COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Mall of Asia Arena Annex Bldg. Coral Way cor. J.W. Diokno Blvd. Mall of Asia Complex, Brgy.76, CBP-1A, Pasay City 1300

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

Mr. Jeffrey C. Lim

(Contact Person)

831-1000

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

20-IS

(Form Type)

0 4	2 4
Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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. **Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines** **1300**
   Address of principal office Postal Code

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

8. **April 24, 2012, 2:30 P.M., Function Room I, SMX Convention Center, Seashell Lane, 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:
   April 4, 2012

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	**13,898,943,067**

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 24, 2012, 2:30 p.m. at the Function Room 1, SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City 1300. The complete mailing address of the principal office of the registrant is Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on April 4, 2012.

Statement that proxies are not solicited

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 26, 2012. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 13,898,943,067 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 13,898,943,067 (net of 18,857,000 treasury shares) common shares outstanding as of February 29, 2012. Each share is entitled to one vote. All stockholders of record as 26 March 2012 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 29, 2012

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] One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SM Land, Inc.**[2]	Filipino	5,693,563,593 (b)	40.96
-do-	**SM Investments Corporation (SMIC) *(Parent Company)***[3] One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SMIC**[4]	Filipino	3,009,432,952 (b)	21.65

-do-	**PCD Nominee Corp.** [5] MSE Bldg., Ayala Ave., Makati City	**PCD Participants**[5], [6]	Filipino - 3.43% Non Filipino - 33.30%	5,105,301,771 (r)	36.73

[1.] The following are the individuals holding the direct beneficial ownership of SM Land, Inc.: Henry Sy, Sr., Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, and Harley T. Sy- 4.00% 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.-4.19%, Felicidad T. Sy-8.81%, Henry T. Sy, J.r-7.62%, Hans T. Sy-8.60%, Herbert T. Sy-8.60%, Harley T. Sy-7.63%,, Teresita T. Sy-7.44% and Elizabeth Sy-6.09%.
[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.

(4) Security Ownership of Management as of February 29, 2012

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Beneficial Ownership (D) Direct (I) Indirect	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	11,826,315 (D)	Voting	0.09
-do-	Jose L. Cuisia, Jr.	Filipino	398,130 (D)	Voting	0.00
-do-	Senen T. Mendiola	Filipino	638,575 (D)	Voting	0.00
-do-	Teresita T. Sy	Filipino	1,082,322 (D)	Voting	0.01
-do-	Henry T. Sy, Jr.	Filipino	12,522 (D)	Voting	0.00
-do-	Hans T. Sy	Filipino	12,522 (D)	Voting	0.00
-do-	Herbert T. Sy	Filipino	388,103 (D)	Voting	0.00
-do-	Gregorio U. Kilayko	Filipino	10,000 (D)	Voting	0.00
-do-	Joselito H. Sibayan	Filipino	1,500 (D)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,626,488 (D)	Voting	0.01
-do-	Jeffrey C. Lim	Filipino	40,000 (D)	Voting	0.00
-do-	Christopher S. Bautista	Filipino	30,000 (D)	Voting	0.00
	All directors and executive officers as a group		16,066,477	Voting	0.12

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	87
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	68
Independent Director	Gregorio U. Kilayko	Filipino	57
Independent Director	Joselito H. Sibayan	Filipino	53
Director and President	Hans T. Sy	Filipino	56

Director	Senen T. Mendiola	Filipino	85
Director	Henry T. Sy, Jr.	Filipino	58
Director	Herbert T. Sy	Filipino	55
Adviser to the Board of Directors	Teresita T. Sy	Filipino	61
Executive Vice President and Chief Finance Officer	Jeffrey C. Lim	Filipino	50
Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary	Corazon I. Morando	Filipino	70
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	59
Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	53
Vice President – Internal Audit Head	Christopher S. Bautista	Filipino	52
Vice President – Information Technology	Kelsey Hartigan Y. Go	Filipino	46
Vice President – Project Development	Erickson Y. Manzano	Filipino	41
Vice President – Finance (China Projects)	Diana R. Dionisio	Filipino	39
Vice President – Finance	Teresa Cecilia H. Reyes	Filipino	37
Vice President – Legal	Edgar Ryan C. San Juan	Filipino	36
Corporate Secretary/ Asst. Compliance Officer	Emmanuel C. Paras	Filipino	62

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 BDO 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. In 2011, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company and is currently the Vice-Chairman of Philamlife since August 2009. 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. In May 2011, he was awarded the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton School of the University of Pennsylvania for an outstanding career in the country's banking and social security system.

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. He was elected as Independent Director in 2008.

Joselito H. Sibayan* has spent the past 20 years of his career in investment banking. From 1987 to 1994, he was based in New York and in 1995, he moved to London. He is currently the President and CEO of Mabuhay Capital Corporation (MC2). Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking-Philippines and Philippine Country Manager for Credit Suisse First Boston and established its representative office in Manila in 1998, which he later migrated to a branch. He was elected as Independent Director in 2011.

** 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 Adviser to the Board of SM Investments Corporation. He is Director and 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 including Adviser to the Board of BDO Unibank, Inc. 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 BDO Unibank, Inc. and Chairman of Pico de Loro Beach and Country Club Inc. and President of The National Grid Corporation of the Philippines. He graduated with a management degree from De La Salle University.

Herbert T. Sy has served as Director since 1994. He is an Adviser to the Board of SM Investments Corporation and is currently the Vice Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation 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 a Director from 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 BDO 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 Director of Pico de Loro Beach and Country Club Inc. and a member of the Management Board of the Asia Pacific Real Estate Association. 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 SGV & 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 took up graduate studies under the MBA-Senior Executive Program in the Ateneo de Manila University. She was 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 Adviser to the Board 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 SGV & 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 SGV & 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 SGV & Co. She graduated from De La Salle University with degrees in Bachelor of Science in Accountancy and Bachelor of Arts in Economics and placed 16^{th} in the 1997 Certified Public Accountants board examinations.

Edgar Ryan C. San Juan is the Vice President for Legal. Prior to joining the Company in 2008, he was a Senior Associate Attorney at Puno and Puno Law Offices. He was also part of the Siguion Reyna Montecillo and Ongsiako Law Firm and the Bengson Law Firm, respectively. He holds a Juris Doctor degree from the Ateneo de Manila University School of Law and a Bachelor of Arts in the Humanities degree with specialization in Political Economy from the University of Asia and the Pacific.

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.

Nomination of Independent Directors shall be conducted by the Nomination Committee prior to the stockholders' meeting. The Nomination Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of independent directors and which list shall contain all the information about these nominees. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting. In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

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
BDO Unibank, Inc...	Chairman Emeritus

Jose L. Cuisia, Jr.

Name of Corporation	***Position***
The Philippine American Life & General Insurance Company (Philamlife)..	Vice Chairman
BPI-Philam Assurance Co. (BPLAC).	Director
PHINMA Corporation..	Director
Holcim Philippines, Inc.....	Director
Manila Water Company, Inc...	Director

Name of Corporation	*Position*
ICCP Holdings...	Director
Beacon Property Ventures..	Director

Gregorio U. Kilayko

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

Joselito H. Sibayan

Name of Corporation	*Position*
Pitkin Petroleum PLC, UK...	Director

Henry T. Sy, Jr.

Name of Corporation	*Position*
SM Development Corporation.......................................	Director/ Vice Chairman/ Chief Executive Officer
Highlands Prime, Inc..	Director/ Vice Chairman / President
SM Investments Corporation..	Director/Vice Chairman
The National Grid Corporation of the Philippines....	Director / President
Pico de Loro Beach and Country Club Inc....	Chairman
BDO Unibank, Inc...	Director

Hans T. Sy

Name of Corporation	*Position*
China Banking Corporation	Director/ Chairman of the Board and of Executive Committee
Highlands Prime, Inc..	Director
SM Investments Corporation.	Adviser to the Board

Senen T. Mendiola

Name of Corporation	***Position***
BDO Unibank, Inc.	Adviser to the Board

Herbert T. Sy

Name of Corporation	***Position***
China Banking Corporation	Director
SM Investments Corporation	Adviser to the Board

Teresita T. Sy

Name of Corporation	***Position***
BDO Unibank, Inc.	Chairperson
SM Investments Corporation.	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...	Adviser to the Board

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 Risk Management Committee are:

JOSE L. CUISIA, JR.	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSELITO H. SIBAYAN	-	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)
JOSELITO H. SIBAYAN	-	Member (Independent Director)

The members of the Nomination Committee are:

HERBERT T. SY	-	Chairman
JOSE L. CUISIA, JR.	-	Member (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)

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
Joselito H. Sibayan
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
Joselito H. Sibayan

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

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
Edgar Ryan C. San Juan	-	Vice President – Legal
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

1. Hans T. Sy
   President
2. Jeffrey C. Lim
   Executive Vice-President
3. Ronald G. Tumao
   VP – Market Research and Planning
4. Christopher S. Bautista
   VP – Internal Audit Head
5. Kelsey Hartigan Y. Go
   VP – Information Technology
6. Erickson Y. Manzano
   VP – Project Development
7. Diana R. Dionisio
   VP – Finance (China Projects)
8. Teresa Cecilia H. Reyes
   VP – Finance
9. Edgar Ryan C. San Juan
   VP – Legal

Summary Compensation Table

	Year	Salary	Bonus
President & 8 Most	2012 (estimate)	₱35,000,000	₱13,000,000
Highly Compensated	2011 (actual)	32,000,000	13,000,000
Executive Officers	2010 (actual)	28,000,000	11,000,000
All other officers* as a	2012 (estimate)	₱48,000,000	₱16,000,000
group unnamed	2011 (actual)	44,000,000	16,000,000
	2010 (actual)	35,000,000	12,000,000

**Managers & up*

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 18 of the attached 2011 consolidated financial statements.

ITEM 8. Independent Public Accountants

SGV & 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.

The Company and its subsidiaries paid SGV & Co ₱1.7 million for external audit services for each years 2011 and 2010. 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 and Risk Management 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 and Risk Management Committee's recommendation.

Under the Charter of the Audit and Risk Management Committee, part of the Committee's authority is to pre-approve all auditing and non-audit services, as well as to resolve any disagreements between management and the external auditors regarding financial reporting. The Committee reviews the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit. The Manual on Corporate Governance provides that the Committee shall pre-approve all audit plans, scope and frequency one month before the conduct of external audit.

The Committee also evaluates the performance of the external auditors and exercises final approval on the appointment or discharge of the auditors. The Committee further reviews the independence of the external auditors and meets with the latter separately to discuss any matters that either party believes should be discussed privately.

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, 2011, 2010 and 2009 are incorporated herein by reference.

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

SM Prime Holdings, Inc. ("SMPHI" or the "Company") was incorporated in the Philippines on January 6, 1994 to develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The Company currently has 42 SM Supermalls in the country and 4 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. (FLVGI)	March 28, 2007, Philippines	50.00	SM by the Bay
Southernpoint Properties Corp. (SPC)	June 10, 2008, Philippines	100.00	-na-
Mega Make Enterprises Limited (Mega Make) and Subsidiaries	July 6, 2007, British Virgin Islands	100.00	SM City Jinjiang
Affluent Capital Enterprises Limited (Affluent) and Subsidiaries	March 20, 2006, British Virgin Islands	100.00	SM City Xiamen SM City Chengdu
SM Land (China) Limited (SM Land (China)) and Subsidiaries	August 9, 2006, Hong Kong	100.00	SM Suzhou
Springfield Global Enterprises Limited (Springfield)	September 6, 2007, British Virgin Islands	100.00	-na-

All the malls are under SMPHI except for the 9 malls which are under the subsidiaries mentioned in the above table. The SM by the Bay is an expansion of the Mall of Asia shopping mall.

