COVER SHEET

AS094-000088

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Building A, SM Corporate Offices, 1000 JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300

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

Mr. Jeffrey C. Lim

(Contact Person)

831-1000

(Company Telephone Number)

12	31		17-A		04	19
Month	*Day*		(Form Type)		*Month*	*Day*
(Fiscal Year)					(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SRC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE

1. For the calendar year ended **DECEMBER 31, 2010**

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

3. BIR Tax Identification No. **003-058-789**

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

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

6. (SEC Use Only)
   Industry Classification Code:

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

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

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

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

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

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

12. Check whether the registrant:
    (a) has filed all reports required to be filed by Section 17 of the Securities Regulations Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

    Yes [**X**] No [ ]

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

13. Aggregate market value of the voting stock held by non-affiliates: ₱48,163,853,982

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

Business Development and Principal Products or Services

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 forty SM Supermalls in the country and three 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	-na-
Springfield Global Enterprises Limited (Springfield)	September 6, 2007, British Virgin Islands	100.00	-na-

All the malls are under SMPHI except for the eight 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.

The Company is not under bankruptcy, receivership or any similar proceedings.

There was no material reclassification, merger, consolidation or extraordinary purchase or sale of a significant amount of asset during the period.

As discussed in Note 5 of the 2010 consolidated financial statements, on November 13, 2007, the board of directors of SM Prime approved the acquisition of 100% of the outstanding common shares of Affluent and Mega Make, limited liability companies incorporated under the laws of the British Virgin Islands, which are the holding companies of the three SM Malls in China located in the cities of Xiamen, Jinjiang and Chengdu.

Last February 18, 2008, the Parent Company executed the subscription agreements with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) for the exchange of Affluent and Mega Make shares of stock valued at ₱10,827 million equivalent to 913 million shares of the Parent Company's common stock. The relevant documents were submitted to the SEC last February 29, 2008.

The transaction was approved by the SEC and the PSE on May 20, 2008. On June 18, 2008, SM Prime new common shares totaling 372,492,882 and 540,404,330 which were issued to Oriental Land and Grand China, respectively, were listed in the PSE.

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

On September 3, 2009, SM Land (China) further completed the acquisition of Alpha Star from Grand China for ₱778 million (¥112 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land (China).

Major Risk Areas

The major risk areas of the Company are its marketing and leasing processes, revenue and collections processes, mall administration processes and information technology processing. Marketing and leasing processes pertain to establishing an appropriate mix of tenants which will contribute most to profitability and maintain competitive advantage. Revenue and collections processes pertain to the risk of incomplete or inaccurate capture of revenues and other charges billable to tenants and the related processing of billing statements and collections. Mall administration processes pertain to the risk of ensuring that tenants conform to the rules and regulations of the Company, maintaining safety and security within the area and compliance with governmental regulations such as the MTRCB, DENR, BIR and other local agencies. Information technology processing risk pertain to the risk that information used to support business decisions is not relevant or reliable. Information technology processing risk also includes risk of inappropriate or excessive user access enabling user to process fictitious or unauthorized transactions in the system.

The Company's Internal Audit Department follows a framework for systematically understanding and identifying the types of business risks threatening the organization as a whole and specific business processes within the organization. A review and evaluation of internal controls to manage the identified risks are done on a regular basis and test of controls is conducted to determine if the said controls are in place. The Internal Audit Department also reports to the Audit and Risk Management Committee (ARMC) quarterly.

The Company also has an Enterprise Risk Management Committee (ERMC) which is an oversight committee created to act as the monitoring body for the individual risk management activities of the Company. The ERMC has the responsibility of developing a formal framework to assist the Company in managing its risks and is mandated to report regularly to the ARMC on any risk concerns.

Management is committed in ensuring that business process are clearly defined, aligned with business strategies, perform effectively and efficiently in satisfying customer needs and protect financial, physical and intellectual assets from unacceptable losses, risk taking, misappropriation or misuse.

Competition

The Company competes with other local mall operators for tenants and customers. Although there is increased competition, the Company believes it has certain significant competitive advantages which include, among others, the very good locations of the malls, proven successful tenant mix and selection criteria, and the presence of the dominant SM Department Store, SM Supermarket and SM Hypermarket as anchor tenants.

Some of the major competitors considered by the company are the Ayala Malls and Robinsons Malls and stand-alone supermarkets such as Puregold and Shopwise.

Transactions With and/or Dependence on Related Parties

As of February 28, 2011, the Company is directly owned by SM Land, Inc. (40.96%) and SM Investments Corporation (21.65%).

The major anchor tenants in the 40 operating malls in the country are the SM Department Stores, SM Supermarkets, SM Hypermarkets, Ace Hardware, National Bookstore, KFC, Jollibee and Watsons (Philippines), among others. (see Item 2, Malls in Operation).

The major anchor tenants in the 3 operating malls in China are Wal-Mart, SM Laiya Department Stores, Wanda Cinema, McDonald's, KFC, Watsons, among others. (see Item 2, Malls in Operation).

All transactions with related companies are done on commercial terms and at arms length basis (see Note 21 of attached Consolidated Financial Statements).

Governmental regulations and environmental laws

The Company meets all governmental, environment, health and safety requirements. Tenant spaces are regularly inspected and the Company has not experienced significant governmental, environment, health or safety problems.

Employees

As at December 31, 2010, the Company had 88 employees and supported by 5,102 officers and employees of the Management Companies. The employees are not subject to a collective bargaining agreement (CBA).

ITEM 2. Properties

Malls in Operation

SM City North EDSA

SM City North EDSA, the very first and currently the country's largest shopping mall, has a gross floor area of 482,878 square meters featuring 12 cinemas including a 3D IMAX theatre with a total seating capacity of 12,085, 24-computerized synthetic lane bowling center, food court, amusement centers and multi-level car park which provides a total capacity of 3,511 cars, located on a 16.1 hectare site in Diliman, Quezon City. Following the opening of The Block and renovation of The Annex, The Sky Garden was unveiled last May 2009. It is a 400-meter elevated walkway shaded by a long sketch of white canopy made to stroll from one building to another, with a park-like ambiance and green architecture. This elevated curvilinear park includes the roof garden, water features, food and retail outlets and sky dome, a 1000-seater amphitheater for shows and special events.

SM Mall of Asia

SM Mall of Asia is the country's biggest and most ambitious mall project opened to the public. Located on a 19.5 hectare property overlooking Manila Bay, the complex consists of four buildings linked by elevated walkways – Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. The giant mall measures 406,962 square meters. Both parking buildings have 4,969 spaces available for private vehicles. The Entertainment Building houses the country's first IMAX theatre, a special Director's club screening room for exclusive film showings, seven state-of-the art cinemas, 32-lane state of the art bowling facility, an Olympic-sized ice rink, a Science Discovery Center and Planetarium and fine dining restaurants and bars.

SM Megamall
SM Megamall is located in the Ortigas business district of Metro Manila. It stands along the main EDSA thoroughfare and is almost adjacent to the Metro Rail Transit. The two-building mall has a gross floor area of 348,056 square meters and features 12 cinemas with a seating capacity of 10,077, a food court, a trade hall, event center and parking for 2,792 vehicles.

SM City Cebu
SM City Cebu is a multi-level complex with a gross floor area of 273,804 square meters featuring eight cinemas, including a 3D IMAX theatre, with a total seating capacity of 8,388, a food court, a fully computerized 28-lane bowling center, a trade hall and a car park with a 1,733 car capacity located on a 13.8 hectare site in Cebu Port Center, Barrio Mabolo, Cebu City.

SM City Southmall
SM City Southmall is a four-level complex with a gross floor area of 205,120 square meters featuring nine cinemas with a seating capacity of 8,910, a food court, ice skating rink, amusement centers and a car park available for 2,658 cars. It is located on 20.0 hectare site in Las Piñas City and the first SM Supermall in southern region of Metro Manila.

SM City Fairview
SM City Fairview is a two-building, four-level complex with a gross floor area of 188,681 square meters located on a 20.2 hectare site in Quezon City, Metro Manila. It features 12 cinemas with a seating capacity of 7,898, 20-lane bowling center, food court and amusement areas. In early 2009, the mall launched its annex, adding 28,600 square meters of gross floor area to the main mall.

SM City San Lazaro
SM City San Lazaro is located at the center of thickly populated residential area with bustling commercial activities in Sta. Cruz, Manila. The four-storey mall has a gross floor area of 181,593 square meters. The mall features a food court, amusement centers, six cinemas with a seating capacity of 3,320, and parking for more than 1,000 vehicles.

SM City Marikina
SM City Marikina in Marcos Highway, Barangay Calumpang, Marikina City is situated on a 6.0 hectare lot and has a gross floor area of 178,485 square meters. Marikina is a key city for SM as its shoemakers became vital partners during its growth years in the sixties as a shoe store in Carriedo, Manila. It features food court, eight cinemas with 3,268 seating capacity.

SM City Manila
SM City Manila is a five-level mall with a gross floor area of 167,812 square meters. The mall is located in downtown Manila next to the Manila City Hall. It has 12 cinemas with a seating capacity of 8,517, a foodcourt and a car park available for 1,015 cars. It has become a major destination of shoppers, given its strategic location and easy accessibility by the Light Railway Transit and other public transportation.

SM City Sta. Mesa
SM City Sta. Mesa is a seven-level complex with a gross floor area of 133,327 square meters featuring 10 cinemas with a seating capacity of 8,946, a food court, an amusement center, a car park on six levels and outdoor parking with a total capacity of 1,176 cars located in Quezon City, Metro Manila.

