Liabilities				
Financial liabilities at FVPL - Derivative liability	**₱386,828,566**	**₱386,828,566**	₱901,634,262	₱901,634,262
Other financial liabilities:				
Loans payable	**1,000,000,000**	**1,000,000,000**	2,830,000,000	2,830,000,000
Accounts payable and other current liabilities	**5,230,439,925**	**5,230,439,925**	4,141,819,171	4,141,819,171
Long-term debt (including current portion)	**32,456,067,668**	**33,574,764,925**	27,724,980,631	28,394,830,575
Tenants' deposits	**5,708,755,024**	**5,613,131,081**	4,865,774,815	4,794,475,073
Other noncurrent liabilities*	**2,901,839,861**	**2,853,232,876**	4,825,437,836	4,747,328,276
	47,297,102,478	**48,271,568,807**	44,388,012,453	44,908,453,095
	₱47,683,931,044	**₱48,658,397,373**	₱45,289,646,715	₱45,810,087,357

**Excluding nonfinancial liabilities amounting to ₱487 million and ₱505 million as of December 31, 2009 and 2008, respectively.*

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

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

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

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

AFS Investments. The fair value of investments in mandatorily redeemable preferred shares where there is no active market is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 6.28% to 7.09% as of December 31, 2009 and 3.54% to 8.59% as of December 31, 2008.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.25% to 8.94% as of December 31, 2009 and 5.64% to 11.5% as of December 31, 2008.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rate used was 1.92% to 3.52% as of December 31, 2009 and 0.82% to 2.40% as of December 31, 2008.

Tenants' Deposits and Other Noncurrent Liabilities. Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.81% to 6.11% as of December 31, 2009 and 7.24% to 7.44% as of December 31, 2008.

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

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following table shows the Company's financial instruments carried at fair value as of December 31, 2009 based on Levels 1, 2 and 3:

	Level 1	Level 2	Level 3
Financial Assets			
Financial assets at FVPL:			
Held for trading - corporate and government bonds	₱389,186,100	₱–	₱–
Derivative assets	–	355,235,235	–
Total financial assets at FVPL	389,186,100	355,235,235	–
AFS investments:			
Equity securities - unquoted	–	–	102,794,710
	₱389,186,100	₱355,235,235	₱102,794,710
Financial Liabilities			
Financial liabilities at FVPL - Derivative liabilities	–	₱386,828,566	–

For fair value measurements of the AFS investments in Level 3, the Company expects that any changes to the valuation inputs to any reasonably possible alternative assumptions will not have a significant impact on the financial statements or performance of the Company.

Derivative Financial Instruments

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

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

	2009		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Interest Rate Swaps			
Floating-Fixed:			
Notional amount	**$145,000,000**	**$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%**
Notional amount	**₱750,000,000**	**₱750,000,000**	**₱750,000,000**
Receive-floating rate	**6 months PHIREF+margin%**	**6 months PHIREF+margin%**	**6 months PHIREF+margin%**
Pay-fixed rate	**8.20%**	**8.20%**	**8.20%**
Fixed-Floating:			
Notional amount	**₱1,000,000,000**	**₱1,000,000,000**	**₱1,000,000,000**
Receive-fixed rate	**9.3058%**	**9.3058%**	**9.3058%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

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	2008		
	<1 Year	>1-<2 Years	>2-<5 Years
Cross-Currency Swap			
Floating-Fixed:			
Notional amount	$70,000,000		
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	12.58–12.75%		
Weighted swap rate	₱56.31		
Interest Rate Swaps			
Floating-Fixed:			
Notional amount	$80,000,000		
Receive-floating rate	6 months LIBOR+margin%		
Pay-fixed rate	5.34%		
Fixed-Floating:			
Notional amount	₱1,000,000,000	₱1,000,000,000	₱1,000,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%

Cross Currency Swaps. In 2004, the Parent Company entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, the Parent Company effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated loans with interest and principal payments up to October 2009. As of December 31, 2008, the cross currency swaps have negative fair values of ₱861 million. Realized gain from these cross currency swaps contracts amounted to ₱245 million in 2009.

Interest Rate Swaps. 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 swaps the floating rate U.S. dollar-denominated loans into fixed rate loans with semi-annual payment intervals up to November 2011-2013. As of December 31, 2009, the floating to fixed interest rate swaps have negative fair values of ₱99 million.

In 2009, the Parent Company entered into Philippine peso interest rate swap agreements with an aggregate notional amount of ₱750 million. Under these agreements, the Parent Company effectively swaps the floating rate Philippine peso-denominated bilateral loans into fixed rate loans with semi-annual payment intervals up to April 2013. As of December 31, 2009, the floating to fixed interest rate swaps have positive fair values of ₱10 million.

In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million. 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. As of December 31, 2009 and 2008, the fixed to floating interest rate swaps have positive fair values of ₱58 million and ₱34 million, respectively.