<u>Management's Discussion and Analysis or Plan of Operation</u>

<u>2011</u>

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

	Twelve months ended Dec 31				
	2011	**% to Revenues**	**2010**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	26,897	100%	23,716	100%	13%
Operating Expenses	12,277	46%	11,271	48%	9%
Operating Income	14,620	54%	12,445	52%	17%
Net Income	9,056	34%	7,856	33%	15%
EBITDA	18,450	69%	15,946	67%	16%

	Dec 31 2011	**% to Total Assets**	**Dec 31 2010**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	128,556	100%	116,343	100%	10%
Investment Properties	107,836	84%	93,940	81%	15%
Total Debt	40,893	32%	38,843	33%	5%
Net Debt	29,913	23%	26,642	23%	12%
Total Stockholders' Equity	63,774	50%	58,191	50%	10%

	Dec 31	
Financial Ratios	**2011**	**2010**
Current Ratio	1.49	2.20
Debt to Equity	0.39 : 0.61	0.40 : 0.60
Net Debt to Equity	0.32 : 0.68	0.31 : 0.69
Return on Equity	0.15	0.14
Return on Investment Properties	0.10	0.10
Debt to EBITDA	2.22	2.44
EBITDA to Interest Expense	9.47	9.13
Operating Income to Revenues	0.54	0.52
EBITDA Margin	0.69	0.67
Net Income to Revenues	0.34	0.33
Debt Service Coverage Ratio	6.72	5.54

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns forty two malls in the Philippines and four malls in China, posts 13% increase in gross revenues for the year 2011 to ₱26.90 billion from ₱23.72 billion in 2010. Rental revenues, accounting for 85% of total revenues, grew by 14% amounting to ₱22.76 billion from last year's ₱19.99 billion. This is largely due to rentals from new SM Supermalls opened in 2010 and 2011, namely, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Novaliches and SM Masinag. The new malls added 380,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 7%.

In terms of gross revenues, the four malls in China contributed ₱2.0 billion in 2011 and ₱1.41 billion in 2010, or 8% and 6% of total consolidated revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 9% and 7% to SM Prime's consolidated rental revenues in 2011 and 2010, respectively. Gross revenues of the four malls in China increased 45% in 2011 compared to 2010 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle and SM Suzhou which added 182,000 square meters of gross floor area. Average occupancy rate for the four malls is now at 95%.

For the year 2011, cinema ticket sales increased by 10% largely due to the success of local blockbuster movies shown in 2011 compared to 2010. In 2011, major blockbusters shown were “Transformers 3: Dark of the Moon,” “Praybeyt Benjamin,” “Harry Potter & The Deathly Hollow Part 2,” “No Other Woman” and “Twilight Saga: Breaking Dawn Part 1.” In 2010, major films shown were “Twilight Saga: Eclipse,” “Iron Man 2,” “Avatar,” “Clash of the Titans” and “Harry Potter & The Deathly Hallow Part 1.”

Amusement and other revenues likewise increased by 13% to ₱1,086 million in 2011 from ₱958 million in 2010 mainly due to higher sponsorship revenues in 2011. 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 9% from ₱11.27 billion in 2010 to ₱12.28 billion in 2011 mainly due to increase in depreciation, utilities and manpower expenses because of the new malls. Same-store growth in operating expenses is 4%. Likewise, income from operations posted a 17% growth from ₱12.44 billion in 2010 to ₱14.62 billion in 2011. In terms of operating expenses, the four malls in China contributed ₱1.05 billion in 2011 and ₱0.83 billion in 2010, or 9% and 7% of SM Prime’s consolidated operating expenses, respectively.

Interest and dividend income increased significantly by 44% to ₱361 million in 2011 compared to ₱251 million in 2010 mainly due to higher average balance of temporary investments in 2011 compared to last year.

Interest expense for the year increased by just 12% despite the additional loans, from ₱1.75 billion in 2010 to ₱1.95 billion in 2011, due to the low interest rate environment and prepayment of high interest-bearing loans using refinancing.

Net income for the twelve months ended 2011 increased by 15% at ₱9.06 billion from last year’s ₱7.86 billion. On a stand-alone basis, the net income of China operations doubled to P889 million in 2011 compared to ₱428 million in 2010, while net income of the Philippine operations grew 10% at ₱8.17 billion from ₱7.43 billion in 2010.

On the balance sheet side, cash and cash equivalents decreased by 15% from ₱9.72 billion to ₱8.29 billion as of December 31, 2010 and 2011, respectively, mainly due to capital expenditure requirements.

Investments held for trading increased by 63% from ₱500 million to ₱813 million as of December 31, 2010 and 2011, respectively, due to additional investments in corporate bonds.

Receivables increased by 18% from ₱4.19 billion to ₱4.94 billion as of December 31, 2010 and 2011, respectively, due to increase in rental receivables usually expected during the holiday season. Prepaid expenses and other current assets likewise increased by 16% from ₱1.10 billion to ₱1.28 billion as of December 31, 2010 and 2011, respectively, mainly due to input taxes.

Investment properties increased by 15% from ₱93.94 billion to ₱107.84 billion as of December 31, 2010 and 2011, respectively, mainly due on-going new mall projects located in Taguig, Pampanga, Olongapo, Cebu City, General Santos and Davao City in the Philippines and Chongqing and Zibo in China. In addition, SM Megamall and SM City Davao are under expansion.

The decrease in derivative assets by 84% from ₱738 million to ₱116 million as of December 31, 2010 and 2011, respectively and derivative liabilities by 66% from ₱710 million to ₱238 million as of December 31, 2010 and 2011, respectively, is mainly due to non-deliverable forwards entered into in 2010 which matured in 2011 and unwinding of interest rate swaps as a result of the prepayment of the underlying loans.

Deferred tax assets increased by 14% from ₱223 million to ₱254 million as of December 31, 2010 and 2011, respectively, due to unrealized mark-to-market losses on interest rate swaps.

Other noncurrent assets decreased by 20% from ₱3.95 billion to ₱3.15 billion as of December 31, 2010 and 2011, respectively, mainly due to refund of a bid bond for acquisition of a certain real property in China.

The increase in accounts payable and other current liabilities by 49% from ₱6.80 billion to ₱10.15 billion as of December 31, 2010 and 2011, respectively, is mainly due to payables to mall contractors, purchased land and accrued expenses.

Long-term debt increased by 5% from ₱38.84 billion to ₱40.89 billion as of December 31, 2010 and 2011, respectively, due to loan availments.

Deferred tax liabilities decreased by 5% from ₱1.32 billion to ₱1.26 billion as of December 31, 2010 and 2011, respectively, mainly due to depreciation of capitalized interest and foreign exchange gains in 2010 realized in 2011.

The increase in tenants' deposits by 15% from ₱6.47 billion to ₱7.47 billion as of December 31, 2010 and 2011, respectively, is due to the new malls and expansions. Other noncurrent liabilities likewise increased by 26% from ₱2.85 billion to ₱3.58 billion as of December 31, 2010 and 2011, respectively, mainly due to increase in liability for purchased real estate properties.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) 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 Company's current ratio decreased to 1.49:1 from 2.20:1 as of December 31, 2011 and 2010, respectively, mainly due to increase in accounts payable and other current liabilities.

Interest-bearing debt to stockholders' equity slightly decreased to 0.39:0.61 from 0.40:0.60 as of December 31, 2011 and 2010, respectively, while net interest-bearing debt to stockholders' equity slightly increased to 0.32:0.68 from 0.31:0.69 as of December 31, 2011 and 2010, respectively. Debt service coverage ratio increased to 6.72:1 from 5.54:1 for years ended December 31, 2011 and 2010, respectively, due to higher operating cash flows in 2011 compared to 2010.

In terms of profitability, ROE slightly improved to 15% from 14% for the years ended December 31, 2011 and 2010, respectively.

EBITDA increased by 16% to ₱18.45 billion in 2011 from ₱15.95 billion in 2010. Debt to EBITDA slightly decreased to 2.22:1 from 2.44:1 as of December 31, 2011 and 2010, respectively. While EBITDA to interest expense increased to 9.47:1 from 9.13:1 for the years ended December 31, 2011 and 2010, respectively, due to higher cash flows from operations in 2011.

Consolidated operating income to revenues increased to 54% in 2011 from 52% in 2010. On a stand-alone basis, operating income margin of the Philippines and China operations is at 55% and 49% in 2011, compared to 53% and 41% in 2010, respectively.

EBITDA margin remains strong at 69% and 67% for the years ended December 31, 2011 and 2010, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 68% and 71% in 2011 and 67% and 71% in 2010, respectively.

Net income to revenues slightly increased to 34% from 33% for the years ended December 31, 2011 and 2010, respectively. On a stand-alone basis, net income margin of the Philippines and China operations is at 33% and 44% in 2011 and 33% and 30% in 2010, respectively.

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

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

As of December 31, 2011, SM Prime has forty one Supermalls strategically located in the Philippines with a total gross floor area of 5.1 million square meters. Likewise, the Company also has four Supermalls located in the cities of Xiamen, Jinjiang, Chengdu and Suzhou in China with a total gross floor area of 0.6 million square meters.

Earlier this year, SM Prime opened SM City Olongapo in Zambales. For the rest of 2012, SM Prime is scheduled to launch SM City Lanang in Davao City, SM City General Santos in South Cotabato, SM City Consolacion in Cebu, SM City San Fernando in Pampanga and SM Chongqing in China. By year-end, SM Prime will have 46 malls in the Philippines and five in China with an estimated combined gross floor area of 6.3 million square meters.

2010

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

	Twelve months ended Dec 31				
	2010	**% to Revenues**	**2009**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	23,716	100%	20,497	100%	16%
Operating Expenses	11,271	48%	9,746	48%	16%
Operating Income	12,445	52%	10,752	52%	16%
Net Income	7,856	33%	7,023	34%	12%
EBITDA	15,946	67%	14,022	68%	14%

	Dec 31 2010	**% to Total Assets**	**Dec 31 2009**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	116,343	100%	97,860	100%	19%
Investment Properties	93,940	81%	83,935	86%	12%
Total Debt	38,843	33%	33,456	34%	16%
Net Debt	26,642	23%	27,254	28%	-2%

Total Stockholders' Equity	58,191	50%	47,349	48%	23%

	Dec 31	
Financial Ratios	**2010**	**2009**
Current Ratio	2.20	1.47
Debt to Equity	0.40 : 0.60	0.41 : 0.59
Net Debt to Equity	0.31 : 0.69	0.37 : 0.63
Return on Equity	0.14	0.15
Debt to EBITDA	2.44	2.39
EBITDA to Interest Expense	9.13	9.90
Operating Income to Revenues	0.52	0.52
EBITDA Margin	0.67	0.68
Net Income to Revenues	0.33	0.34
Debt Service Coverage Ratio	5.54	6.85

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 40 malls in the Philippines and three malls in China, posts 16% increase in gross revenues for the year 2010 to ₱23.72 billion from ₱20.50 billion in the same year 2009. Rental revenues remain the largest portion accounting for 84% of total revenues, grew by 13% amounting to ₱19.99 billion from last year's ₱17.66 billion. This is largely due to rentals from new SM Supermalls opened towards the end of 2008, namely, SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. In 2009, SM City Naga, SM Center Las Piñas and SM City Rosario, expansions of SM City Rosales, The Sky Garden at SM North Edsa and SM City Fairview were also opened. In 2010, SM City Tarlac, SM City San Pablo, SM City Calamba and SM City Novaliches were also opened. The new malls and expansions added 904,000 square meters to total gross floor area. Excluding the new malls and expansions, same-store rental growth is at 6%.

In terms of gross revenues, the three malls in China contributed ₱1.41 billion in 2010 and ₱1.04 billion in 2009, or 6% and 5% of total consolidated operating revenues, respectively. Likewise, in terms of rental revenues, the China operations contributed 7% and 6% to SM Prime's consolidated rental revenue in 2010 and 2009, respectively. Gross revenues of the three malls in China increased 36% in 2010 compared to the same year in 2009 largely due to improvements in the average occupancy rate, lease renewals and the opening of the SM Xiamen Lifestyle which added 110,000 square meters of gross floor area. Average occupancy rate for the three malls is now at 92%.

For the year 2010, cinema ticket sales increased by 32% due to the deployment of digital technology and cinema renovations which increased our market share for both local and foreign films and more Blockbuster movies shown in 2010 compared to the same year of 2009. In 2010, major blockbusters shown were "Twilight Saga: Eclipse," "Iron Man 2," "Avatar," "Clash of the Titans" and "Harry Potter & The Deathly Hallow." In the same year 2009, major films 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.

Amusement and other income likewise increased by 29% to ₱958 million in 2010 from ₱740 million in 2009. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center and the SM Storyland.

Operating expenses increased by 16% from ₱9.75 billion in 2009 to ₱11.27 billion in 2010 mainly due to increase in film rentals and administrative expenses. Likewise, income from operations posted a 16% growth from ₱10.75 billion in 2009 to ₱12.44 billion in 2010. In terms of operating expenses, the three malls in China contributed ₱0.83 billion in 2010 and ₱0.63 billion in 2009, or 7% and 6% of SM Prime's consolidated operating expenses, respectively.

Interest and dividend income decreased by 41% in 2010 compared to 2009 mainly due to maturity of the $50M BDO Preferred shares under "Available-for-sale investments" account last October 2009 and a higher balance of temporary investments in early 2009.