SM City Pampanga
SM City Pampanga is a 132,484 square meter shopping mall with three annexes, straddling the municipalities of San Fernando and Mexico in Pampanga. It features six state-of-the-art cinemas, a food court and amusement centers. The mall is strategically located at the Olongapo-Gapan Road and serves the city's residents as well as those in the provinces of Bulacan, Tarlac, Bataan, Zambales and Nueva Ecija.

SM City Bacoor
SM City Bacoor is a four level complex with a gross floor area of 120,202 square meters located on an 8.8 hectare site in Bacoor, Cavite. The shopping complex features eight cinemas with a 5,541 seating capacity, and food court and amusement areas. It is the very first SM Supermall in the entire Luzon region (outside Metro Manila) and the very first in the Cavite province.

SM City Bicutan
SM City Bicutan is a two-building mall located along Doña Soledad Ave. corner West Service Road, Bicutan, Parañaque City. This supermall has a gross floor area of 113,667 square meters. It features a food court and four cinemas with a total seating capacity of 1,368. SM City Bicutan serves nearly half a million residents within a 3 kilometer radius.

SM City Baguio
SM City Baguio is situated on an 8.0 hectare property situated along Session Road in Baguio City. Baguio City is a good site for SM to develop its presence in the northern part of Luzon. Known for its cool climate, beautiful scenery and historic culture, the city offers multifold opportunities for entrepreneurs, retailers and service-oriented establishments. SM City Baguio has a gross floor area of 107,841 square meters. It has four cinemas with seating capacity of 2,224.

SM City Iloilo
SM City Iloilo is a 105,954 square meter supermall constructed on a 17.5 hectare property at the juncture of the Northwest and the Northeast of the Iloilo-Jaro West Diversion Road in Manduriao, Iloilo City. A quick drive from the airport as it is from the center of the city, it serves the city's residents, as well as those of the rest of Panay Island and the neighboring islands in the Visayas. SM City Iloilo has eight cinemas with a seating capacity of 6,233.

SM City Clark
The 101,840-square meter of gross floor area, the two-level SM City Clark along M.A. Roxas Avenue is about 80 kilometers north of Manila and 60-kilometers east of Subic Bay Freeport, right at the doorstep of the Clark Special Economic Zone in Pampanga. The mall has six cinemas with a seating capacity of 2,874. With its unique design resembling a coliseum, this mall offers tourists and shoppers a host of retail, dining, and entertainment establishments.

SM City Tarlac
SM City Tarlac is located along MacArthur Highway, San Roque, Tarlac City. It is the very first SM Supermall in the province of Tarlac. The four-level mall has a gross floor area of 101,629 square meters. The mall features a food court, four cinemas with 1,258 seating capacity, a Cyberzone, and parking for over 900 vehicles.

SM City Taytay
SM City Taytay is a two-building mall located in Barangay Dolores, Taytay, Rizal. The mall has a gross floor area of 98,928 square meters and features a food court, three cinemas with 1,189 seating capacity and a carpark for 628 cars. SM City Taytay is an ideal place and stopover for travelers specially those coming from Laguna via the Marikina-Infanta Road.

SM City Sucat
SM City Sucat is a two-building mall located on a 10.1 hectare site along Dr. A. Santos Ave. (Sucat Road), Barangay San Dionisio, Parañaque City. The mall has a gross floor area of 96,560 square meters and features four cinemas with total seating capacity of 2,022, a food court and car park with 1,475 slots.

SM City Dasmariñas
SM City Dasmariñas sits on a 12.7 hectare property situated along Governor's Drive about 100 meters from the Aguinaldo Highway junction in Dasmariñas, Cavite. The three-level mall has a gross floor area of 94,285 square meters. The mall features a foodcourt and four cinemas with a seating capacity of 2,124.

SM City Marilao
SM City Marilao is the first SM Supermall in the Bulacan province with a land area of 20.3 hectare and gross floor area 93,910 square meters. It is located in MacArthur Highway, Barangay Ibayo, Marilao, Bulacan. The four-level mall features a food court, event center and four cinemas with seating capacity of 1,256.

SM City Cagayan De Oro
SM City Cagayan De Oro sits on a 5.2 hectare property along Mastersons Avenue corner Gran Via St., Cagayan de Oro City, Misamis Oriental. The mall has a gross floor area of 87,837 square meters. It features four cinemas with a total seating capacity of 1,848.

SM City Sta Rosa
SM City Sta Rosa is the first SM Supermall in the Laguna province with 86,463 square meters of gross floor area. Located in Barrio Tagapo, Sta. Rosa, the two-level mall is a 10-minute drive from the Mamplasan exit. SM City Sta. Rosa offers one-stop shopping convenience as it includes a variety of retail establishments, four cinemas and a food court.

SM City Batangas
SM City Batangas is built on a 9.3 hectare property situated along the National Highway, Barangay Pallocan West, Batangas City. The mall is about 3.7 kilometers from the Batangas International Port. SM City Batangas has a gross floor area of 80,350 square meters. It has four cinemas with a seating capacity of 1,869.

SM City Davao
SM City Davao is located on a 13.2 hectare property along Quimpo Boulevard corner Tulip and Eco Drives, Barangay Matina, Davao City. The supermall has a gross floor area of 78,735 square meters. It has six cinemas which can accommodate 2,880 movie patrons. The supermall is within walking distance from some of the biggest schools in Mindanao such as Ateneo de Davao, University of Mindanao, Philippine Women's College and the Agro-Industrial Foundation College.

SM City Lucena
SM City Lucena is located along Maharlika Highway corner Dalahican Road, Barangay Ibabang Dupay, Lucena City, Quezon. It is the first SM Supermall in the province of Quezon. This four-level supermall has a gross floor area of 78,685 square meters. It features a food court and four cinemas with a total seating capacity of 2,277.

SM City Lipa
SM City Lipa is a two-level mall strategically located along Lipa's Ayala Highway. It occupies 10.3 hectares of land, with 77,261 square meters of gross floor area. Lipa City boasts natural attractions and is a major commercial, educational, and industrial destination. The mall features a food court and four cinemas with 2,482 seating capacity.

SM City Naga
SM City Naga is situated on a 4.6 hectare lot and located in Central Business District II of Barangay Triangulo, Naga City. It is the first SM Supermall in the Bicol region and has a gross floor area of 75,652 square meters. The mall offers a food court and four cinemas with a combined seating capacity of 1,381.

SM City Bacolod
SM City Bacolod is a two-building mall located along Rizal Street, Reclamation Area, Bacolod City in Negros Occidental. It has a total land area of 16.1 hectare and has a gross floor area of 71,760 square meters. The mall features a food court, amusement centers and four cinemas with 2,066 seating capacity.

SM Center Valenzuela
SM Center Valenzuela has a total gross floor area of 70,681 square meters, situated in Barangay Karuhatan, Valenzuela City. SM Center Valenzuela caters to the bustling industrial areas that surround the property. Its major anchor is the SM Hypermarket. The mall features four cinemas with 2,172 seating capacity, a food court and parking for 495 cars. It also features the Fashion Avenue, a multi-shop style center that houses a wide array of apparel, shoes and accessory picks.

SM City Calamba
SM City Calamba is located at National Road, Barangay Real, Calamba City, approximately 70 meters from the intersection of Maharlika Highway and Manila South Road. The mall has a gross floor area of 67,384 square meters and occupies 5.5 hectares of land. The mall features a food court and four cinemas with a combined seating capacity of about 1,200.

SM City Rosales
SM City Rosales in Barangay Carmen, Pangasinan stands on a 12.2 hectare lot and has a gross floor area of 63,330 square meters. It is the first SM Supermall in the province of Pangasinan. The amenities of the mall include a food court and four cinemas with capacity of 1,704 seats. The mall contains a public transport terminal and also serves as a bus stop of various inter-provincial bus lines.

SM City Baliwag
SM City Baliwag in Barangay Pagala, Baliwag, Bulacan occupied 9.3 hectare lot and has a gross floor area of 61,262 square meters. SM City Baliwag is one of the major hubs in its province and offers complete line of stores and services, amenities among are a food court and four cinemas with a combined capacity of 1,232.

SM City Novaliches
SM City Novaliches, which has a gross floor area of 60,560 square meters, is located along Quirino Highway in Barangay San Bartolome, Novaliches, Quezon City. Novaliches, being the largest district in the city, is booming with residential subdivisions and industrial companies. The amenities of the mall include a food court, four cinemas with almost 1,500 seats and parking slots for over 1,200 vehicles.

SM City San Pablo
SM City San Pablo has a gross floor area of 59,643 square meters. It is located along Maharlika Highway in Barangay San Rafael, San Pablo City in the province of Laguna. The mall features a business center, a food court and four cinemas with seating capacity of about 1,400. It also has an atrium for various events.

SM City Rosario
SM City Rosario is located on a 5.5 hectare property in Barangay Tejero in Rosario. Rosario is the site of the Cavite Economic Zone. The mall serves customers in the north and northwestern parts of

Cavite and neighboring provinces as well. It has a gross floor area of 59,326 square meters and features a food court and four cinemas with a capacity of 1,560 seats.

SM Center Muntinlupa
SM Center Muntinlupa is situated in Barangay Putatan, Muntinlupa City. The two-level mall has a gross floor area of 54,292 square meters and caters to the residents of Muntinlupa City and the growing municipality of San Pedro, Laguna. The mall features a food court, four cinemas with 1,582 seating capacity and an entertainment plaza for shows and events located at the center of the mall. Its anchor tenant is the SM Hypermarket.