In 2004, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2008, the floating to fixed interest rate swaps have negative fair values of ₱41 million. Realized gain from these interest rate swaps contracts amounted to ₱41 million in 2009.

Foreign Currency Call Options. To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, the Parent Company entered into the following cost reduction trades:

Trade Dates	Start Dates	Notional Amount	Strike Rates	Premium (p.a.)	Payment Dates
January 25, 2007	January 25, 2007	₱3,942,000,000	₱52 (US$1.00)	1.00%	October 18, 2007 April 18, 2008
June 27, 2007	April 18, 2007	₱3,942,000,000	₱49 (US$1.00)	1.00%	October 18, 2007 April 18, 2008 June 30, 2008
June 27, 2007	February 15, 2007	₱1,200,000,000	₱49 (US$1.00)	1.00%	February 15, 2008 June 30, 2008

In these trades, the Parent Company will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the exchange rate between U.S. dollar (US$) and the Philippine peso (₱) trade above the strike price on the two dates, the Parent Company will have to pay a penalty based on an agreed formula. Realized loss from currency option contracts amounted to ₱17 million in 2008.

Non-deliverable Forwards. In 2009, the Parent Company entered into sell ₱ and buy US$ forward contracts having an aggregate notional amount of US$939 million. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position with the sell ₱ and buy US$ position. The forward contracts were transacted with various counterparties and will mature in various dates in 2009 and 2010. As of December 31, 2009, sell ₱ and buy US$ forward contracts and buy ₱ and sell US$ forward contracts both have aggregate notional amount of US$457 million. The forward rates range from ₱46.38 to ₱48.21. The Parent Company recognized derivative asset and derivative liability amounting to ₱288 million from these forward contracts as of December 31, 2009. Realized gain from these forward contracts amounted to recognized in 2009 amounts to ₱29 million.

In 2007, the Parent Company entered into forward contracts to sell ₱ and buy US$ with different counterparties at an aggregate notional amount of US$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160 million. The forward rates range from ₱41.05 to ₱46.53, which matured in various dates in 2008. Also in 2007, the Parent Company entered into forward contracts to sell US$ and buy ₱ with different counterparties at an aggregate notional amount of US$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160 million. The forward rates range from ₱41.31 to ₱46.68, which matured in various dates in 2008. The Parent Company recognized derivative asset and derivative liability amounting to ₱272 million from these forward contracts. Realized gain from these forward contracts amounted to ₱47 million in 2008.

The net unrealized marked-to-market gain (loss) on derivative transactions, shown as part of "Others - net" account in the consolidated statements of income, amounted to (₱66 million), ₱609 million and (₱568 million) for the years ended December 31, 2009, 2008 and 2007, respectively.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative instruments as of December 31 are as follows:

	2009	2008
Balance at beginning of year	**(₱867,503,534)**	(₱1,421,270,316)
Net changes in fair value during the year	**(65,724,059)**	608,707,480
Less: Fair value of settled derivatives	**901,634,262**	(54,940,698)
Balance at end of year	**(₱31,593,331)**	(₱867,503,534)

The reconciliation of the amounts of derivative assets and liabilities recognized in the consolidated balance sheets follows:

	2009	2008
Derivative asset	**₱355,235,235**	₱34,130,728
Derivative liability	**(386,828,566)**	(901,634,262)
	(₱31,593,331)	(₱867,503,534)

25. Basic/Diluted EPS Computation

Basic/diluted EPS is computed as follows:

	2009	2008	2007
Net income attributable to equity holders of the Parent (a)	**₱7,023,350,225**	₱6,412,215,308	₱5,972,394,019
Common shares issued at beginning of year	**13,348,191,367**	13,348,191,367	10,848,191,367
Effect of stock dividends in 2007 (see Note 17)	**–**	–	2,500,000,000
Common shares issued at end of year	**13,348,191,367**	13,348,191,367	13,348,191,367
Less weighted average number of treasury shares acquired during the year	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**13,329,334,367**	13,329,334,367	13,329,334,367
Earnings per share (a/b)	**₱0.527**	₱0.481	₱0.448

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26. **Other Matters**

The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the vatability of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The motion for reconsideration (MR) of the Bureau of Internal Revenue (the Respondent) was denied on December 18, 2006. The Respondent filed an appeal on January 19, 2007, which the CTA nullified in its decision dated April 30, 2008 and resolution dated June 24, 2008. Likewise, on December 18, 2008, the CTA also dismissed a similar case for lack of merit. The Respondent filed an MR on January 26, 2009 and on March 9, 2009, the CTA rendered a resolution denying the MR. The Respondent appealed to the Supreme Court by filing a Petition for Review on Certiorari on April 30, 2009. The Company filed its comment on August 14, 2009. As of February 18, 2010, the Office of the Solicitor General has not yet replied. In the opinion of management and its legal counsel, the eventual resolution of these cases will not have any material adverse effect on the consolidated financial statements.

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 8, 2010.

By: **SM PRIME HOLDINGS, INC.**

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Jeffrey C. Lim
Executive Vice President