Interest expense for the year increased 23%, from ₱1.42 billion in 2009 to ₱1.75 billion in 2010, mainly due to higher loan availments for capital expenditures and working capital requirements in 2010. While accounting standards allow us to capitalize a portion of our borrowing costs, we can only capitalize while the asset is still under construction.

Net income for the twelve months ended 2010 increased 12% at ₱7.86 billion from same period last year of ₱7.02 billion. On a stand-alone basis, the net income of the three malls in China increased to P428 million in 2010 compared to ₱273 million in 2009. While net income of the Philippine operations grew 10% at ₱7.43 billion from ₱6.75 billion in 2009.

On the balance sheet side, cash and cash equivalents increased 157% from ₱3.79 billion in 2009 to ₱9.72 billion in 2010. The increase in this account came from the remaining proceeds raised from the equity placement done last October 2010 amounting to ₱3.5 billion and proceeds from loans drawn last December 2010 amounting to ₱1.0 billion.

Investments held for trading account increased to ₱500 million in 2010 from ₱389 million in 2009 due to additional investments in government securities and corporate bonds.

Receivables increased by 14% from ₱3.66 billion in 2009 to ₱4.19 billion in 2010 due to increase in rental receivables usually expected during the holiday season. Prepaid expenses and other current assets likewise increased by 36% from ₱0.81 billion in 2009 to ₱1.10 billion in 2010 mainly due to advances to contractors for shopping malls under construction and input taxes.

Investment properties increased 12% from ₱83.93 billion in 2009 to ₱93.94 billion in 2010 mainly due to completed malls in 2010, SM Tarlac, SM San Pablo, SM Calamba and SM Novaliches and on-going mall projects scheduled for opening from 2011 to 2013, located in Antipolo City, Taguig City and Suzhou and Chongqing in China. In addition, this account also includes the cost of the 30-hectare purchased land in SRP Cebu amounting to ₱2.7 billion.

The increase in derivative assets and derivative liability, from ₱355 million in 2009 to ₱738 million in 2010 and from ₱387 million in 2009 to ₱710 million in 2010, respectively, is due to additional interest rate swaps and non-deliverable forwards entered into in 2010.

Other noncurrent assets increased by 49% from ₱2.65 billion in 2009 to ₱3.95 billion in 2010 mainly due to advances and deposits paid for leased properties.

Loans payable was fully settled upon maturity last February 2010. On the other hand, long-term debt increased from ₱32.46 billion in 2009 to ₱38.84 billion in 2010 mainly due to new loans availed during the year namely, ₱8.0 billion 5-10 year loans for general corporate purposes and $90M loans for capital expansion projects in China.

The increase in accounts payable and other current liabilities of 30% from ₱5.23 billion in 2009 to ₱6.80 billion in 2010 is mainly due to payables for construction activities, accrued operating expenses and liability for purchased land related to the SRP Cebu property. Tenants' deposits likewise increased 13% from ₱5.71 billion in 2009 to ₱6.47 billion in 2010 due to the new malls and expansions in 2009 and 2010.

The Company's performance indicators are measured in terms of the following: (1) current ratio which measures the ratio of total current assets to total current liabilities; (2) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (3) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (4) debt service coverage ratio (DSCR) which measures the ratio of annualized operating cash flows to loans payable, current portion of long-term debt and interest expense, excluding the portion of debt which are fully hedged by cash and cash equivalents and temporary investments; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) 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 Company's current ratio increased to 2.20:1 from 1.47:1 as of December 31, 2010 and 2009, respectively, due to the balance of proceeds from top-up placement and proceeds from loans still in cash and cash equivalents.

Interest-bearing debt to stockholders' equity slightly decreased to 0.40:0.60 from 0.41:0.59 as of December 31, 2010 and 2009, respectively, due to the $150 million equity placement. Net interest-bearing debt to stockholders' equity also decreased to 0.31:0.69 from 0.37:0.63 as of December 31, 2010 and 2009, respectively. Debt service coverage ratio decreased to 5.54:1 from 6.85:1 for years ended December 31, 2010 and 2009, respectively, due to higher interest expense in 2010.

In terms of profitability, ROE slightly decreased to 14% from 15% as of December 31, 2010 and 2009, respectively.

EBITDA increased 14% to ₱15.95 billion in 2010 from ₱14.02 billion in 2009. Debt to EBITDA is almost steady at 2.44:1 from 2.39:1 as of December 31, 2010 and 2009. While EBITDA to interest expense decreased from 9.90:1 to 9.13:1 for the years ended December 31, 2009 and 2010, respectively, due to higher interest expense.

Consolidated operating income to revenues is steady at 52% in 2010 and 2009. On a stand-alone basis, operating income margin of the Philippines and China operations is at 53% and 41% in 2010, compared to 53% and 39% in 2009, respectively.

EBITDA margin remains strong at 67% and 68% for the years ended December 31, 2010 and 2009, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 67% and 71% in 2010 and 68% and 70% in 2009, respectively.

Net income to revenues decreased to 33% from 34% for the years ended December 31, 2010 and 2009, respectively, mainly due to increase in interest expense. On a stand-alone basis, net income margin of the Philippines and China operations is at 33% and 30% in 2010 and 35% and 26% in 2009, respectively.

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

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

SM Prime currently has 40 Supermalls strategically located in the Philippines with a total gross floor area of 5.0 million square meters. Likewise, the Company also has three Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.6 million square meters.

For 2011, SM Prime plans to open three new malls in the Philippines. Scheduled to open are SM City Masinag in Antipolo City, SM City San Fernando in Pampanga and SM City Olongapo in Zambales. Part of the 2011 program is for SM Prime to also expand two of its existing malls namely SM City Davao in Southern Mindanao and SM City Dasmariñas in Cavite. By the end of 2011, SM Prime will have 43 malls in the Philippines, with combined GFA of 5.2 million sqm. In China, SM Prime is scheduled to open its fourth mall in the first half of the year. SM Suzhou, which is located in the province of Jiangsu, will have a GFA of approximately 70,000 sqm.

2009

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

	Twelve months ended Dec 31				
	2009	**% to Revenues**	**2008**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	20,497	100%	17,839	100%	15%
Operating Expenses	9,746	48%	8,208	46%	19%
Operating Income	10,752	52%	9,631	54%	12%
Net Income	7,023	34%	6,412	36%	10%
EBITDA	14,022	68%	12,297	69%	14%

	Dec 31 2009	**% to Total Assets**	**Dec 31 2008**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	97,860	100%	95,505	100%	2%
Total Debt	33,456	34%	30,555	32%	9%
Net Debt	27,254	28%	17,121	18%	59%
Total Stockholders' Equity	47,349	48%	46,829	49%	1%

	Dec 31	
Financial Ratios	**2009**	**2008**
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 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.

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 19, 2011.
(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 2012 –2013;
(b) Appointment of external auditors; and,
(c) Other matters.

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

- NA -

ITEM 17. Voting Procedures

<u>Vote required for approval</u>

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

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

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

Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote of any question need not be by ballot. 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 **-** ₱ 0.27 in 2011, ₱ 0.25 in 2010 and ₱ 0.24 in 2009.

Stock Prices	2011 High	2011 Low	2010 High	2010 Low
First Quarter	₱ 11.76	₱ 9.96	₱ 10.50	₱ 8.70
Second Quarter	12.18	10.90	11.75	9.60
Third Quarter	13.20	10.94	13.10	10.25
Fourth Quarter	13.84	11.50	13.16	10.00

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

As of February 29, 2012, the closing price of the Company's shares of stock is ₱16.36/share. For the two months ending February 29, 2012, stock prices of SMPHI were at a high of ₱17.50 and a low of ₱13.30.

The number of shareholders of record as of February 29, 2012 was 2,544. Capital stock issued and outstanding as of February 29, 2012 was 13,898,943,067. As of December 31, 2011, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 15 of the consolidated financial statements.

The top 20 stockholders as of February 29, 2012 are as follows:

Name	No. of Shares Held	% to Total
1. SM Land, Inc.	5,693,563,593	40.96
2. PCD Nominee Corp. (Non-Filipino)	4,628,663,076	33.30
3. SM Investments Corp.	3,009,432,952	21.65
4. PCD Nominee Corp. (Filipino)	476,638,695	3.43
5. Sysmart Corporation	28,202,729	0.20
6. Henry Sy, Sr.	11,826,315	0.09
7. Lucky Securities, Inc.	3,274,259	0.02
8. Philippine Air Force Educational Fund, Inc.	1,712,739	0.01
9. Southwood Mindanao Corporation	1,627,739	0.01
10. Elizabeth Sy	1,626,488	0.01
11. Regina Capital Dev. Corp.	1,357,163	0.01
12. Teresita Sy	1,082,322	0.01
13. Jose T. Tan &/or Pacita L. Tan	713,701	0.01
14. Senen Mendiola	638,575	0.00
15. Chen Zan Xing	617,289	0.00
16. Jose Recato Dy	530,842	0.00
17. Harley Sy	525,160	0.00
18. Edward Francis L. Tan	488,322	0.00
19. Eric Ruben L. Tan	488,322	0.00
20. Teresita Ham Ayen	429,723	0.00

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

As discussed in Note 14 of the consolidated financial statements, the Company obtained a five-year floating rate notes facility on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively. 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 14 of the consolidated financial statements, the Company obtained a US$145 million unsecured loans out a US$270 million facility as of December 31, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US$125 million was fully drawn on January 12, 2012. The loans are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (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 three independent directors or such number as will constitute not less than 30% of the members of the Board, but in no case less than three. 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 and Risk Management 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 Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

SM PRIME HOLDINGS

Notice of Regular Annual Stockholders' Meeting
April 24, 2012, 2:30 p.m.
Function Room I, SMX Convention Center
Seashell Lane, Mall of Asia Complex, Pasay City

To all Stockholders:

Please take notice that the 2012 annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on April 24, 2012 at 2:30 p.m. at the Function Room I, SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City 1300. 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 19, 2011.
4. Approval of 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 2012-2013.
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 26, 2012 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 (which need not be notarized) and return the same to the office of the Secretary at 4th Floor, SyCipLaw Center, 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 5, 2012.

BY THE ORDER OF THE BOARD OF DIRECTORS

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

SM Prime Holdings, Inc.
10/F Mall of Asia Arena Annex Building
Coral Way corner J.W. Diokno Boulevard
Mall of Asia Complex
1300, Pasay City, Philippines

PROXY

The undersigned stockholder of **SM PRIME HOLDINGS, INC.** (the "Company") hereby appoints ___________________________________ or in his absence, the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 24, 2012 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting held on April 19, 2011.
   ____ Yes ____ No ____ Abstain

2. Approval of annual report.
   ____ Yes ____ No ____ Abstain

3. Election of Directors.
   ____ Vote for all nominees listed below
   Henry Sy, Sr.
   Henry T. Sy, Jr.
   Hans T. Sy
   Herbert T. Sy
   Senen T. Mendiola
   Jose L. Cuisia, Jr. (Independent)
   Gregorio U. Kilayko (Independent)
   Joselito H. Sibayan (Independent)

   ____ Withhold authority for all nominees listed above

   ____ Withhold authority to vote for the nominees listed below:

   ________________ ________________
   ________________ ________________
   ________________ ________________
   ________________ ________________

4. Election of Sycip Gorres Velayo & Co. as independent auditors.
   ____ Yes ____ No ____ Abstain

5. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ____ Yes ____ No ____ Abstain