SM Center Molino
SM Center Molino is located at the southern end of Molino Road, Bacoor, Cavite and has a gross floor area of 52,061 square meters. SM Center Molino is the first to have the Service Lane, which comprised of different shops that offer a wide array of services situated perfectly outside the mall across the covered parking. The mall features a food court, four cinemas with 1,881 seating capacity and parking for 800 vehicles. The mall's anchor tenant is the SM Hypermarket.

SM Center Las Piñas
SM Center Las Piñas is located along the Alabang - Zapote Road in Barangay Talon, Pamplona, Las Piñas City and has a gross floor area of 39,788 square meters. SM Center Las Piñas serves customers in the western section of the city and the nearby provinces of Laguna and Cavite. It has SM Hypermarket as its anchor tenant.

SM Center Pasig
SM Center Pasig is located in Frontera Verde, Pasig City serving residents of the neighboring upscale subdivisions and customers who regularly pass through C5 route. Its gross floor area is 29,602 square meters which includes a basement parking for more than 300 vehicles. The mall has SM Hypermarket as its main anchor tenant.

SM City Xiamen
SM City Xiamen in Xiamen City, Fujian Province is situated on a 10.4 hectare lot and has a gross floor area of 238,150 square meters plus an open carpark for 2,188 cars. The mall has as its anchor tenant Wal-Mart, SM Laiya Department Store, Wanda Cinema plus several junior anchors. In October 2009, the Lifestyle Center opened its door to the public adding 109,947 square meters to the gross floor area.

SM City Jinjiang
SM City Jinjiang in Jinjiang City, Fujian Province is situated on an 11.5 hectare lot and has a gross floor area of 167,830 square meters plus an open carpark for 1,700 cars. The mall has as its anchor tenant Wal-Mart, SM Laiya Department Store and Wanda Cinema plus several junior anchors.

SM City Chengdu
SM City Chengdu in Chengdu City, Sichuan Province is situated on a 4.7 hectare lot and has a gross floor area of 166,665 square meters plus an open carpark for 949 cars. The mall has as its anchor tenant Wal-Mart, SM Laiya Department Store and Wanda Cinema plus several junior anchors.

On the average, 85%, 11% and 4% of consolidated total revenues is composed of rental, cinema ticket sales and others, respectively.

Malls under Construction

For 2011, the Company plans to open SM City Masinag in Antipolo City with gross floor area of 82,804 square meters, SM City San Fernando in Pampanga with gross floor area of 40,000 square meters and SM City Olongapo in Zambales with gross floor area of 30,000 square meters. 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. The Company is also scheduled to open SM Suzhou, its fourth mall in China, which is located in the province of Jiangsu with gross floor area of 70,000 square meters.

The Company retains ownership of all the sites on which the SMPH malls are built, with the exception of SM City Bacoor, SM City Manila, SM Center Valenzuela, SM Center Molino, SM Center Pasig, SM City Clark, SM City Taytay, SM Center Muntinlupa, SM City Naga, SM City San Pablo, SM City Calamba, SM City Xiamen, SM City Jinjiang and SM City Chengdu, which are held under long term leases. In addition, the land where SM Mall of Asia and SM City Baguio are constructed are owned by SM Land, Inc. and SM Investments Corporation, respectively, both companies are also under the SM Group. The land where SM City San Lazaro is constructed is owned by San Lazaro Holdings Corporation, a 100%-owned subsidiary. Rental rates are based on prevailing market rent for the said properties. Lease renewal options are subject to mutual agreement of the parties. SM Megamall is owned by FARDC, a 74% owned subsidiary and SM by the Bay is owned by FLVI, a 50% owned subsidiary.

Other Development Properties

Location	**Size In Sq. M.**
Owned	
Cebu SRP	304,100
Pangasinan (Urdaneta)	153,808
Pangasinan (Dagupan)	147,699
Davao (Lanang)	100,000
Cabanatuan City	41,721
Cavite (Trece Martires)	20,000
Tuguegarao City	16,181
Palawan (Puerto Princesa)	15,619
	799,128
Leased	
Taguig	33,975
Elliptical (GSIS)	29,567
Commonwealth	20,230
Balara, Quezon City	14,170
	97,942
Total – 13 sites	897,070

Leased properties intended for future development have lease terms ranging from 15 to 50 years. Some contracts provide for renewal options subject to mutual agreement of the parties. Rental payments are generally based on a certain percentage of the Company's gross rental income or a certain fixed amount. Management believes that the rental rates are viable for shopping center development.

Other real properties that the Company intends to acquire are still under review depending on factors such as demographics and accessibility to public transport.

ITEM 3. Legal Proceedings

See Note 26 of attached Consolidated Financial Statements.

ITEM 4. Submission of Matters to a Vote of Security Holders

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE - ₱ 0.25 in 2010, ₱ 0.24 in 2009 and ₱ 0.24 in 2008.

	2010		2009	
Stock Prices	High	Low	High	Low
First Quarter	₱ 10.50	₱ 8.70	₱ 8.00	₱ 6.80
Second Quarter	11.75	9.60	9.90	6.80
Third Quarter	13.10	10.25	11.00	8.70
Fourth Quarter	13.16	10.00	10.80	9.50

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

As of February 28, 2011, the closing price of the Company's shares of stock is ₱10.10/share. For the two months ending February 28, 2011, stock prices of SMPHI were at a high of ₱11.50 and a low of ₱9.96.

The number of shareholders of record as of February 28, 2011 was 2,626. Capital stock issued and outstanding as of February 28, 2011 was 13,898,943,067. As of December 31, 2010, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 17 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2011 are as follows:

Name	No. of Shares Held	% to Total
1. SM Land, Inc.	5,693,563,594	40.96
2. PCD Nominee Corp. (Non-Filipino)	4,586,355,231	33.00
3. SM Investments Corp.	3,009,432,952	21.65
4. PCD Nominee Corp. (Filipino)	508,114,937	3.65
5. Sysmart Corporation	28,202,729	0.20
6. Henry Sy, Sr.	11,826,315	0.09
7. Sybase Equity Investments Corporation	6,457,000	0.05
8. Lucky Securities, Inc.	3,274,259	0.02
9. Philippine Air Force Educational Fund, Inc.	1,712,739	0.01
10. Southwood Mindanao Corporation	1,627,739	0.01
11. Elizabeth Sy	1,626,488	0.01
12. Regina Capital Dev. Corp.	1,357,163	0.01
13. Teresita Sy	1,082,322	0.01
14. Jorge T. Mendiola	1,000,000	0.01
15. TTC Development Corporation	838,912	0.01
16. Harry Robert Taylor	741,999	0.01
17. Jose T. Tan &/or Pacita L. Tan	713,701	0.01
18. Senen Mendiola	638,575	0.00
19. Chen Zan Xing	617,289	0.00
20. Jose Recato Dy	530,842	0.00

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 17 of the consolidated financial statements, on October 14, 2010, the Company has undergone an equity 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.

As discussed in Note 17, on November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

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 3 Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.6 million square meters.

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

2008

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

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

EBITDA	12,297	11,330	9%

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

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

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

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

Amusement and other income also decreased by 13% from P724 million to P632 million. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center.
Operating expenses increased by 15% in 2008 from P7.14 billion to P8.21 billion mainly due to the new malls. Likewise, income from operations posted a 9% growth from P8.83 billion in 2007 to P9.63 billion in 2008. In terms of operating expenses, the three malls in China contributed P0.56 billion in 2008 and P0.52 billion in 2007, or 7% of SM Prime's consolidated operating expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 7. Financial Statements

Please see the attached consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules.

ITEM 8. Information on Independent Accountant and Other Related Matters

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. Previously, the Company engaged Ms. Melinda G. Manto of SGV & Co for the examination of the Company's financial statements from 2006 up to 2008.

The Company and its subsidiaries paid SGV & Co ₱1.7 million for external audit services for each years 2010 and 2009. 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.

PART III- CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman	Henry Sy, Sr.	Filipino	86
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	67
Independent Director	Gregorio U. Kilayko	Filipino	56
Director and President	Hans T. Sy	Filipino	55
Director	Senen T. Mendiola	Filipino	84
Director	Henry T. Sy, Jr.	Filipino	57
Director	Herbert T. Sy	Filipino	54
Adviser to the Board of Directors	Teresita T. Sy	Filipino	60
Executive Vice President and Chief Finance Officer	Jeffrey C. Lim	Filipino	49
Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary	Corazon I. Morando	Filipino	69
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	58
Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	52
Vice President – Internal Audit Head	Christopher S. Bautista	Filipino	51
Vice President – Information Technology	Kelsey Hartigan Y. Go	Filipino	45
Vice President – Project Development	Erickson Y. Manzano	Filipino	40
Vice President – Finance (China Projects)	Diana R. Dionisio	Filipino	38
Vice President – Finance	Teresa Cecilia H. Reyes	Filipino	36
Corporate Secretary/ Asst. Compliance Officer	Emmanuel C. Paras	Filipino	61

Board of Directors

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

Jose L. Cuisia, Jr.* has served as Vice Chairman of the Board of Directors of SM Prime since 1994. In 2010, he was appointed 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 he is concurrently Chairman of the Board of various companies within the Philamlife Group. He is also a Director of several PHINMA-managed companies. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990.