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY AT LEAST SEVENTY TWO (72) HOURS BEFORE THE DATE SET FOR THE ANNUAL MEETING AS PROVIDED IN THE BY-LAWS.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 18, 20 and 21)	**₱8,290,216,039**	₱9,719,718,284
Short-term investments (Notes 7, 18, 20 and 21)	**876,800,000**	876,800,000
Investments held for trading (Notes 8, 18, 20 and 21)	**812,953,412**	500,134,177
Receivables (Notes 9, 18, 20 and 21)	**4,940,102,186**	4,189,315,348
Available-for-sale investments (Notes 12, 18, 20 and 21)	**1,000,000,000**	1,104,161,471
Prepaid expenses and other current assets (Note 10)	**1,276,452,460**	1,104,217,482
Total Current Assets	**17,196,524,097**	17,494,346,762
Noncurrent Assets		
Investment properties - net (Notes 11 and 18)	**107,836,216,127**	93,940,301,554
Derivative assets (Notes 20 and 21)	**115,618,680**	738,228,976
Deferred tax assets (Note 16)	**254,132,999**	223,266,010
Other noncurrent assets (Note 11)	**3,153,887,932**	3,946,369,661
Total Noncurrent Assets	**111,359,855,738**	98,848,166,201
	₱128,556,379,835	₱116,342,512,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 18, 20 and 21)	**₱10,150,278,123**	₱6,796,847,322
Current portion of long-term debt (Notes 14, 18, 20 and 21)	**799,086,409**	766,703,000
Income tax payable	**623,013,182**	403,831,964
Total Current Liabilities	**11,572,377,714**	7,967,382,286
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 18, 20 and 21)	**40,093,522,320**	38,076,546,811
Tenants' deposits (Notes 19, 20 and 21)	**7,467,302,387**	6,465,889,827
Deferred tax liabilities (Note 16)	**1,258,514,789**	1,322,799,401
Derivative liabilities (Notes 20 and 21)	**237,979,926**	709,909,803
Liability for purchased land - net of current portion	**1,551,018,812**	1,618,695,982
Other noncurrent liabilities (Notes 11, 18, 20 and 21)	**2,028,857,966**	1,231,406,207
Total Noncurrent Liabilities	**52,637,196,200**	49,425,248,031
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 15 and 22)	**13,917,800,067**	13,917,800,067
Additional paid-in capital - net (Notes 2 and 15)	**8,219,067,298**	8,219,067,298
Cumulative translation adjustment (Note 15)	**872,658,862**	589,700,365
Unrealized gain on available-for-sale investments (Notes 12 and 15)	**–**	3,745,323
Retained earnings (Note 15):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**33,865,609,976**	28,562,329,066
Treasury stock (Notes 15 and 22)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 20)	**63,773,661,498**	58,191,167,414
Non-controlling Interests (Notes 2 and 15)	**573,144,423**	758,715,232
Total Stockholders' Equity	**64,346,805,921**	58,949,882,646
	₱128,556,379,835	₱116,342,512,963

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Rent (Notes 11, 18 and 19)	**₱22,759,402,156**	₱19,992,948,925	₱17,658,833,905
Cinema ticket sales	**3,051,716,588**	2,764,775,099	2,098,612,638
Others	**1,086,336,307**	958,207,627	740,052,372
	26,897,455,051	23,715,931,651	20,497,498,915
COSTS AND EXPENSES			
Depreciation and amortization (Note 11)	**3,829,971,166**	3,501,183,977	3,270,784,779
Administrative (Notes 17, 18 and 19)	**3,721,279,667**	3,549,874,202	2,689,127,059
Film rentals	**1,650,121,989**	1,494,236,340	1,118,015,199
Business taxes and licenses	**1,510,242,916**	1,326,394,330	1,146,588,071
Management fees (Note 18)	**794,923,211**	647,342,667	595,597,469
Others	**770,957,497**	752,349,899	925,711,837
	12,277,496,446	11,271,381,415	9,745,824,414
INCOME FROM OPERATIONS	**14,619,958,605**	12,444,550,236	10,751,674,501
OTHER INCOME (CHARGES) - Net			
Interest and dividend income (Notes 6, 7, 8, 12 and 18)	**361,227,330**	251,102,302	423,658,528
Interest expense (Notes 14, 18 and 21)	**(1,948,257,322)**	(1,746,215,754)	(1,416,807,840)
Others - net (Notes 8, 14 and 21)	**(812,537,877)**	(152,588,284)	(112,043,124)
	(2,399,567,869)	(1,647,701,736)	(1,105,192,436)
INCOME BEFORE INCOME TAX	**12,220,390,736**	10,796,848,500	9,646,482,065
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)			
Current	**2,932,357,842**	2,449,966,767	2,323,879,054
Deferred	**(94,188,973)**	206,748,328	45,765,632
	2,838,168,869	2,656,715,095	2,369,644,686
NET INCOME	**₱9,382,221,867**	₱8,140,133,405	₱7,276,837,379
Attributable to			
Equity holders of the parent (Note 22)	**₱9,055,995,525**	₱7,856,348,789	₱7,023,350,225
Non-controlling interests (Notes 2 and 15)	**326,226,342**	283,784,616	253,487,154
	₱9,382,221,867	₱8,140,133,405	₱7,276,837,379
Basic/Dilutive Earnings Per Share (Note 22)	**₱0.652**	₱0.584	₱0.527

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱9,382,221,867**	₱8,140,133,405	₱7,276,837,379
OTHER COMPREHENSIVE INCOME (LOSS) - Net			
Unrealized gain (loss) on available-for-sale investments - net of tax (Notes 12 and 15)	**(3,745,323)**	1,230,084	(45,831,311)
Cumulative translation adjustment (Note 15)	**282,958,497**	(91,770,374)	(139,632,483)
	279,213,174	(90,540,290)	(185,463,794)
TOTAL COMPREHENSIVE INCOME	**₱9,661,435,041**	₱8,049,593,115	₱7,091,373,585
Attributable to			
Equity holders of the parent	**₱9,335,208,699**	₱7,765,808,499	₱6,837,886,431
Non-controlling interests (Notes 2 and 15)	**326,226,342**	283,784,616	253,487,154
	₱9,661,435,041	₱8,049,593,115	₱7,091,373,585

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									
					Retained Earnings					
	Capital Stock (Notes 15 and 22)	Additional Paid-in Capital - Net (Notes 2 and 15)	Cumulative Translation Adjustment (Note 15)	Unrealized Gain on Available-for-Sale Investments (Notes 12 and 15)	Appropriated (Note 15)	Unappropriated (Note 15)	Treasury Stock (Notes 15 and 22)	Total	Non-controlling Interests (Notes 2 and 15)	Total
At January 1, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱589,700,365**	**₱3,745,323**	**₱7,000,000,000**	**₱28,562,329,066**	**(₱101,474,705)**	**₱58,191,167,414**	**₱758,715,232**	**₱58,949,882,646**
Total comprehensive income	**–**	**–**	**282,958,497**	**(3,745,323)**	**–**	**9,055,995,525**	**–**	**9,335,208,699**	**326,226,342**	**9,661,435,041**
Cash dividends - ₱0.27 a share	**–**	**–**	**–**	**–**	**–**	**(3,752,714,615)**	**–**	**(3,752,714,615)**	**–**	**(3,752,714,615)**
Dividends of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(511,797,151)**	**(511,797,151)**
At December 31, 2011	**₱13,917,800,067**	**₱8,219,067,298**	**₱872,658,862**	**₱–**	**₱7,000,000,000**	**₱33,865,609,976**	**(₱101,474,705)**	**₱63,773,661,498**	**₱573,144,423**	**₱64,346,805,921**
At January 1, 2010	₱13,348,191,367	₱2,375,440,999	₱681,470,739	₱2,515,239	₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
Total comprehensive income	–	–	(91,770,374)	1,230,084	–	7,856,348,789	–	7,765,808,499	283,784,616	8,049,593,115
Additional issuance of shares	569,608,700	5,843,626,299	–	–	–		–	6,413,234,999	–	6,413,234,999
Cash dividends - ₱0.25 a share	–	–	–	–	–	(3,337,047,842)	–	(3,337,047,842)	–	(3,337,047,842)
Dividends of a subsidiary	–	–	–	–	–	–		–	(206,197,712)	(206,197,712)
At December 31, 2010	₱13,917,800,067	₱8,219,067,298	₱589,700,365	₱3,745,323	₱7,000,000,000	₱28,562,329,066	(₱101,474,705)	₱58,191,167,414	₱758,715,232	₱58,949,882,646
At January 1, 2009	₱13,348,191,367	₱5,493,656,403	₱821,103,222	₱48,346,550	₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556
Total comprehensive income	–	–	(139,632,483)	(45,831,311)	–	7,023,350,225	–	6,837,886,431	253,487,154	7,091,373,585
Acquisition of non-controlling interests	–	(3,073,952,352)	–	–	–	–	–	(3,073,952,352)	(310,260,212)	(3,384,212,564)
Cash dividends - ₱0.24 a share	–	–	–	–	–	(3,199,040,237)	–	(3,199,040,237)	–	(3,199,040,237)
Equity adjustment from business combination	–	(44,263,052)	–	–	–	–	–	(44,263,052)	–	(44,263,052)
Dividends of a subsidiary	–	–	–	–	–	–	–	–	(293,089,202)	(293,089,202)
At December 31, 2009	₱13,348,191,367	₱2,375,440,999	₱681,470,739	₱2,515,239	₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱12,220,390,736**	₱10,796,848,500	₱9,646,482,065
Adjustments for:			
Depreciation and amortization (Note 11)	**3,829,971,166**	3,501,183,977	3,270,784,779
Interest expense (Notes 14, 18 and 21)	**1,948,257,322**	1,746,215,754	1,416,807,840
Interest and dividend income (Notes 6, 7, 8, 12 and 18)	**(361,227,330)**	(251,102,302)	(423,658,528)
Mark-to-market loss (gain) on derivatives (Note 21)	**226,901,219**	(29,839,113)	(220,310,203)
Unrealized foreign exchange loss (gain) - net	**120,523,863**	(84,810,032)	(26,539,451)
Mark-to-market gain on investments held for trading (Note 8)	**(13,439,353)**	(14,231,667)	(5,564,136)
Operating income before working capital changes	**17,971,377,623**	15,664,265,117	13,658,002,366
Decrease (increase) in:			
Receivables	**(706,117,333)**	(515,862,483)	(382,977,478)
Prepaid expenses and other current assets	**(165,159,468)**	(295,988,909)	339,523,982
Increase in:			
Accounts payable and other current liabilities	**3,093,279,729**	870,437,601	698,656,743
Tenants' deposits	**981,080,452**	762,974,229	848,888,049
Cash generated from operations	**21,174,461,003**	16,485,825,555	15,162,093,662
Income taxes paid	**(2,711,823,417)**	(2,572,575,448)	(2,561,674,952)
Net cash provided by operating activities	**18,462,637,586**	13,913,250,107	12,600,418,710
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 11)	**(16,550,283,823)**	(11,221,050,968)	(10,788,585,167)
Other noncurrent assets	**854,989,275**	(1,299,686,629)	(521,055,620)
Investments held for trading	**(299,379,882)**	(99,638,981)	(248,996,193)
Available-for-sale investments	**100,000,000**	–	2,383,633,239
Short-term investments	–	–	475,200,000
Interest and dividend received	**348,964,295**	239,534,893	479,604,831
Acquisition of non-controlling interests (Notes 2 and 15)	–	–	(3,384,212,564)
Net cash used in investing activities	**(15,545,710,135)**	(12,380,841,685)	(11,604,411,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14 and 18)	**15,894,082,275**	14,224,724,000	17,364,465,000
Payments to unwinding of interest rate swaps	**(76,220,800)**	–	–
Proceeds from additional issuance of shares (Note 15)	–	6,413,234,999	–
Payments to maturity of cross currency swaps	–	–	(615,600,000)
Payments of:			
Loans (Notes 14 and 18)	**(14,142,267,058)**	(10,338,573,989)	(16,082,755,137)
Dividends	**(4,006,411,766)**	(3,543,245,554)	(3,492,129,439)
Interest	**(2,028,628,142)**	(2,355,255,672)	(2,482,588,750)
Net cash provided by (used in) financing activities	**(4,359,445,491)**	4,400,883,784	(5,308,608,326)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**13,015,795**	(40,644)	(212,529,024)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,429,502,245)**	5,933,251,562	(4,525,130,114)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,719,718,284**	3,786,466,722	8,311,596,836
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱8,290,216,039**	₱9,719,718,284	₱3,786,466,722

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

1. Corporate Information

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

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

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

The registered office and principal place of business of the Parent Company is Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 17, 2012.

2. Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

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

- PAS 24, *Related Party Disclosures (Amendment)*, became effective for annual periods beginning on or after January 1, 2011.

- PAS 32, *Financial Instruments: Presentation (Amendment) – Classification of Rights Issues*, became effective for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, became effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, became effective for annual periods beginning on or after July 1, 2010.

- 2010 Improvements to PFRS (Effective 2011).

The standards or interpretations that have been adopted are deemed to have no material impact on the consolidated financial statements of the Company.

<u>Future Changes in Accounting Policies</u>

Standards and Interpretations
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective. The Company will adopt these standards and interpretations on their effective dates.

- PAS 1, *Presentation of Financial Statements* - *Presentation of Items of Other Comprehensive Income (OCI)*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance.

- PAS 12, *Income Taxes (Amendment)* - *Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Company does not expect this amendment to have an impact on its consolidated financial statements.

- PAS 19, *Employee Benefits (Amendment)*, will become effective for annual periods beginning on or after January 1, 2013. The numerous amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company does not expect this amendment to have any significant impact on its financial position or performance.

- PAS 27, *Separate Financial Statements (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interest in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not expect this revised standard to have any significant impact on its financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12. PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Company does not expect this revised standard to have an impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation* - *Offsetting Financial Assets and Financial liabilities*, will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be applied retrospectively. The Company is currently assessing impact of the amendments to PAS 32.

- PFRS 7, *Financial Instruments: Disclosures* - *Enhanced Derecognition Disclosure Requirements*, will become effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures* - *Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2013. The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities;

  (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

  (c) The net amounts presented in the statement of financial position;

  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
ii. Amounts related to financial collateral (including cash collateral); and

(e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be applied retrospectively. The Company is still in the process of assessing the impact of these amendments to its consolidated financial statements.

- PFRS 9, *Financial Instruments: Classification and Measurement,* will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed. The completion of this project is expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. This standard replaces the portion of PAS 27, *Consolidated and Separate Financial Statements,* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC)-12 *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. This standard replaces PAS 31, *Interests in Joint Ventures,* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers,* and removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company does not expect this standard to have any impact on its consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* will become effective for annual periods beginning on or after January 1, 2013. This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Company expects that this new standard will have no significant effect on its financial position or performance.

- PFRS 13, *Fair Value Measurement,* will become effective for annual periods beginning on or after January 1, 2013. This standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact of this standard on its financial position and performance.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. This interpretation covers 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. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation will have no impact in the consolidated financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation will have no impact in the consolidated financial statements.

Basis of Consolidation

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

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

On September 3, 2009, SM Land China acquired Alpha Star Holdings Limited (Alpha Star) from Grand China International Limited (Grand China) for ₱778 million (¥112 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land China. Alpha Star is the holding company of the Zibo property in China. No restatement of prior period was made as a result of the acquisition of Alpha Star due to immateriality. The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets.

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

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

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

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

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

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

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

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

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

Judgments

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

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

Rent income amounted to ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

Rent expense amounted to ₱589 million, ₱504 million and ₱438 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 19).

Estimates and Assumptions

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

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

The carrying amount of receivables amounted to ₱4,940 million and ₱4,189 million as of December 31, 2011 and 2010, respectively (see Note 9).

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

The Company's AFS investments amounted to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively (see Note 12).

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

There is no change in the estimated useful lives of investment properties in 2011 and 2010.

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

The net book value of investment properties amounted to ₱107,836 million and ₱93,940 million as of December 31, 2011 and 2010, respectively (see Note 11).

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

Deferred tax assets amounted to ₱254 million and ₱223 million as of December 31, 2011 and 2010, respectively (see Note 16).

Pension Cost. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 21.

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 provisions were made in relation to these claims.

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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 as at fair value through profit or loss (FVPL), includes transaction costs.

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

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

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

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

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. 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. Instruments under this category are classified as current assets if these are hold primarily for the purpose of trading or expected to be realized/settled within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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

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

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

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

Classified as financial assets at FVPL are the Company’s investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱929 million and ₱1,238 million as of December 31, 2011 and 2010, respectively. Included under financial liabilities at FVPL are the Company’s derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱238 million and ₱710 million as of December 31, 2011 and 2010, respectively (see Note 21).

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 aggregate carrying values of financial assets under this category amounted to ₱14,107 million and ₱14,786 million as of December 31, 2011 and 2010, respectively (see Note 21).

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, 2011 and 2010.

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

Classified under this category are the Company's investments in corporate notes and redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively (see Note 21).

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

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

This category includes accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land 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 ₱61,412 million and ₱54,330 million as of December 31, 2011 and 2010, respectively (see Note 21).

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
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, non-deliverable forwards, foreign currency range options, interest rate swaps and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations (see Note 21). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company's derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges.

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid 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 instrument is not recognized at FVPL.

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

Impairment of Financial Assets

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

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

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

If, in a subsequent period, the amount of 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. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under “Others - net” account.

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

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

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

Offsetting Financial Instruments

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

Business Combinations

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

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

Acquisition of Non-controlling Interests

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

Investment Properties

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

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

Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

Capital Stock

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

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

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

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

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

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

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

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

Expenses
Operating and interest expenses are recognized as incurred.

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Segment Information

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

As of December 31, 2011, the Company owns forty-one (41) shopping malls in the Philippines and four shopping malls in China. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

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

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

Geographical Segment Data

	2011			
	Philippines	**China**	**Eliminations**	**Consolidated**
		(In Thousands)		
Revenue	**₱24,850,809**	**₱2,046,646**	**₱–**	**₱26,897,455**
Segment results:				
Income before income tax	**₱11,107,990**	**₱1,112,401**	**₱–**	**₱12,220,391**
Provision for income tax	**2,614,818**	**223,351**	**–**	**2,838,169**
Net income	**₱8,493,172**	**₱889,050**	**₱–**	**₱9,382,222**
Net income attributable to:				
Equity holders of the Parent	**₱8,166,945**	**₱889,050**	**₱–**	**₱9,055,995**
Non-controlling interests	**326,226**	**–**	**–**	**326,226**
Segment profit	**₱13,620,404**	**₱999,555**	**₱–**	**₱14,619,959**
Segment assets	**₱114,608,282**	**₱23,894,033**	**(₱9,945,935)**	**₱128,556,380**
Segment liabilities	**₱56,486,779**	**₱17,626,483**	**(₱9,903,688)**	**₱64,209,574**
Other information:				
Depreciation and amortization	**₱3,365,603**	**₱464,368**	**₱–**	**₱3,829,971**
Capital expenditures	**13,657,420**	**2,892,864**	**–**	**16,550,284**

	2010			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱22,303,583	₱1,412,349	₱–	₱23,715,932
Segment results:				
Income before income tax	₱10,269,711	₱527,137	₱–	₱10,796,848
Provision for income tax	2,558,041	98,674	–	2,656,715
Net income	₱7,711,670	₱428,463	₱–	₱8,140,133
Net income attributable to:				
Equity holders of the Parent	₱7,427,886	₱428,462	₱–	₱7,856,348
Non-controlling interests	283,785	–	–	283,785
Segment profit	₱11,859,018	₱585,532	₱–	₱12,444,550
Segment assets	₱105,804,899	₱20,898,769	(₱10,361,155)	₱116,342,513
Segment liabilities	₱51,908,311	₱15,803,227	(₱10,318,908)	₱57,392,630
Other information:				
Depreciation and amortization	₱3,088,745	₱412,439	₱–	₱3,501,184
Capital expenditures	8,540,941	2,680,110	–	11,221,051

	2009			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenue	₱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
Non-controlling interests	253,487	–	–	253,487
Segment profit	₱10,342,439	₱409,235	₱–	₱10,751,674
Segment assets	₱88,366,884	₱14,971,499	(₱5,478,303)	₱97,860,080
Segment liabilities	₱45,053,186	₱10,212,650	(₱5,436,056)	₱49,829,780
Other information:				
Depreciation and amortization	₱2,950,973	₱319,812	₱–	₱3,270,785
Capital expenditures	7,742,394	3,046,191	–	10,788,585

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks (see Note 18)	**₱2,029,711,118**	₱4,132,648,248
Temporary investments (see Note 18)	**6,260,504,921**	5,587,070,036
	₱8,290,216,039	₱9,719,718,284

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

Interest income earned from bank deposits and temporary investments amounted to ₱208 million, ₱127 million and ₱211 million for the years ended December 31, 2011, 2010 and 2009, respectively.

7. Short-term Investments

This account pertains to a time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱877 million (US$20 million) as of December 31, 2011 and 2010, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated anytime by the Company.

Interest income earned from short-term investments amounted to ₱28 million each in 2011 and 2010 and ₱6 million in 2009.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱813 million and ₱500 million as of December 31, 2011 and 2010, respectively, with yields ranging from 3.18% to 12.29%. These Philippine peso-denominated and U.S. dollar-denominated investments have various maturities ranging from 2012 to 2018.

Investments held for trading have mark-to-market gain amounting to ₱13 million, ₱14 million and ₱6 million in 2011, 2010 and 2009, respectively, the amounts of which are included under "Others - net" account in the consolidated statements of income. Cumulative unrealized mark-to-market gain amounted to ₱32 million and ₱19 million as of December 31, 2011 and 2010, respectively.

Interest income earned from investments held for trading amounted to ₱42 million, ₱13 million and ₱5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

9. Receivables

This account consists of:

	2011	2010
Rent:		
Third-party tenants	**₱2,434,700,115**	₱2,105,941,430
Related parties (see Note 18)	**1,587,324,781**	1,420,901,574
Advances to suppliers	**578,440,037**	370,314,070
Accrued interest (see Note 18)	**45,556,109**	33,293,073
Others	**294,081,144**	258,865,201
	₱4,940,102,186	₱4,189,315,348

Rent receivables generally have terms of 30-90 days.

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

The aging analysis of receivables follows:

	2011	2010
Neither past due nor impaired	**₱4,595,446,764**	₱3,944,764,764
Past due but not impaired:		
91-120 days	**44,538,728**	31,851,507
Over 120 days	**300,116,694**	212,699,077
	₱4,940,102,186	₱4,189,315,348

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2011	2010
Input taxes	**₱591,293,627**	₱398,885,734
Prepaid expenses	**366,033,201**	314,094,794
Advances to contractors (see Note 11)	**151,283,101**	215,722,567
Others	**167,842,531**	175,514,387
	₱1,276,452,460	₱1,104,217,482

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

11. Investment Properties

This account consists of:

2011	**Land and Land Use Rights**	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Shopping Mall Complex Under Construction**	**Total**
Cost					
Balance at beginning of year	**₱19,524,757,159**	**₱72,278,698,603**	**₱15,707,347,346**	**₱9,817,096,213**	**₱117,327,899,321**
Additions	**2,093,747,242**	**1,625,733,325**	**626,763,170**	**12,669,351,155**	**17,015,594,892**
Transfers	**631,214,391**	**5,942,660,350**	**552,191,221**	**(7,126,065,962)**	**–**
Translation adjustments	**153,159,366**	**387,953,221**	**64,393,926**	**186,433,162**	**791,939,675**
Balance at end of year	**22,402,878,158**	**80,235,045,499**	**16,950,695,663**	**15,546,814,568**	**135,135,433,888**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**401,895,611**	**15,111,732,471**	**7,873,969,685**	**–**	**23,387,597,767**
Depreciation and amortization	**27,969,238**	**2,547,427,337**	**1,254,574,591**	**–**	**3,829,971,166**
Translation adjustments	**7,730,680**	**59,572,031**	**14,346,117**	**–**	**81,648,828**
Balance at end of year	**437,595,529**	**17,718,731,839**	**9,142,890,393**	**–**	**27,299,217,761**
Net Book Value	**₱21,965,282,629**	**₱62,516,313,660**	**₱7,807,805,270**	**₱15,546,814,568**	**₱107,836,216,127**

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

Included under "Land" account are the 212,119 square meters and 223,474 square meters of real estate properties with a carrying value of ₱474 million and ₱475 million as of December 31, 2011 and 2010, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land Development Limited (Oriental Land) on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the Parent Company to Grand China and Oriental Land.

Accordingly, the assets were recorded at their carrying values under “Investment properties - net” account and a corresponding liability equivalent to the same amount, which is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱638 million and ₱623 million as of December 31, 2011 and 2010, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 14).

Rent income from investment properties amounted to ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱12,277 million, ₱11,271 million and ₱9,746 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The fair value of investment properties amounted to ₱218,071 million as of July 31, 2010 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. 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 as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	11.75%
Capitalization rate	8.00%
Average growth rate	6.00%

While fair value of the investment properties was not determined as of December 31, 2011, the Company’s management believes that there were no conditions present in 2011 that would significantly reduce the fair value of the investment properties from that determined in 2010.

The Company’s management believes that the carrying values of the newly opened malls after the date of the valuation approximate their fair values.

In 2011, shopping mall complex under construction mainly pertains to costs incurred for the development of SM San Fernando, SM Olongapo, SM Consolacion Cebu, SM General Santos, SM Lanang Davao, SM Taguig, SM Chongqing, SM Zibo and SM Tianjin.

In 2010, shopping mall complex under construction mainly pertains to costs incurred for the development of SM Taguig, SM Masinag, SM Suzhou, SM Chongqing and SM Tianjin.