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

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

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

Senen T. Mendiola has served as Director since 1994. He is Vice Chairman of a number of SM Group companies and holds a number of board positions within the Group including Banco de Oro 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 Banco de Oro 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 President of Supervalue Inc. and Super Shopping Market Inc. and Director of SM Land, Inc. and China Banking Corporation. He holds a Bachelor's degree in management from De La Salle University. He also holds board positions in several companies within the SM Group.

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

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

Senior Management

Jeffrey C. Lim is the Executive Vice President and the Chief Finance Officer. He is a 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.

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
Banco de Oro 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 Corp. (BPLAC).........................	Chairman
Holcim Philippines, Inc...	Director
Bauang Private Power Corp.....	Director
Manila Water Company, Inc...	Director

Gregorio U. Kilayko

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

Henry T. Sy, Jr.

Name of Corporation	***Position***
SM Development Corporation	Director/ Vice Chairman/ Chief Executive Officer
Highlands Prime, Inc..	Director/ 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
Banco de Oro Unibank, Inc..	Director

Hans T. Sy

Name of Corporation	***Position***
China Banking Corporation	Director/ Vice Chairman/ Chairman of Executive Committee
Highlands Prime, Inc..	Director
SM Investments Corporation.	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***
Banco de Oro 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)
SENEN T. MENDIOLA	-	Member
JOSE T. SIO	-	Member
SERAFIN U. SALVADOR	-	Member
CORAZON I. MORANDO	-	Member

The members of the Compensation Committee are:

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

The members of the Nomination Committee are:

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

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

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

Joselito H. Sibayan will be nominated as Independent Director at the forthcoming Annual Stockholders' Meeting.

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
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 10. Executive Compensation

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

Summary Compensation Table

	Year	Salary	Bonus
President & 7 Most	2011 (estimate)	₱31,000,000	₱11,000,000
Highly Compensated	2010 (actual)	28,000,000	11,000,000
Executive Officers	2009 (actual)	23,000,000	11,000,000
All other officers* as a	2011 (estimate)	₱39,000,000	₱12,000,000
group unnamed	2010 (actual)	35,000,000	12,000,000
	2009 (actual)	27,000,000	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 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of February 28, 2011, 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	5,693,563,594 (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 - 3.65% Non Filipino - 33.00%	5,094,470,168 (r)	36.65

[1.] The following are the individuals holding the direct beneficial ownership of SM Land, Inc.: Henry Sy, Sr.-4.80%, Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, and Harley T. Sy- 4.72% each.
[2.] Henry Sy, Sr. and Henry Sy, Jr. are the Chairman and Vice Chairman/ President of SM Land, Inc., respectively.
[3.] The following are the individuals holding the direct beneficial ownership of SMIC: Henry Sy, Sr.-14.27%, Felicidad T. Sy-9.49%, Henry T. Sy, J.r-9.83%, Hans T. Sy-9.83%, Herbert T. Sy-9.83% each, Harley T. Sy-8.91%,, Teresita T. Sy-8.60% and Elizabeth Sy-.07%.
[4.] Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC.
[5.] The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.
[6] The PCD is not related to the Company.

(2) Security Ownership of Management as of February 28, 2011

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-	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		₱16,064,977	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 12. Certain Relationships and Related Transactions

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

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

Please refer to Note 21 of the attached 2010 consolidated financial statements.

PART IV - 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 increase in the number of directors from seven (7) to eight (8) is subject for ratification during the April 19, 2011 Stockholders' Meeting. 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.

PART V- EXHIBITS AND SCHEDULES

ITEM 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - See accompanying Index to Exhibits

The following exhibit is filed as a separate section of this report:

(22) Account Update

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

Reports on Form 17-C (Current Report) have been filed during 2010.

SM PRIME HOLDINGS, INC.
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, ITEM 7

Consolidated Financial Statements **Page No.**

Supplementary Schedules

* These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

Statement Of Management's Responsibility For Financial Statements

The management of SM Prime Holdings, Inc. is responsible for all information and representations contained in the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and the summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and, (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SGV & Co., the independent auditors appointed by the Board of Directors and stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors.

Jose L. Cuisia, Jr.
Vice Chairman

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice President

MAR 1 7 2011 Makati City

SUBSCRIBED AND SWORN to before me this MAR 1 7 2011 at Makati City, affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
JOSE L. CUISIA, JR.	XX2395719	October 28, 2008	Manila
HANS T. SY	XX2657155	December 6, 2008	Manila
JEFFREY C. LIM	XX1561590	July 8, 2008	Manila

MVBVista

MARIA VIOLA B. VISTA
Notary Public for Makati City
Appointment No. M-495 until Dec. 31, 2011
Roll of Attorney No. 58565
PTR No. 2669635MB; 01/06/11; Makati City
IBP No. 843394; 01/04/11; Makati Chapter
SSHG Law Centre, 105 Paseo de Roxas
Makati City, 1226 Metro Manila, Philippines

DOC NO. 305;
PAGE NO. 62;
BOOK NO. 2;
SERIES OF

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.

We have audited the accompanying financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SM Prime Holdings, Inc. and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2
Tax Identification No. 102-085-577
PTR No. 2641521, January 3, 2011, Makati City

February 14, 2011

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 21, 23 and 24)	**₱9,719,718,284**	₱3,786,466,722
Short-term investments (Notes 8, 21, 23 and 24)	**876,800,000**	924,000,000
Investments held for trading (Notes 9, 21, 23 and 24)	**500,134,177**	389,186,100
Receivables (Notes 10, 21, 23 and 24)	**4,189,315,348**	3,664,884,416
Available-for-sale investments (Notes 13, 21, 23 and 24)	**1,104,161,471**	1,000,000,000
Prepaid expenses and other current assets (Note 11)	**1,104,217,482**	808,962,181
Total Current Assets	**17,494,346,762**	10,573,499,419
Noncurrent Assets		
Investment properties - net (Notes 12 and 21)	**93,940,301,554**	83,934,766,920
Available-for-sale investments (Notes 13, 23 and 24)	**–**	102,794,710
Derivative assets (Notes 23 and 24)	**738,228,976**	355,235,235
Deferred tax assets (Note 19)	**223,266,010**	243,120,374
Other noncurrent assets	**3,946,369,661**	2,650,662,977
Total Noncurrent Assets	**98,848,166,201**	87,286,580,216
	₱116,342,512,963	₱97,860,079,635
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 21, 23 and 24)	**₱–**	₱1,000,000,000
Accounts payable and other current liabilities (Notes 15, 21, 23 and 24)	**6,796,847,322**	5,230,439,925
Current portion of long-term debt (Notes 16, 21, 23 and 24)	**766,703,000**	421,467,200
Income tax payable	**403,831,964**	526,145,990
Total Current Liabilities	**7,967,382,286**	7,178,053,115
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 21, 23 and 24)	**38,076,546,811**	32,034,600,468
Deferred tax liabilities (Note 19)	**1,322,799,401**	1,132,255,738
Tenants' deposits (Notes 22, 23 and 24)	**6,465,889,827**	5,708,755,024
Derivative liabilities (Notes 23 and 24)	**709,909,803**	386,828,566
Other noncurrent liabilities (Notes 12, 21, 23 and 24)	**2,850,102,189**	3,389,286,638
Total Noncurrent Liabilities	**49,425,248,031**	42,651,726,434
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 5, 17 and 25)	**13,917,800,067**	13,348,191,367
Additional paid-in capital - net (Notes 2, 5 and 17)	**8,219,067,298**	2,375,440,999
Unrealized gain on available-for-sale investments (Notes 13 and 17)	**3,745,323**	2,515,239
Cumulative translation adjustment (Note 17)	**589,700,365**	681,470,739
Retained earnings (Note 17):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**28,562,329,066**	24,043,028,119
Treasury stock (Notes 17 and 25)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent (Note 23)	**58,191,167,414**	47,349,171,758
Non-controlling Interests (Notes 2 and 17)	**758,715,232**	681,128,328
Total Stockholders' Equity	**58,949,882,646**	48,030,300,086
	₱116,342,512,963	₱97,860,079,635

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2010	2009	2008
REVENUE			
Rent (Notes 12, 21 and 22)	**₱19,992,948,925**	₱17,658,833,905	₱15,357,821,624
Cinema ticket sales	**2,764,775,099**	2,098,612,638	1,849,312,511
Others	**958,207,627**	740,052,372	631,933,142
	23,715,931,651	20,497,498,915	17,839,067,277
OPERATING EXPENSES (Notes 12, 18, 20, 21 and 22)	**11,271,381,415**	9,745,824,414	8,208,089,081
INCOME FROM OPERATIONS	**12,444,550,236**	10,751,674,501	9,630,978,196
OTHER INCOME (CHARGES) - Net			
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	**251,102,302**	423,658,528	388,208,683
Interest expense (Notes 14, 16, 21 and 24)	**(1,746,215,754)**	(1,416,807,840)	(858,356,033)
Others - net (Notes 9, 16 and 24)	**(152,588,284)**	(112,043,124)	319,595,127
	(1,647,701,736)	(1,105,192,436)	(150,552,223)
INCOME BEFORE INCOME TAX	**10,796,848,500**	9,646,482,065	9,480,425,973
PROVISION FOR INCOME TAX (Note 19)			
Current	**2,449,966,767**	2,323,879,054	2,592,012,734
Deferred	**206,748,328**	45,765,632	155,126,540
	2,656,715,095	2,369,644,686	2,747,139,274
NET INCOME	**₱8,140,133,405**	₱7,276,837,379	₱6,733,286,699
Attributable to			
Equity holders of the parent (Note 25)	**₱7,856,348,789**	₱7,023,350,225	₱6,412,215,308
Non-controlling interests (Notes 2 and 17)	**283,784,616**	253,487,154	321,071,391
	₱8,140,133,405	₱7,276,837,379	₱6,733,286,699
Basic/Dilutive Earnings Per Share (Note 25)	**₱0.584**	₱0.527	₱0.481

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱8,140,133,405**	₱7,276,837,379	₱6,733,286,699
OTHER COMPREHENSIVE INCOME (LOSS) - Net			
Unrealized gain (loss) on available-for-sale investments -net of tax (Notes 13 and 17)	**1,230,084**	(45,831,311)	7,610,503
Cumulative translation adjustment (Note 17)	**(91,770,374)**	(139,632,483)	870,463,323
	(90,540,290)	(185,463,794)	878,073,826
TOTAL COMPREHENSIVE INCOME	**₱8,049,593,115**	₱7,091,373,585	₱7,611,360,525
Attributable to			
Equity holders of the parent	**₱7,765,808,499**	₱6,837,886,431	₱7,290,289,134
Non-controlling interests (Notes 2 and 17)	**283,784,616**	253,487,154	321,071,391
	₱8,049,593,115	₱7,091,373,585	₱7,611,360,525

See accompanying Notes to Consolidated Financial Statements.