Shopping mall complex under construction includes cost of land amounting to ₱1,575 million and ₱1,966 million as of December 31, 2011 and 2010, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱39,240 million and ₱27,509 million as of December 31, 2011 and 2010, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱10,268 million and ₱5,745 million as of December 31, 2011 and 2010, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱54 million and ₱600 million in 2011 and 2010, respectively. Capitalization rates used were 5.71% and 6.87% in 2011 and 2010, respectively.

12. Available-for-Sale Investments

As of December 31, 2011, this account consists of investments in corporate notes issued by BDO amounting to ₱1,000 million with fixed interest rate of 6.80% (see Note 18). Investments in corporate notes are intended to meet short-term cash requirements.

As of December 31, 2010, this account consists of investments in redeemable preferred shares issued by a local entity with annual dividend rate of 8.25% and investments in corporate notes issued by BDO amounting to ₱1,000 million with fixed interest rate of 6.80% (see Note 18). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The outstanding mandatorily redeemable preferred shares as of December 31, 2010 were redeemed in 2011at par value.

Interest income amounted to ₱68 million each in 2011, 2010 and 2009, and dividend income amounted to ₱15 million, ₱15 million and ₱133 million in 2011, 2010 and 2009, respectively.

The movements in net unrealized gain on AFS investments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**₱3,745,323**	₱2,515,239
Gain (loss) due to changes in fair value of AFS investments - net	**(3,745,323)**	1,230,084
Balance at end of year	**₱–**	₱3,745,323

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2011	2010
Trade	**₱4,914,654,211**	₱3,292,605,890
Accrued operating expenses:		
Third parties	**2,892,708,398**	1,845,539,522
Related parties (see Note 18)	**102,408,081**	93,139,679
Liability for purchased land	**1,304,436,777**	862,916,739
Accrued interest (see Notes 14 and 18)	**314,938,946**	338,463,012
Taxes payable	**203,919,456**	150,640,013
Others	**417,212,254**	213,542,467
	₱10,150,278,123	₱6,796,847,322

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

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

Liability for purchased land, accrued interest and taxes payable are expected to be settled throughout the financial year.

Others are normally settled throughout the financial year.

14. Long-term Debt

This account consists of:

	2011	2010
Parent Company		
U.S. dollar-denominated loans:		
Five-year term loans	**₱6,101,532,979**	₱–
Five-year, three-year and two-year bilateral loans	**1,084,929,299**	1,079,807,116
Three-year term loans	**–**	3,897,276,056
Three-year club loan	**–**	1,713,138,278
Other U.S. dollar loans	**3,030,778,585**	3,019,052,497
Philippine peso-denominated loans:		
Five-year, seven-year and ten-year corporate notes	**6,884,170,665**	5,000,000,000
Five-year floating rate notes	**4,962,413,247**	–
Five-year and ten-year corporate notes	**4,960,399,612**	4,958,173,719
Five-year, seven-year and ten-year fixed rate notes	**1,985,674,872**	2,969,868,110
Five-year floating rate notes	**–**	2,985,437,634
Other bank loans	**7,161,770,104**	9,734,160,361
Subsidiaries		
China yuan renminbi-denominated loans:		
Five-year loan	**2,177,495,800**	2,216,223,600
Three-year loan	**1,299,441,045**	–
Five-year loan	**422,323,230**	398,124,000
Eight-year loan	**277,388,000**	763,071,000
Philippine peso-denominated loans -		
Five-year bilateral loan	**544,291,291**	108,917,440
	40,892,608,729	38,843,249,811
Less current portion	**799,086,409**	766,703,000
	₱40,093,522,320	₱38,076,546,811

Parent Company

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

This represents a US$145 million unsecured loans out of a US$270 million facility obtained as of December 31, 2011. The loans bear interest rates based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 21, 2016. The balance of US$125 million was fully drawn on January 12, 2012 (see Notes 20 and 21).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million and the US$30 million unsecured loans on June 1, 2009 and November 30, 2010, with original maturity dates of November 19, 2010 and November 28, 2011, respectively. The related unamortized debt issuance costs charged to expense amounted to ₱4 million and ₱6 million in 2010 and 2009, respectively (see Notes 20 and 21). The remaining balance of US$25 million will mature on November 20, 2013.

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 LIBOR plus spread, with a bullet maturity on March 23, 2012. The loan was prepaid on May 16, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱32 million (see Notes 20 and 21).

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

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

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

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013. The loan was prepaid on January 13, 2012 (see Notes 20 and 21).

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

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Corporate Notes
This represents a five-year floating and five-year, seven-year and ten-year fixed rate notes amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively, out of ₱7,000 million facility obtained on December 20, 2010. The remaining ₱2,000 million floating rate note was obtained on June 13, 2011. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 5.79%, 5.89% and 6.65% for the five-year, seven-year and ten-year fixed, respectively. The loans have bullet maturities in 2015, 2017 and 2020, respectively (see Note 20).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents five-year floating rate notes obtained on March 18, 2011 and June 17, 2011 amounting to ₱4,000 million and ₱1,000 million, respectively. The loans bear an interest rate based on PDST-F plus margin and will mature on March 19, 2016 and June 18, 2016, respectively (see Note 20).

Philippine Peso-denominated Five-Year and Ten-Year Corporate Notes
This represents a five-year floating and fixed rate and ten-year fixed rate notes obtained on April 14, 2009 amounting to ₱200 million, ₱3,700 million and ₱1,100 million, respectively. The loans bear an interest rate based on PDST-F plus margin for the five-year floating and 8.4% and 10.1% for the five-year and ten-year fixed, respectively. The loans have bullet maturities in 2014 and 2019, respectively (see Note 20).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively. A portion of the loans amounting to ₱1,000 million was prepaid on June 17, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱4 million (see Notes 20 and 21).

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

Other Bank Loans
This account consists of the following:

- Five-year loan obtained on June 29, 2010 amounting to ₱1,000 million and will mature on June 29, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year inverse floating rate notes obtained on June 23, 2010 amounting to ₱1,000 million. The loans bear an interest rate based on agreed fixed rate less PDST-F and will mature on June 23, 2015 (see Notes 20 and 21).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year bullet loan obtained on November 3, 2009 amounting to ₱1,000 million and will mature on November 3, 2014. The loan carries interest based on PDST-F plus on agreed margin (see Note 20).

- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million. The loans bear an interest rate based on PDST-F plus an agreed margin and will mature on October 16, 2014 and October 16, 2012, respectively. The Company prepaid the ₱830 million loan on April 13, 2011. The related unamortized debt issuance costs charged to expense amounted to ₱2 million (see Note 20).

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin. The loan was prepaid on October 17, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Notes 20 and 21).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%. The loan was prepaid on March 3, 2011, the related balance of unamortized debt issuance cost charged to expense amounted to ₱3 million in 2011 (see Note 20).

- 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 20).

Subsidiaries

<u>China Yuan Renminbi-denominated Five-Year Loan</u>
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.210% in 2011 and 5.184% 2010 (see Note 20).

<u>China Yuan Renminbi-denominated Three-Year Loan</u>
This represents a three-year loan obtained on March 28, 2011 amounting to ¥250 million to finance the construction of shopping malls. Partial drawdown amounting to ¥187 million was made as of December 31, 2011. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 5% and will mature on March 27, 2014. The loan bears an interest rate of 6.655% in 2011 (see Note 20).

<u>China Yuan Renminbi-denominated Five-Year Loan</u>
This represents a five-year loan obtained on August 27, 2010 amounting to ¥150 million to finance the construction of shopping malls. Partial drawdown amounting to ¥60 million and ¥0.90 million was made in 2010 and 2011, respectively. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 6.201% in 2011 and 5.598% in 2010 (see Note 20).

<u>China Yuan Renminbi-denominated Eight-Year Loan</u>
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 6.345% in 2011 and 5.346% 2010 (see Note 20).

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 11).

Philippine Peso-denominated Five-Year Bilateral Loans
This account consists of the following:

- Five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱16 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

- Five-year term loan obtained on October 24, 2011 amounting to ₱500 million and will mature on October 24, 2016. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 20).

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

Debt Issuance Costs
The movements in unamortized debt issuance costs in 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**₱263,713,789**	₱255,565,332
Additions	**393,909,193**	128,934,570
Amortization	**(199,778,636)**	(120,786,113)
Balance at end of year	**₱457,844,346**	₱263,713,789

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

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

Year	Amount
2012	₱799,086,409
2013	2,646,912,817
2014	9,609,270,619
2015	12,715,683,230
2016	12,865,460,000
2017 to 2021	2,714,040,000
	₱41,350,453,075

15. **Stockholders' Equity**

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

The following summarizes the information on the Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50

The Company declared stock dividends in 2007, 1996 and 1995. The total number of shareholders is 2,567 and 2,627 as of December 31, 2011 and 2010, respectively.

Additional Paid-in Capital

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

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

International Placement of Shares

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

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

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

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

Unrealized Gain on Available-for-Sale Investments and Cumulative Translation Adjustment
The tax effects relating to each component of other comprehensive income are as follows:

	2011			2010		
	Before Tax Amount	**Tax Benefit**	**Net-of-tax Amount**	Before Tax Amount	Tax Expense	Net-of-tax Amount
Unrealized gain (loss) on AFS investments	**(₱4,161,471)**	**₱416,148**	**(₱3,745,323)**	₱1,366,760	(₱136,676)	₱1,230,084
Cumulative translation adjustment	**282,958,497**	**–**	**282,958,497**	(91,770,374)	–	(91,770,374)
	₱278,797,026	**₱416,148**	**₱279,213,174**	(₱90,403,614)	(₱136,676)	(₱90,540,290)

Retained Earnings
The retained earnings account is restricted for the payment of dividends to the extent of ₱5,214 million and ₱4,729 million as of December 31, 2011 and 2010, respectively, representing the cost of shares held in treasury (₱101 million in 2011 and 2010) and accumulated equity in net earnings of the subsidiaries totaling ₱5,113 million and ₱4,628 million as of December 31, 2011 and 2010, respectively. The accumulated equity in net earnings of the subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

16. Income Tax

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

	2011	2010
Deferred tax assets -		
Unrealized foreign exchange losses and others	**₱254,132,999**	₱223,266,010
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,258,514,789**	₱1,322,799,401

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 years ended December 31, 2011, 2010 and 2009, the Company opted to use OSD in computing their taxable income.

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

	2011	2010	2009
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(0.9)**	(0.7)	(1.3)
Change in enacted tax rates and others	**(5.9)**	(4.7)	(4.1)
Effective tax rates	**23.2%**	24.6%	24.6%

17. **Pension Cost**

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

Net Pension Cost

	2011	2010	2009
Current service cost	**₱4,987,201**	₱2,904,989	₱1,633,774
Interest cost on benefit obligation	**4,290,823**	3,690,383	1,864,154
Expected return on plan assets	**(3,606,172)**	(2,282,117)	(1,295,123)
Net actuarial loss recognized	**398,518**	5,811,580	77,448
Effect on asset limit	**–**	1,950	–
Net pension cost	**₱6,070,370**	₱10,126,785	₱2,280,253
Actual return on plan assets	**₱4,908,807**	₱8,559,473	₱3,131,449

Net Pension Asset

	2011	2010
Defined benefit obligation	**₱83,590,852**	₱54,108,736
Fair value of plan assets	**(70,979,267)**	(54,135,272)
Unfunded obligation (excess plan assets)	**12,611,585**	(26,536)
Unrecognized net actuarial losses	**(35,473,482)**	(16,970,543)
Net pension asset	**(₱22,861,897)**	(₱16,997,079)

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

	2011	2010	2009
Balance at beginning of year	**₱54,108,736**	₱32,745,187	₱18,098,581
Current service cost	**4,987,201**	2,904,989	1,633,774
Interest cost on benefit obligation	**4,290,823**	3,690,383	1,864,154
Transfer to the plan	**–**	3,043,452	1,547,751
Benefits paid	**–**	(72,195)	–
Actuarial losses on obligation	**20,204,092**	11,796,920	9,600,927
Balance at end of year	**₱83,590,852**	₱54,108,736	₱32,745,187

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

	2011	2010	2009
Balance at beginning of year	**₱54,135,272**	₱30,494,754	₱15,807,447
Expected return on plan assets	**3,606,172**	2,282,117	1,295,123
Transfer to the plan	**–**	3,043,452	1,547,751
Benefits paid	**–**	(72,195)	–
Contributions	**11,935,188**	12,109,788	10,008,107
Actuarial gains	**1,302,635**	6,277,356	1,836,326
Balance at end of year	**₱70,979,267**	₱54,135,272	₱30,494,754

The Company expects to contribute ₱12 million to its defined benefit pension plan in 2012.