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

	Equity Attributable to Equity Holders of the Parent									
	Capital Stock (Notes 5, 17 and 25)	Additional Paid-in Capital - Net (Notes 2, 5 and 17)	Unrealized Gain on Available-for-Sale Investments (Notes 13 and 17)	Cumulative Translation Adjustment (Note 17)	Retained Earnings: Appropriated (Note 17)	Retained Earnings: Unappropriated (Note 17)	Treasury Stock (Notes 17 and 25)	Total	Non-controlling Interests (Notes 2 and 17)	Total
At January 1, 2010	**₱13,348,191,367**	**₱2,375,440,999**	**₱2,515,239**	**₱681,470,739**	**₱7,000,000,000**	**₱24,043,028,119**	**(₱101,474,705)**	**₱47,349,171,758**	**₱681,128,328**	**₱48,030,300,086**
Total comprehensive income	–	–	**1,230,084**	**(91,770,374)**	–	**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**	**₱3,745,323**	**₱589,700,365**	**₱7,000,000,000**	**₱28,562,329,066**	**(₱101,474,705)**	**₱58,191,167,414**	**₱758,715,232**	**₱58,949,882,646**
At January 1, 2009	₱13,348,191,367	₱5,493,656,403	₱48,346,550	₱821,103,222	₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556
Total comprehensive income	–	–	(45,831,311)	(139,632,483)	–	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)
Equity adjustment from business combination	–	(44,263,052)	–	–	–	–	–	(44,263,052)	–	(44,263,052)
Cash dividends - ₱0.24 a share	–	–	–	–	–	(3,199,040,237)	–	(3,199,040,237)	–	(3,199,040,237)
Dividends of a subsidiary	–	–	–	–	–	–	–	–	(293,089,202)	(293,089,202)
At December 31, 2009	₱13,348,191,367	₱2,375,440,999	₱2,515,239	₱681,470,739	₱7,000,000,000	₱24,043,028,119	(₱101,474,705)	₱47,349,171,758	₱681,128,328	₱48,030,300,086
At January 1, 2008	₱13,348,191,367	₱5,493,656,403	₱40,736,047	(₱49,360,101)	₱7,000,000,000	₱16,786,447,729	(₱101,474,705)	₱42,518,196,740	₱934,295,890	₱43,452,492,630
Total comprehensive income	–	–	7,610,503	870,463,323	–	6,412,215,308	–	7,290,289,134	321,071,391	7,611,360,525
Cash dividends - ₱0.24 a share	–	–	–	–	–	(2,979,944,906)	–	(2,979,944,906)	–	(2,979,944,906)
Dividends of a subsidiary	–	–	–	–	–	–	–	–	(224,376,693)	(224,376,693)
At December 31, 2008	₱13,348,191,367	₱5,493,656,403	₱48,346,550	₱821,103,222	₱7,000,000,000	₱20,218,718,131	(₱101,474,705)	₱46,828,540,968	₱1,030,990,588	₱47,859,531,556

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and non-controlling interests	**₱10,796,848,500**	₱9,646,482,065	₱9,480,425,973
Adjustments for:			
Depreciation and amortization (Notes 12 and 18)	**3,501,183,977**	3,270,784,779	2,666,307,523
Interest expense (Notes 14, 16, 21 and 24)	**1,746,215,754**	1,416,807,840	858,356,033
Interest and dividend income (Notes 7, 8, 9, 13 and 21)	**(251,102,302)**	(423,658,528)	(388,208,683)
Marked-to-market gain on derivatives (Note 24)	**(29,839,113)**	(220,310,203)	(553,766,782)
Unrealized foreign exchange loss (gain) - net	**(84,810,032)**	(26,539,451)	417,893,121
Unrealized marked-to-market gain on investments held for trading (Note 9)	**(14,231,667)**	(5,564,136)	(2,719,321)
Operating income before working capital changes	**15,664,265,117**	13,658,002,366	12,478,287,864
Decrease (increase) in:			
Receivables	**(515,862,483)**	(382,977,478)	(352,682,570)
Prepaid expenses and other current assets	**(295,988,909)**	339,523,982	(126,914,174)
Increase in:			
Accounts payable and other current liabilities	**870,437,601**	698,656,743	975,885,887
Tenants' deposits	**762,974,229**	848,888,049	499,861,525
Cash generated from operations	**16,485,825,555**	15,162,093,662	13,474,438,532
Income taxes paid	**(2,572,575,448)**	(2,561,674,952)	(2,667,843,679)
Net cash provided by operating activities	**13,913,250,107**	12,600,418,710	10,806,594,853
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 12)	**(11,221,050,968)**	(10,788,585,167)	(9,016,568,316)
Other noncurrent assets	**(1,299,686,629)**	(521,055,620)	(881,968,726)
Investments held for trading	**(99,638,981)**	(248,996,193)	5,497,479
Available-for-sale investments	–	2,383,633,239	(1,000,000,000)
Short-term investments	–	475,200,000	–
Interest and dividend received	**239,534,893**	479,604,831	431,754,596
Acquisition of non-controlling interests (Notes 2 and 17)	–	(3,384,212,564)	–
Net cash used in investing activities	**(12,380,841,685)**	(11,604,411,474)	(10,461,284,967)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14, 16 and 21)	**14,224,724,000**	17,364,465,000	18,348,249,037
Proceeds from additional issuance of shares (Note 17)	**6,413,234,999**	–	–
Payments to maturity of cross currency swaps	–	(615,600,000)	–
Payments of:			
Loans (Notes 14, 16 and 21)	**(10,338,573,989)**	(16,082,755,137)	(6,476,852,777)
Dividends	**(3,543,245,554)**	(3,492,129,439)	(3,204,321,599)
Interest	**(2,355,255,672)**	(2,482,588,750)	(1,934,055,414)
Net cash provided by (used in) financing activities	**4,400,883,784**	(5,308,608,326)	6,733,019,247
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(40,644)**	(212,529,024)	(32,513,244)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,933,251,562**	(4,525,130,114)	7,045,815,889
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,786,466,722**	8,311,596,836	1,265,780,947
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱9,719,718,284**	₱3,786,466,722	₱8,311,596,836

See accompanying Notes to Consolidated Financial Statements.

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

1. Corporate Information

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

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

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

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

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

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

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

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 14, 2011.

2. Basis of Preparation

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

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

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

New Interpretation

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*, becomes effective for annual periods beginning on or after July 1, 2009

Amendments to Standards

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*, becomes effective for annual periods beginning on or after January 1, 2010

- PFRS 3, *Business Combinations (Revised)*, and PAS 27, *Consolidated and Separate Financial Statements (Amended)*, become effective for annual periods beginning on or after July 1, 2009

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*, becomes effective for annual periods beginning on or after July 1, 2009

- Improvements to PFRS (Effective 2010)

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

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

The revised and amended standards have no impact on the Company's consolidated financial statements, except for the revision of term minority interests to non-controlling interests. The Company, however, assessed that these revised and amended standards will have an impact on its future business acquisitions, disposals and transactions with non-controlling interests.

Future Changes in Accounting Policies

Standards and Interpretations
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective:

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

- PAS 24, *Related Party Disclosures (Amended)*, will become effective for annual periods beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*, will become effective for annual periods beginning on or after February 1, 2010. It amends the definition of a financial liability to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*, will become effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The Company does not expect these amendments to have a significant impact on its consolidated financial statements.

- PFRS 9, *Financial Instruments: Classification and Measurement,* will become effective for annual periods beginning on or after January 1, 2013. PFRS 9, as issued in 2010, 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 derecognition will be addressed. The completion of this project is expected in 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The Company is still in the process of assessing the impact of this new standard to its consolidated financial statements.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, will become effective for annual periods beginning on or after January 1, 2011, with retrospective application. It provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the consolidated financial statements of the Company.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for annual periods beginning on or after January 1, 2012. 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 interpretation is deemed to have no impact on the consolidated financial statements of the Company.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, will become effective for annual periods beginning on or after July 1, 2010. This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Company.