The plan assets are composed mainly of cash and cash equivalents (40%), investments in government securities (53%) and other similar debt instruments (7%).

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

	2011	2010	2009
Discount rate	**7.1%**	7.9%	11.3%
Expected rate of return on plan assets	**6.0%**	6.0%	6.0%
Future salary increases	**10.0%**	11.0%	11.0%

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.

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

	2011	2010	2009	2008	2007
Defined benefit obligation	**₱83,590,852**	₱54,108,736	₱32,745,187	₱18,098,581	₱24,632,241
Plan assets	**70,979,267**	54,135,272	30,494,754	15,807,447	7,706,515
Deficit (excess plan assets)	**12,611,585**	(26,536)	2,250,433	2,291,134	16,925,726
Experience adjustments on plan liabilities	**18,221,688**	(5,496,062)	9,761,099	(1,426,249)	1,895,714
Experience adjustment on plan assets	**1,302,635**	6,277,356	1,836,326	(1,197,299)	56,146

18. Related Party Transactions

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2011 and 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individuals or corporate entities.

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

a. The Company has existing lease agreements with its affiliates, the SM Retail Group and SM Banking Group. Total rent income amounted to ₱7,280 million, ₱6,664 million and ₱5,996 million in 2011, 2010 and 2009, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,587 million and ₱1,421 million as of December 31, 2011 and 2010, respectively.

b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Costs and expenses" account in the consolidated statements of income, amounted to ₱226 million, ₱205 million and ₱179 million in 2011, 2010 and 2009, respectively. Rent payable to SMIC and SM Land included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱18 million and ₱35 million as of December 31, 2011 and 2010, respectively.

c. The Company pays management fees to its affiliates, Shopping Center Management Corporation, Leisure Center, Inc. and West Avenue Theaters Corporation for managing the operations of the malls. Total management fees, included under “Costs and expenses” account in the consolidated statements of income, amounted to ₱795 million, ₱647 million and ₱596 million in 2011, 2010 and 2009, respectively. Accrued management fees, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱84 million and ₱58 million as of December 31, 2011 and 2010, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group and SMIC. Cash and cash equivalents, short-term investments and investments held for trading amounted to ₱5,584 million and ₱7,125 million as of December 31, 2011 and 2010, respectively. Interest income amounted to ₱241 million, ₱155 million and ₱203 million in 2011, 2010 and 2009, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱35 million and ₱17 million as of December 31, 2011 and 2010, respectively.

e. As of December 31, 2011 and 2010, the outstanding long-term debt from the SM Banking Group and SMIC amounted to ₱698 million and ₱1,529 million, respectively. Advances from SMIC, included under “Other noncurrent liabilities” account in the consolidated balance sheets, amounting to ₱2,000 million was prepaid in November 2010. Interest expense amounted to ₱65 million, ₱249 million and ₱141 million in 2011, 2010 and 2009, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱12 million and ₱23 million as of December 31, 2011 and 2010, respectively.

f. AFS investments include investments in corporate notes issued by BDO amounting to ₱1,000 million as of December 31, 2011 and 2010. Interest income amounted to ₱68 million each in 2011 and 2010 and ₱192 million in 2009. Interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱6 million as of December 31, 2011 and 2010.

g. 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 158,727 square meters, 19,952 square meters and 33,440 square meters, respectively, as of December 31, 2011, and 170,082 square meters, 19,952 square meters and 33,440 square meters, respectively, as of December 31, 2010. 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 ₱32 million, ₱28 million and ₱23 million in 2011, 2010 and 2009, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

19. **Lease Agreements**

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

Rent income amounted to ₱22,759 million, ₱19,993 million and ₱17,659 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

The minimum lease payables under the noncancellable operating leases as of December 31 are as follows:

	2011	2010
Within one year	**₱528,633,843**	₱373,895,101
After one year but not more than five years	**2,261,559,579**	1,737,602,922
After five years	**12,562,692,996**	7,814,374,137
	₱15,352,886,418	₱9,925,872,160

Rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱589 million, ₱504 million and ₱438 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

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

The Company also enters into derivative transactions, principally interest rate swaps, cross currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance (see Note 21).

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

Interest Rate Risk

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

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2011 and 2010, after taking into account the effect of interest rate swaps, approximately 50% and 53% respectively, of the Company's long-term borrowings are at a fixed rate of interest (see Note 21).

Interest Rate Risk Table

The Company's long-term debt, presented by maturity profile, are as follows:

									2011
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Unamortized Debt Issuance Costs	Carrying Value
Fixed Rate									
Philippine peso-denominated corporate notes	**₱25,550,000**	**₱25,550,000**	**₱3,697,800,000**	**₱1,097,300,000**	**₱8,660,000**	**₱1,914,040,000**	**₱6,768,900,000**	**(₱39,878,468)**	**₱6,729,021,532**
Interest rate	**5.79%–8.40%**	**5.79%–8.40%**	**5.79%–8.40%**	**5.79%–6.65%**	**5.89%–6.65%**	**5.89%–10.11%**			
Philippine peso-denominated fixed rate notes	**₱990,000**	**₱990,000**	**₱990,000**	**₱1,194,060,000**	**₱–**	**₱800,000,000**	**1,997,030,000**	**(11,355,128)**	**1,985,674,872**
Interest rate	**9.60%**	**9.60%**	**9.60%**	**9.60%**		**9.85%**			
Other bank loans	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,200,000,000**	**₱–**	**1,200,000,000**	**(6,327,316)**	**1,193,672,684**
Interest rate					**9.75%**				
Floating Rate									
U.S. dollar-denominated five-year term loans	**$–**	**$–**	**$–**	**$–**	**$145,000,000**	**$–**	**6,356,800,000**	**(255,267,021)**	**6,101,532,979**
Interest rate					**LIBOR+spread**				
U.S. dollar-denominated bilateral loans	**$–**	**$25,000,000**	**$–**	**$–**	**$–**	**$–**	**1,096,000,000**	**(11,070,701)**	**1,084,929,299**
Interest rate		**LIBOR+spread**							
Other U.S. dollar loans	**$–**	**$20,000,000**	**$–**	**$50,000,000**	**$–**	**$–**	**3,068,800,000**	**(38,021,415)**	**3,030,778,585**
Interest rate		**LIBOR+spread**		**LIBOR+spread**					
Philippine peso-denominated corporate notes	**₱50,300,000**	**₱50,300,000**	**₱248,800,000**	**₱4,800,000,000**	**₱–**	**₱–**	**5,149,400,000**	**(33,851,255)**	**5,115,548,745**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**					
Philippine peso-denominated five-year floating rate notes	**₱50,000,000**	**₱50,000,000**	**₱50,000,000**	**₱50,000,000**	**₱4,800,000,000**	**₱–**	**5,000,000,000**	**(37,586,753)**	**4,962,413,247**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**				
Philippine peso-denominated five-year bilateral loans	**₱46,875,000**	**₱–**	**₱–**	**₱–**	**₱500,000,000**	**₱–**	**546,875,000**	**(2,583,709)**	**544,291,291**
Interest rate	**PDST-F+margin%**				**PDST-F+margin%**				
Other bank loans	**₱10,000,000**	**₱10,000,000**	**₱3,010,000,000**	**₱2,960,000,000**	**₱–**	**₱–**	**5,990,000,000**	**(21,902,580)**	**5,968,097,420**
Interest rate	**PDST-F+margin%**	**PHIREF+margin%**	**PDST-F+margin%**	**PDST-F+margin%**					
China yuan renminbi-denominated loans	**¥88,738,000**	**¥77,476,000**	**¥375,168,446**	**¥60,900,000**	**¥–**	**¥–**	**4,176,648,075**	**–**	**4,176,648,075**
Interest rate	**6.20%–6.65%**	**6.20%–6.65%**	**6.20%–6.65%**	**6.20%–6.65%**					
							₱41,350,453,075	**(₱457,844,346)**	**₱40,892,608,729**

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

Interest Rate Risk Sensitivity Analysis

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
2011	**100**	**(₱47,083,030)**
	50	**(23,541,515)**
	(100)	**47,083,030**
	(50)	**23,541,515**
2010	100	(₱60,891,132)
	50	(30,445,566)
	(100)	60,891,132
	(50)	30,445,566

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. 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.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To manage its foreign currency risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows (see Note 21).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱10,350 million (US$236 million) and ₱10,808 million (US$246 million), respectively, as of December 31, 2011, and ₱9,653 million (US$220 million) and ₱10,090 million (US$230 million), respectively, as of December 31, 2010.

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

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.

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2011	**₱1.50**	**₱3,910,844**
	1.00	**2,607,229**
	(1.50)	**(3,910,844)**
	(1.00)	**(2,607,229)**

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2010	₱1.50	₱3,738,035
	1.00	2,492,024
	(1.50)	(3,738,035)
	(1.00)	(2,492,024)

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 21.

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 determined by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to financial assets with counterparties who are 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, 2011 and 2010, the credit quality of the Company's financial assets is as follows:

	2011			
	Neither Past Due nor Impaired		**Past Due but not Impaired**	
	High Quality	**Standard Quality**		**Total**
Loans and Receivables				
Cash and cash equivalents*	**₱8,252,825,018**	**₱–**	**₱–**	**₱8,252,825,018**
Short-term investments	**876,800,000**	**–**	**–**	**876,800,000**
Receivables from:				
Rent	**–**	**3,677,369,474**	**344,655,422**	**4,022,024,896**
Accrued interest	**45,556,109**	**–**	**–**	**45,556,109**
Advances to suppliers and others	**–**	**872,521,181**	**–**	**872,521,181**
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	**812,953,412**	**–**	**–**	**812,953,412**
Derivative assets	**115,618,680**	**–**	**–**	**115,618,680**
AFS Investments				
Debt securities	**1,000,000,000**	**–**	**–**	**1,000,000,000**
	₱11,103,753,219	**₱4,549,890,655**	**₱344,655,422**	**₱15,998,299,296**

**Excluding cash on hand amounting to ₱37 million.*

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

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

Liquidity Risk

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

The Company's financial assets, which have maturity of less than 12 months and used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to ₱8,290 million, ₱877 million and ₱813 million, respectively, as of December 31, 2011, and ₱9,720 million, ₱877 million and ₱500 million, respectively, as of December 31, 2010. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,000 million and ₱1,104 million as of December 31, 2011 and 2010, respectively.

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

	2011			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities*	**₱9,946,358,667**	**₱–**	**₱–**	**₱9,946,358,667**
Long-term debt (including current portion)	**2,619,975,153**	**43,266,421,430**	**3,277,656,190**	**49,164,052,773**
Derivative liabilities - interest rate swaps	**415,077,453**	**58,758,533**	**–**	**473,835,986**
Tenants' deposits	**–**	**7,467,302,387**	**–**	**7,467,302,387**
Liability for purchased land	**–**	**1,551,018,812**	**–**	**1,551,018,812**
Other noncurrent liabilities*	**–**	**1,554,479,555**	**–**	**1,554,479,555**
	₱12,981,411,273	**₱53,897,980,717**	**₱3,277,656,190**	**₱70,157,048,180**

** Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱204 million and ₱474 million, respectively.*

	2010			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	₱6,646,207,309	₱–	₱–	₱6,646,207,309
Long-term debt (including current portion)	2,691,093,533	39,907,704,664	4,833,260,283	47,432,058,480
Derivative liabilities:				
Interest rate swaps	113,820,244	51,097,163	–	164,917,407
Forward currency contracts	97,132,488	–	–	97,132,488
Tenants' deposits	–	6,465,889,827	–	6,465,889,827
Liability for purchased land	–	1,618,695,982	–	1,618,695,982
Other noncurrent liabilities*	–	756,379,096	–	756,379,096
	₱9,548,253,574	₱48,799,766,732	₱4,833,260,283	₱63,181,280,589

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

Capital Management

Capital includes equity attributable to equity holders of the parent.