Improvements to PFRS
The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2011, except when otherwise stated. The Company has not yet adopted the following improvements and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 3, *Business Combinations (Revised)*, clarifies the following:

    a. that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32*, Financial Instruments: Presentation*, and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010. The amendment is applied retrospectively.

b. the amendment limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either:

   i. at fair value; or

   ii. at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

   The amendment is applicable for annual periods beginning on or after July 1, 2010. The amendment is applied prospectively from the date the entity applies PFRS 3.

c. the amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interests and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between non-controlling interests and post-combination expense. The amendment is applicable for annual periods beginning on or after July 1, 2010. The amendment is applied prospectively.

- PFRS 7, *Financial Instruments: Disclosures*, clarifies the following:

  a. the amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

  b. amendments to quantitative and credit risk disclosures are as follows:

     i. clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;

     ii. require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);

     iii. remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;

     iv. remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and,

     v. clarify that the additional disclosure required for financial assets obtained by taking possession of collateral.

  c. the amendment is applied retrospectively.

- PAS 1, *Presentation of Financial Statements*, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively.

- PAS 27, *Consolidated and Separate Financial Statements*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier. The amendment is applicable for annual periods beginning on or after July 1, 2010. The amendment is applied retrospectively.

- PAS 34, *Interim Financial Reporting,* provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:

  a. the circumstances likely to affect fair values of financial instruments and their classification;
  b. transfers of financial instruments between different levels of the fair value hierarchy;
  c. changes in classification of financial assets; and,
  d. changes in contingent liabilities and assets.

  The amendment is applied retrospectively.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

Company	Country of Incorporation	Percentage of Ownership 2010	2009	SM Malls Owned
First Asia Realty Development Corporation (FARDC)	Philippines	**74.19**	74.19	SM Megamall
Premier Central, Inc.	- do -	**100.00**	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	- do -	**100.00**	100.00	SM City Dasmarinas
Premier Southern Corp. (PSC)	- do -	**100.00**	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do -	**100.00**	100.00	–
Southernpoint Properties Corp. (SPC)	- do -	**100.00**	100.00	–
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.00**	50.00	SM by the Bay
Affluent Capital Enterprises Limited (Affluent) and Subsidiaries	British Virgin Islands	**100.00**	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make) and Subsidiaries	- do -	**100.00**	100.00	SM City Jinjiang
Springfield Global Enterprises Limited (Springfield)	- do-	**100.00**	100.00	–
SM Land (China) Limited (SM Land China) and Subsidiaries	Hong Kong	**100.00**	100.00	–

On April 15, 2009, the Parent Company, through a wholly-owned subsidiary, acquired additional 24,376,743 FARDC shares, which is equivalent to 19.82% of the total outstanding common stock of FARDC. The acquisition of such non-controlling interests amounting to ₱3,384 million is accounted for as an equity transaction. Accordingly, the carrying amounts of SMPH's investment and the share of non-controlling interests were adjusted to reflect the changes in their relative interests in FARDC. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recognized directly in equity and attributed to the owners of the parent, and is shown as part of "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets (see Note 17).

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.

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 ₱19,993 million, ₱17,659 million and ₱15,358 million for the years ended December 31, 2010, 2009 and 2008, 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 ₱504 million, ₱438 million and ₱368 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

The carrying amount of receivables amounted to ₱4,189 million and ₱3,665 million as of December 31, 2010 and 2009, respectively (see Note 10).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as 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 ₱1,104 million and ₱1,103 million as of December 31, 2010 and 2009, respectively (see Note 13).

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

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

The net book value of investment properties amounted to ₱93,940 million and ₱83,935 million as of December 31, 2010 and 2009, respectively (see Note 12).

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

Deferred tax assets amounted to ₱223 million and ₱243 million as of December 31, 2010 and 2009, respectively (see Note 19).

Pension Cost. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, the discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

4. Summary of Significant Accounting and Financial Reporting Policies

<u>Cash and Cash Equivalents</u>
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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

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

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

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

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

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company’s investments held for trading and derivative assets. The carrying values of financial assets under this category amounted to ₱1,238 million and ₱744 million as of December 31, 2010 and 2009, respectively. Included under financial liabilities at FVPL are the Company’s derivative liabilities. The carrying values of financial liabilities at FVPL amounted to ₱710 million and ₱387 million as of December 31, 2010 and 2009, respectively (see Note 24).

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

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

Classified under this category are the Company’s cash and cash equivalents, short-term investments and receivables. The carrying values of financial assets under this category amounted to ₱14,786 million and ₱8,375 million as of December 31, 2010 and 2009, respectively (see Note 24).

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

The Company has no investments classified as HTM as of December 31, 2010 and 2009.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as unrealized gain 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 ₱1,104 million and ₱1,103 million as of December 31, 2010 and 2009, respectively (see Note 24).

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

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

This category includes loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). The carrying values of financial liabilities under this category amounted to ₱54,330 million and ₱47,170 million as of December 31, 2010 and 2009, respectively (see Note 24).

Classification of Financial Instruments Between Debt and Equity

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

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

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

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

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

Derivative Financial Instruments and Hedging
The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options, 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 24). Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

<u>Offsetting Financial Instruments</u>
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.

<u>Business Combinations</u>
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.

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

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

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

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

5. **Business Combinations**

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

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

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

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

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

Affluent

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

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

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

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

Mega Make

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

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

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

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

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

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

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

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

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

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

Acquisition of Alpha Star
On September 3, 2009, SM Land (China) acquired Alpha Star from Grand China for ₱778 million (¥112 million). As a result of the acquisition, Alpha Star became a wholly-owned subsidiary of SM Land (China). No restatement of prior period was made as a result of the acquisition of Alpha Star due to immateriality. If prior period would be restated, the December 31, 2008 consolidated net income would be reduced by ₱12 million.

The excess of the cost of business combination over the net carrying amounts amounting to ₱44 million is included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets (see Note 17).

6. Segment Information

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

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

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

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

Geographical Segment Data

	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**

	2010			
	Philippines	**China**	**Eliminations**	**Consolidated**
		(In Thousands)		
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

	2008			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Revenue	₱17,013,597	₱825,470	₱–	₱17,839,067
Segment results:				
Income before income tax	₱9,396,548	₱83,878	₱–	₱9,480,426
Provision for (benefit from) income tax	2,759,266	(12,127)	–	2,747,139
Net income	₱6,637,282	₱96,005	₱–	₱6,733,287

	2008			
	Philippines	China	Eliminations	Consolidated
		(In Thousands)		
Net income attributable to:				
Equity holders of the Parent	₱6,316,211	₱96,005	₱–	₱6,412,216
Non-controlling interests	321,071	–	–	321,071
Segment profit	₱9,368,167	₱262,811	₱–	₱9,630,978
Segment assets	₱84,572,685	₱12,613,073	(₱1,680,568)	₱95,505,190
Segment liabilities	₱41,340,188	₱7,995,406	(₱1,689,936)	₱47,645,658
Other information:				
Depreciation and amortization	₱2,362,786	₱303,522	₱–	₱2,666,308
Capital expenditures	7,973,086	1,043,482	–	9,016,568

7. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks (see Note 21)	**₱4,132,648,248**	₱1,617,067,434
Temporary investments (see Note 21)	**5,587,070,036**	2,169,399,288
	₱9,719,718,284	₱3,786,466,722

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

Interest income earned from bank deposits and temporary investments amounted to ₱127 million, ₱211 million and ₱86 million for the years ended December 31, 2010, 2009 and 2008, respectively.

8. Short-term Investments

This account includes time deposit with Banco de Oro Unibank, Inc. (BDO) amounting to ₱877 million and ₱924 million as of December 31, 2010 and 2009, respectively, with fixed interest rate of 3.24%. Such deposit is intended to meet short-term cash requirements and may be preterminated at anytime by the Company.

Interest income earned from short-term investments amounted to ₱28 million, ₱6 million and ₱91 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Investments in corporate notes issued by BDO amounting to ₱1,000 million classified under this account in 2009 was reclassified to current AFS investments in 2010. Accordingly, the balance as of December 31, 2009 was also reclassified to current AFS investments. The reclassification has no impact on consolidated total current assets and consolidated total assets.

9. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds amounting to ₱500 million and ₱389 million as of December 31, 2010 and 2009, respectively, with yields ranging from 3.18% to 12.29%. The investments are Philippine peso-denominated and U.S. dollar-denominated with various maturities ranging from 2010 to 2017.

Investments held for trading include unrealized marked-to-market gain amounting to ₱14 million, ₱6 million and ₱3 million in 2010, 2009 and 2008, respectively, the amounts of which are included under "Others - net" account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱13 million, ₱5 million and ₱9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

10. Receivables

This account consists of:

	2010	2009
Rent (see Note 21)	**₱3,526,843,004**	₱3,072,689,836
Advances to suppliers	**370,314,070**	310,747,349
Accrued interest (see Note 21)	**33,293,073**	21,725,664
Others	**258,865,201**	259,721,567
	₱4,189,315,348	₱3,664,884,416

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:

	2010	2009
Neither past due nor impaired	**₱3,944,764,764**	₱3,433,783,858
Past due but not impaired:		
91-120 days	**31,851,507**	20,907,490
Over 120 days	**212,699,077**	210,193,068
	₱4,189,315,348	₱3,664,884,416

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

11. **Prepaid Expenses and Other Current Assets**

This account consists of:

	2010	2009
Input taxes	**₱398,885,734**	₱277,561,997
Prepaid expenses	**314,094,794**	289,693,040
Advances to contractors	**215,722,567**	76,997,913
Others	**175,514,387**	164,709,231
	₱1,104,217,482	₱808,962,181

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

12. **Investment Properties**

This account consists of:

	2010				
	Land and Land Use Rights	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Shopping Mall Complex Under Construction**	**Total**
Cost					
Balance at beginning of year	**₱14,543,163,919**	**₱64,660,558,173**	**₱14,399,227,393**	**₱10,337,428,196**	**₱103,940,377,681**
Additions	**4,600,051,172**	**1,072,467,305**	**360,723,984**	**7,749,521,932**	**13,782,764,393**
Reclassification	**(40,000,000)**	**–**	**(59,738,975)**	**–**	**(99,738,975)**
Transfers	**477,532,899**	**6,671,339,375**	**1,030,868,446**	**(8,179,740,720)**	**–**
Translation adjustments	**(55,990,831)**	**(125,666,250)**	**(23,733,502)**	**(90,113,195)**	**(295,503,778)**
Balance at end of year	**19,524,757,159**	**72,278,698,603**	**15,707,347,346**	**9,817,096,213**	**117,327,899,321**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**345,222,016**	**12,832,794,501**	**6,827,594,244**	**–**	**20,005,610,761**
Depreciation and amortization (see Note 18)	**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**

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

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱475 million and ₱487 million as of December 31, 2010 and 2009, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under

"Investment properties - net" account and a corresponding liability equivalent to the same amount, which is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets.