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

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

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

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

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

	2011	2010
Current portion of long-term debt	**₱799,086,409**	₱766,703,000
Long-term debt - net of current portion	**40,093,522,320**	38,076,546,811
Total interest-bearing debt (a)	**40,892,608,729**	38,843,249,811
Total equity attributable to equity holders of the Parent	**63,773,661,498**	58,191,167,414
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱104,666,270,227**	₱97,034,417,225
Gearing ratio (a/b)	**39%**	40%

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

	2011	2010
Current portion of long-term debt	**₱799,086,409**	₱766,703,000
Long-term debt - net of current portion	**40,093,522,320**	38,076,546,811
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(10,979,969,451)**	(12,200,813,932)
Total net interest-bearing debt (a)	**29,912,639,278**	26,642,435,879
Total equity attributable to equity holders of the Parent	**63,773,661,498**	58,191,167,414
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱93,686,300,776**	₱84,833,603,293
Gearing ratio (a/b)	**32%**	31%

21. **Financial Instruments**

Fair Values

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

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱8,290,216,039**	**₱8,290,216,039**	₱9,719,718,284	₱9,719,718,284
Short-term investments	**876,800,000**	**876,800,000**	876,800,000	876,800,000
Receivables from:				
Rent	**4,022,024,896**	**4,022,024,896**	3,526,843,004	3,526,843,004
Accrued interest	**45,556,109**	**45,556,109**	33,293,073	33,293,073
Advances to suppliers and others	**872,521,181**	**872,521,181**	629,179,271	629,179,271
	14,107,118,225	**14,107,118,225**	14,785,833,632	14,785,833,632
Financial assets at FVPL:				
Investments held for trading - corporate and government bonds	**812,953,412**	**812,953,412**	500,134,177	500,134,177
Derivative assets	**115,618,680**	**115,618,680**	738,228,976	738,228,976
	928,572,092	**928,572,092**	1,238,363,153	1,238,363,153
AFS investments -				
Debt securities	**1,000,000,000**	**1,000,000,000**	1,104,161,471	1,104,161,471
	₱16,035,690,317	**₱16,035,690,317**	₱17,128,358,256	₱17,128,358,256

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱237,979,926**	**₱237,979,926**	₱709,909,803	₱709,909,803
Other financial liabilities:				
Accounts payable and other current liabilities*	**9,946,358,667**	**9,946,358,667**	6,646,207,309	6,646,207,309
Long-term debt (including current portion)	**40,892,608,729**	**42,561,503,623**	38,843,249,811	40,451,280,851
Tenants' deposits	**7,467,302,387**	**7,285,378,046**	6,465,889,827	6,195,895,322
Liability for purchased land	**1,551,018,812**	**1,520,654,214**	1,618,695,982	1,554,002,638
Other noncurrent liabilities*	**1,554,479,555**	**1,524,047,205**	756,379,096	726,149,396
	61,411,768,150	**62,837,941,755**	54,330,422,025	55,573,535,516
	₱61,649,748,076	**₱63,075,921,681**	₱55,040,331,828	₱56,283,445,319

* *Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱204 million and ₱474 million, respectively, as of December 31, 2011, and ₱151 million and ₱475 million, respectively, as of December 31, 2010.*

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 amounts approximate fair values due to the short-term nature of the instruments.

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

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

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at balance sheet date. For investments where there is no active market, the fair value is based on the present value of future cash flows discounted at prevailing interest rates. Discount rate used was 6.21% as of December 31, 2011. Discount rates used range from 3.31% to 4.33% as of December 31, 2010.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

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 2.67% to 6.36% as of December 31, 2011, and 2.30% to 7.12% as of December 31, 2010.
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 rates used range from 1.98% to 6.32% as of December 31, 2011, and 1.94% to 3.55% as of December 31, 2010.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The 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 2.97% to 3.67% as of December 31, 2011, and 3.40% to 4.41% as of December 31, 2010.

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, 2011 and 2010 based on Levels 1 and 2:

	2011		2010	
	Level 1	**Level 2**	Level 1	Level 2
Financial Assets				
Financial assets at FVPL:				
Investments held for trading - corporate and government bonds	**₱812,953,412**	**₱–**	₱500,134,177	₱–
Derivative assets	**–**	**115,618,680**	–	738,228,976
	812,953,412	**115,618,680**	500,134,177	738,228,976
AFS investments:				
Corporate notes - quoted	**–**	**1,000,000,000**	–	1,000,000,000
Redeemable preferred shares - unquoted	**–**	**–**	–	104,161,471
	₱1,812,953,412	**₱115,618,680**	₱1,500,134,177	₱842,390,447
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱–**	**₱237,979,926**	₱–	₱709,909,803

During the years ended December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial instruments classified under Level 3.

Derivative Financial Instruments

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

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

	2011		
	<1 Year	**>1-<2 Years**	**>2-<5 Years**
Floating-Fixed			
Outstanding notional amount	**$145,000,000**	**$145,000,000**	**$145,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**2.91%–3.28%**	**2.91%–3.28%**	**2.91%–3.28%**
Outstanding notional amount	**$50,000,000**	**$50,000,000**	**$50,000,000**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**
Pay-fixed rate	**3.18%–3.53%**	**3.18%–3.53%**	**3.18%–3.53%**
Outstanding notional amount	**$25,000,000**	**$25,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**4.10%**	**4.10%**	
Outstanding notional amount	**$20,000,000**	**$20,000,000**	**$–**
Receive-floating rate	**6 months LIBOR+margin%**	**6 months LIBOR+margin%**	
Pay-fixed rate	**3.41%**	**3.41%**	
Fixed-Floating			
Outstanding notional amount	**₱980,000,000**	**₱970,000,000**	**₱960,000,000**
Receive-fixed rate	**5.44%**	**5.44%**	**5.44%**
Pay-floating rate	**3MPDST-F**	**3MPDST-F**	**3MPDST-F**
Outstanding notional amount	**₱980,000,000**	**₱970,000,000**	**₱960,000,000**
Receive-fixed rate	**7.36%**	**7.36%**	**7.36%**
Pay-floating rate	**3MPDST-F+margin%**	**3MPDST-F+margin%**	**3MPDST-F+margin%**

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

	2010		
	<1 Year	>1-<2 Years	>2-<5 Years
Fixed-Floating			
Outstanding notional amount	₱1,000,000,000	₱980,000,000	₱970,000,000
Receive-fixed rate	5.44%	5.44%	5.44%
Pay-floating rate	3MPDST-F	3MPDST-F	3MPDST-F
Outstanding notional amount	₱1,000,000,000	₱980,000,000	₱970,000,000
Receive-fixed rate	7.36%	7.36%	7.36%
Pay-floating rate	3MPDST-F+margin%	3MPDST-F+margin%	3MPDST-F+margin%
Outstanding notional amount	₱985,000,000	₱980,000,000	₱975,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST- F+margin%	3MPDST- F+margin%	3MPDST- F+margin%

Interest Rate Swaps. In 2011, the Parent Company entered into US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, the Parent Company effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 14). As of December 31, 2011, the floating to fixed interest rate swaps have aggregate negative fair value of ₱142 million.

The Parent Company also entered into US$ interest rate swap agreement with notional amount of US$20 million in 2011. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2014 (see Note 14). As of December 31, 2011, the floating to fixed interest rate swaps has negative fair value of ₱15 million.

In 2010, the Parent Company entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 14). As of December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱38 million and positive fair value of ₱20 million, respectively.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each, with amortization of ₱10 million every anniversary. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 14). As of December 31, 2011 and 2010, these swaps have positive fair values of ₱116 million and ₱87 million, respectively.

- A US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 14). As of December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱6 million. On May 9, 2011 and July 28, 2011, the interest rate swap agreement was preterminated as a result of the prepayment of the underlying loan. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱4 million loss in 2011.

- A US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 14). As of December 31, 2011 and 2010, the floating to fixed interest rate swap has a negative fair value of ₱3 million and ₱2 million, respectively.

In 2009, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$145 million. Under these agreements, the Parent Company effectively converts the floating rate US$30 million two-year bilateral loan, US$90 million three-year term loan and US$25 million five-year bilateral loan into fixed rate loans with semi-annual payment intervals up to November 2011, May 2012 and November 2013, respectively (see Note 14). The Parent Company preterminated the US$30 million swap on November 30, 2010 and the US$90 million swap on May 16, 2011. Fair value changes from the preterminated swaps recognized in the consolidated statements of comprehensive income amounted to ₱9 million loss in 2011 and ₱6 million gain in 2010. As of December 31, 2011 and 2010, the outstanding floating to fixed interest rate swaps has negative fair values of ₱40 million and ₱130 million, respectively.

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

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

Cross Currency Swaps. In 2004, the Parent Company entered into floating to fix cross currency swap agreements with an aggregate notional amount of US$70 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, the Parent Company effectively swaps the principal amount and floating interest of the U.S. dollar-denominated five-year syndicated loan into fixed interest paying Philippine peso-denominated bullet term loan with semi-annual interest payments up to October 2009 (see Note 14). Fair value changes from these cross currency swaps recognized in the consolidated statements of income amounted to ₱185 million gain in 2009.

Foreign Currency Options. In 2010, the Parent Company simultaneously entered into two plain vanilla long call currency options and two plain vanilla short put currency options with notional amounts of US$5 million each. The Parent Company combines the long call option and the short put option such that the net effect of the two options will be similar to that of a foreign currency range option. If the spot rate is above the strike rate of the long call option, the Parent Company, on a net-settlement basis, will buy U.S. dollar (US$) and sell Philippine peso (₱) at the strike rate of the long call option based on the notional amount. On the other hand, if the spot rate is below the lower strike rate of the short put option, the Parent Company, on a net-settlement basis, will buy US$ and sell ₱ at the strike rate of the short put option based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between parties as both options would be unfavorable. The average strike rates of the long call and short put currency options are ₱47.41 to US$1.00 and ₱47.36 to US$1.00, respectively. As of December 31, 2010, there are no outstanding currency options as these matured during the year. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱0.8 million gain in 2010.

In 2009, the Parent Company entered into a series of non-deliverable foreign currency range options to buy US$ and sell ₱ with a counterparty at an aggregate notional amount of US$38 million. Under the option contracts, at each expiry date, the Parent Company compares the spot rate with the upper and lower strike rates stated in the agreements. If the spot rate is at or above the upper strike rate, the Parent Company, on a net-settlement basis, will buy US$ and sell ₱ at the upper strike rate based on the notional amount. On the other hand, if the spot rate is at or below lower strike rate, the Parent Company, on a net-settlement basis, will buy US$ and sell ₱ at the lower strike rate based on the notional amount. However, should the spot rate fall within the range of the two strike rates, there will be no settlement between the parties. As of December 31, 2009, there are no outstanding foreign currency range options as it matured on various dates during the year. The average upper and lower strike rates are ₱49.07 to US$1.00 and ₱49.02 to US$1.00, respectively. Net fair value changes from these option contracts recognized in the consolidated statements of income amounted to ₱6 million gain in 2009.

Non-deliverable Forwards. In 2011, 2010 and 2009, the Parent Company entered into sell ₱ and buy US$ forward contracts. Simultaneously, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱480 million gain in 2011, ₱165 million gain in 2010 and ₱23 million gain in 2009. The Parent Company recognized derivative asset and derivative liability amounting to ₱541 million and ₱288 million as of December 31, 2010 and 2009, respectively.

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

	2011	2010
Balance at beginning of year	**₱28,319,173**	(₱31,593,331)
Net changes in fair value during the year	**236,485,791**	161,117,267
Less fair value of settled derivatives	**(387,166,210)**	(101,204,763)
Balance at end of year	**(₱122,361,246)**	₱28,319,173

In 2011, the net changes in fair value amounting to ₱236 million comprise of interest paid amounting to ₱22 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱258 million, which is included under "Others-net" account in the consolidated statements of income.

In 2010, the net changes in fair value amounting to ₱161 million comprise of interest paid amounting to ₱71 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱232 million, which is included under "Others-net" account in the consolidated statements of income.

In 2009, the net changes in fair value amounting to ₱129 million comprise of net interest paid on the swaps amounting to ₱319 million, which is included under "Interest expense" account in the consolidated statements of income and net mark-to-market gain on derivatives amounting to ₱190 million, which is included under "Others-net" account in the consolidated statements of income.

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

	2011	2010
Derivative assets	**₱115,618,680**	₱738,228,976
Derivative liabilities	**(237,979,926)**	(709,909,803)
	(₱122,361,246)	₱28,319,173

22. **Basic/Diluted EPS Computation**

Basic/diluted EPS is computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent (a)	**₱9,055,995,525**	₱7,856,348,789	₱7,023,350,225
Common shares issued at beginning of year	**13,917,800,067**	13,348,191,367	13,348,191,367
Weighted average number of shares issued in equity placement (see Note 15)	**–**	118,668,479	–
Common shares issued at end of year	**13,917,800,067**	13,466,859,846	13,348,191,367
Less treasury stock	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**13,898,943,067**	13,448,002,846	13,329,334,367
Earnings per share (a/b)	**₱0.652**	**₱0.584**	₱0.527

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 5, 2012.

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

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Jeffrey C. Lim
Executive Vice President