A portion of investment properties located in China with a carrying value of ₱623 million and ₱647 million as of December 31, 2010 and 2009, respectively, and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

Rent income from investment properties amounted to ₱19,993 million, ₱17,659 million and ₱15,358 million for the years ended December 31, 2010, 2009 and 2008, respectively. Direct operating expenses from investment properties that generated rent income amounted to ₱11,271 million, ₱9,746 million and ₱8,208 million for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 18).

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

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

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

Shopping mall complex under construction includes cost of land amounting to ₱1,966 million and ₱2,088 million as of December 31, 2010 and 2009, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱27,509 million and ₱19,076 million as of December 31, 2010 and 2009, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2010 and 2009 are valued at ₱5,745 million and ₱3,962 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱600 million and ₱1,037 million in 2010 and 2009, respectively. Capitalization rates used were 6.87% and 8.30% in 2010 and 2009, respectively.

13. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by a local entity with annual dividend rate of 8.25% and investments in corporate notes issued by BDO amounting to ₱1,000 million as of December 31, 2010 and 2009 with fixed interest rate of 6.80%. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. Preferred shares amounting to ₱2,453 million (US$50 million) were redeemed in October 2009. The remaining shares as of December 31, 2010 are mandatorily redeemable in 2011 at par value. Investments in corporate notes are intended to meet short-term cash requirements.

Interest income earned from AFS investments amounted to ₱83 million, ₱201 million and ₱202 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The movements in net unrealized gain on AFS investments for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	**₱2,515,239**	₱48,346,550
Gain (loss) due to changes in fair value of AFS investments	**1,230,084**	(45,831,311)
Balance at end of year	**₱3,745,323**	₱2,515,239

14. **Loans Payable**

This account consists of unsecured Philippine peso-denominated loans obtained from a bank amounting to ₱1,000 million as of December 31, 2009 (see Note 21). This loan was paid upon maturity in February 2010.

Interest expense incurred from loans payable amounted to ₱9 million, ₱145 million and ₱175 million in 2010, 2009 and 2008, respectively.

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

This account consists of:

	2010	2009
Trade	**₱4,060,325,504**	₱3,057,451,673
Accrued operating expenses (see Note 21)	**2,022,473,343**	1,410,984,518
Accrued interest (see Notes 14, 16 and 21)	**338,463,012**	318,328,554
Others	**375,585,463**	443,675,180
	₱6,796,847,322	₱5,230,439,925

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

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

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

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

16. **Long-term Debt**

This account consists of:

	2010	2009
Parent Company:		
U.S. dollar-denominated loans:		
Three-year term loans	**₱3,897,276,056**	₱4,072,557,494
Five-year, three-year and two-year bilateral loans	**1,079,807,116**	2,507,295,023
Three-year club loan	**1,713,138,278**	–
Other U.S. dollar loans	**3,019,052,497**	919,562,465
Philippine peso-denominated loans:		
Five-year, seven-year and ten-year corporate notes	**5,000,000,000**	–
Five-year and ten-year corporate notes	**4,958,173,719**	4,956,605,289
Five-year floating rate notes	**2,985,437,634**	3,977,760,426
Five-year, seven-year and ten-year fixed rate notes	**2,969,868,110**	2,972,411,897
Five-year bilateral loan	**–**	2,989,904,839
Other bank loans	**9,734,160,361**	6,742,204,472
Subsidiaries:		
China yuan renminbi-denominated loans:		
Five-year loan	**2,216,223,600**	2,368,520,000
Eight-year loan	**763,071,000**	778,228,000
Five-year loan	**398,124,000**	–
Philippine peso-denominated loans - Five-year bilateral loan	**108,917,440**	171,017,763
	38,843,249,811	32,456,067,668
Less current portion	**766,703,000**	421,467,200
	₱38,076,546,811	₱32,034,600,468

Parent Company

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

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans
The US$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread, with bullet maturities ranging from two to five years. The Company prepaid the US$20 million 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 23 and 24).

U.S. Dollar-denominated Three-Year Club Loan
The US$40 million unsecured loans were drawn on May 7, 2010. The loan bears interest rate based on LIBOR plus spread and will mature on October 28, 2012 (see Notes 23 and 24).

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

- US$30 million five-year bilateral unsecured loan drawn on November 30, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on November 30, 2015 (see Notes 23 and 24).

- US$20 million three-year bilateral unsecured loan drawn on July 13, 2010. The loan bears interest rate based on LIBOR plus spread, with a bullet maturity on January 14, 2013 (see Notes 23 and 24).

- 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. (see Note 23)

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 obtained on December 20, 2010 amounting to ₱3,000 million, ₱1,134 million, ₱52 million and ₱814 million, respectively. The loans bear an interest rate based on Philippine Dealing System Treasury Fixing (PDST-F) plus margin for the five-year floating and 5.79%, 5.88% 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 23).

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 23).

Philippine Peso-denominated Five-Year Floating Rate Notes
This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 totaling ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin. A portion of the loan amounting to ₱1,000 million was prepaid on December 20, 2010. The related unamortized debt issuance costs charged to expense amounted to ₱3 million in 2010 (see Note 23).

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Fixed Rate Notes
This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, respectively, and will mature on June 17, 2013, 2015 and 2018, respectively (see Notes 23 and 24).

Philippine Peso-denominated Five-Year Bilateral Loan
This represents a five-year bullet term loan obtained on June 21, 2006 amounting to ₱3,000 million and will mature on June 21, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on December 21, 2010. The related unamortized balance of debt issuance costs charged to expense amounted to ₱3 million in 2010 (see Note 23).

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 23).

- 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 23 and 24).

- Five-year bullet loan obtained on January 13, 2010 amounting to ₱1,000 million and will mature on January 13, 2015. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 23).

- 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 23).

- Five-year bullet loans obtained on October 16, 2009 amounting to ₱2,000 million and ₱830 million and will mature on October 16, 2014 and October 16, 2012, respectively. The loan carries an interest rate based on PDST-F plus an agreed margin (see Note 23).

- Four-year bullet loan obtained on April 15, 2009 amounting to ₱750 million and will mature on April 15, 2013. The loan carries an interest rate based on Philippine Reference Rate (PHIREF) plus margin (see Notes 23 and 24).

- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18% (see Note 23).

- 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 23).

- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on March 3, 2008. The related unamortized debt issuance costs charged to expense amounted to ₱4 million in 2008 (see Note 23).

Subsidiaries

China Yuan Renminbi-denominated Five-Year Loan
This represents a five-year loan obtained on August 26, 2009 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in semi-annual installments until 2014. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.184% in 2010 and 2009 (see Note 23).

China Yuan Renminbi-denominated Eight-Year Loan
This represents an eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rate of 5.346% in 2010 and 2009 (see Note 23).

<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 was made in 2010 and the balance will be drawn in 2011. The loan is payable in annual installments until 2015. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan carries an interest rate of 5.598% in 2010 (see Note 23).

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

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

<u>Philippine Peso-denominated Five-Year Bilateral Loan</u>
This represents a five-year term loan obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called "SM by the Bay." The loan is payable in equal quarterly installments of ₱15.6 million starting December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin (see Note 23).

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

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

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2010 and 2009, the Company is in compliance with the terms of its loan covenants.

<u>Debt Issuance Costs</u>
The movements in unamortized debt issuance costs in 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	**₱255,565,332**	₱169,355,369
Additions	**128,934,570**	196,823,826
Amortization	**(120,786,113)**	(110,613,863)
Balance at end of year	**₱263,713,789**	₱255,565,332

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

Repayment Schedule

Repayments of long-term debt are scheduled as follows:

Year	Amount
2011	₱766,703,000
2012	11,047,547,000
2013	5,200,941,000
2014	8,722,512,600
2015	9,446,560,000
2016 to 2020	3,922,700,000
	₱39,106,963,600

17. **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 and 13,348,191,367 shares as of December 31, 2010 and 2009, respectively.

Additional Paid-in Capital

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

	2010	2009
Balance at beginning of year	**₱2,375,440,999**	₱5,493,656,403
Adjustments from:		
Additional issuance of shares	**5,843,626,299**	–
Acquisition of non-controlling interests in FARDC (see Note 2)	–	(3,073,952,352)
Acquisition of Alpha Star (see Note 5)	–	(44,263,052)
Balance at end of year	**₱8,219,067,298**	₱2,375,440,999

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:

	2010			2009		
	Before Tax Amount	**Tax Benefit**	**Net-of-tax Amount**	Before Tax Amount	Tax Expense	Net-of-tax Amount
Unrealized gain (loss) on AFS investments	**₱1,366,760**	**(₱136,676)**	**₱1,230,084**	(₱50,923,679)	₱5,092,368	(₱45,831,311)
Cumulative translation adjustment	**(91,770,374)**	–	**(91,770,374)**	(139,632,483)	–	(139,632,483)
	(₱90,403,614)	**(₱136,676)**	**(₱90,540,290)**	(₱190,556,162)	₱5,092,368	(₱185,463,794)

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

Retained Earnings
The retained earnings account is restricted for the payment of dividends to the extent of ₱4,729 million and ₱4,168 million as of December 31, 2010 and 2009, respectively, representing the cost of shares held in treasury (₱101 million in 2010 and 2009) and accumulated equity in net earnings of the subsidiaries totaling ₱4,628 million and ₱4,067 million as of December 31, 2010 and 2009, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

18. **Operating Expenses**

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

	2010	2009	2008
Administrative (see Notes 20, 21 and 22)	**₱3,549,874,202**	₱2,689,127,059	₱2,234,579,230
Depreciation and amortization (see Note 12)	**3,501,183,977**	3,270,784,779	2,666,307,523
Film rentals	**1,494,236,340**	1,118,015,199	978,937,584
Business taxes and licenses	**1,326,394,330**	1,146,588,071	1,095,863,965
Others (see Note 21)	**1,399,692,566**	1,521,309,306	1,232,400,779
	₱11,271,381,415	₱9,745,824,414	₱8,208,089,081

19. **Income Tax**

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

	2010	2009
Deferred tax assets - Unrealized foreign exchange losses and others	**₱223,266,010**	₱243,120,374
Deferred tax liabilities - Undepreciated capitalized interest, unrealized foreign exchange gains and others	**₱1,322,799,401**	₱1,132,255,738

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

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

For the year ended December 31, 2010, the Company opted to use OSD in computing their taxable income.

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

	2010	2009	2008
Statutory tax rates	**30.0%**	30.0%	35.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(0.7)**	(1.3)	(1.4)
Change in enacted tax rates and others	**(4.7)**	(4.1)	(4.6)
Effective tax rates	**24.6%**	24.6%	29.0%

20. **Pension Cost**

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

Net Pension Cost

	2010	2009	2008
Current service cost	**₱2,904,989**	₱1,633,774	₱2,728,816
Interest cost on benefit obligation	**3,690,383**	1,864,154	2,056,792
Expected return on plan assets	**(2,282,117)**	(1,295,123)	(719,745)
Net actuarial loss recognized	**5,811,580**	77,448	401,546
Effect on asset limit	**1,950**	–	–
Net pension cost	**₱10,126,785**	₱2,280,253	₱4,467,409
Actual return on plan assets	**₱8,559,473**	₱3,131,449	(₱477,554)

Net Pension Asset

	2010	2009
Defined benefit obligation	**₱54,108,736**	₱32,745,187
Fair value of plan assets	**(54,135,272)**	(30,494,754)
Unfunded obligation (excess plan assets)	**(26,536)**	2,250,433
Unrecognized net actuarial losses	**(16,970,543)**	(11,742,995)
Net pension asset	**(₱16,997,079)**	(₱9,492,562)

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

	2010	2009	2008
Balance at beginning of year	**₱32,745,187**	₱18,098,581	₱24,632,241
Current service cost	**2,904,989**	1,633,774	2,728,816
Interest cost on benefit obligation	**3,690,383**	1,864,154	2,056,792
Transfer to the plan	**3,043,452**	1,547,751	–
Benefits paid	**(72,195)**	–	(69,757)
Actuarial losses (gains) on obligation	**11,796,920**	9,600,927	(11,249,511)
Balance at end of year	**₱54,108,736**	₱32,745,187	₱18,098,581

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

	2010	2009	2008
Balance at beginning of year	**₱30,494,754**	₱15,807,447	₱7,706,515
Expected return on plan assets	**2,282,117**	1,295,123	719,745
Transfer to the plan	**3,043,452**	1,547,751	–
Benefits paid	**(72,195)**	–	(69,757)
Contributions	**12,109,788**	10,008,107	8,648,243
Actuarial gains (losses)	**6,277,356**	1,836,326	(1,197,299)
Balance at end of year	**₱54,135,272**	₱30,494,754	₱15,807,447

The Company expects to contribute ₱14 million to its defined benefit pension plan in 2011.

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

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

	2010	2009	2008
Discount rate	**7.9%**	11.3%	10.3%
Expected rate of return on plan assets	**6.0%**	6.0%	6.0%
Future salary increases	**11.0%**	11.0%	10.0%

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

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

	2010	2009	2008	2007	2006
Defined benefit obligation	**₱54,108,736**	₱32,745,187	₱18,098,581	₱24,632,241	₱18,632,672
Plan assets	**54,135,272**	30,494,754	15,807,447	7,706,515	4,946,058
Deficit (excess plan assets)	**(26,536)**	2,250,433	2,291,134	16,925,726	13,686,114
Experience adjustments on plan liabilities	**(5,496,062)**	9,761,099	(1,426,249)	1,895,714	12,075,079
Experience adjustment on plan assets	**6,277,356**	1,836,326	(1,197,299)	56,146	107,422

21. Related Party Transactions

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2010 and 2009, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

a. The Company has existing lease agreements with its affiliates, the SM Retail Group and SM Banking Group. Total rent income amounted to ₱6,664 million, ₱5,996 million and ₱5,265 million in 2010, 2009 and 2008, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,418 million and ₱1,198 million as of December 31, 2010 and 2009, respectively.

b. The Company leases the land where two of its malls are located from SMIC and its affiliate, SM Land for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and SM Land a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱205 million, ₱179 million and ₱158 million in 2010, 2009 and 2008, respectively. Rent payable to SMIC and SM Land included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱35 million and ₱17 million as of December 31, 2010 and 2009, respectively.

c. The Company pays management fees to its affiliates, Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱647 million, ₱596 million and ₱508 million in 2010, 2009 and 2008, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱59 million and ₱65 million as of December 31, 2010 and 2009, 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 ₱7,125 million and ₱3,539 million as of December 31, 2010 and 2009, respectively. Interest income amounted to ₱155 million, ₱203 million and ₱171 million in 2010, 2009 and 2008, respectively. Accrued interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱17 million and ₱7 million as of December 31, 2010 and 2009, respectively.

e. As of December 31, 2010 and 2009, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱1,529 million and ₱3,530 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 ₱249 million, ₱141 million and ₱27 million in 2010, 2009 and 2008, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱23 million and ₱26 million as of December 31, 2010 and 2009, respectively.

f. AFS investments include investments in corporate notes issued by BDO amounting to ₱1,000 million as of December 31, 2010 and 2009. AFS investments pertaining to mandatorily redeemable preferred shares of BDO which amounted to ₱2,453 million as of December 31, 2008 have matured last October 18, 2009 (see Note 13). Interest income amounted to ₱68 million, ₱192 million and ₱194 million in 2010, 2009 and 2008, respectively. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱6 million as of December 31, 2010 and 2009.

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

h. The total compensation paid to key management personnel of the Company amounted to ₱28 million, ₱23 million and ₱16 million in 2010, 2009 and 2008, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

22. Lease Agreements

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

Rent income amounted to ₱19,993 million, ₱17,659 million and ₱15,358 million for the years ended December 31, 2010, 2009 and 2008, 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:

	2010	2009
Within one year	**₱373,895,101**	₱167,791,793
After one year but not more than five years	**1,737,602,922**	816,030,077
After five years	**7,814,374,137**	5,236,372,668
	₱9,925,872,160	₱6,220,194,538

Rent expense included under "Operating expenses" account in the consolidated statements of income amounted to ₱504 million, ₱438 million and ₱368 million for the years ended December 31, 2010, 2009 and 2008, respectively.

23. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, short-term investments, investments held for trading, accrued interest 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 24).

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

Interest Rate Risk
The Company's exposure to interest rate risk relates primarily to its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 7, 9, 13, 14 and 16.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2010 and 2009, after taking into account the effect of interest rate swaps, approximately 53% and 50% respectively, of the Company's long-term borrowings are at a fixed rate of interest (see Note 24).

Interest Rate Risk Table

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

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

	2009								
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years	Total	Debt Issuance	Carrying Value
Fixed rate:									
Philippine peso-denominated corporate notes	₱5,550,000	₱5,550,000	₱5,550,000	₱5,550,000	₱3,677,800,000	₱1,100,000,000	₱4,800,000,000	(₱41,658,923)	₱4,758,341,077
Interest rate	8.40%	8.40%	8.40%	8.40%	8.40%	10.11%			
Philippine peso-denominated fixed rate notes	₱5,990,000	₱5,990,000	₱5,990,000	₱980,990,000	₱990,000	₱1,994,060,000	2,994,010,000	(21,598,103)	2,972,411,897
Interest rate	9.31%-9.60%	9.31%-9.60%	9.31%-9.60%	9.31%-9.60%	9.60%	9.60%-9.85%			
Other bank loans	–	–	–	1,000,000,000	–	1,200,000,000	2,200,000,000	(13,877,458)	2,186,122,542
Interest rate				7.18%		9.75%			
Floating rate:									
U.S. dollar-denominated three-year term loans	$–	$–	$90,000,000	$–	$–	$–	4,158,000,000	(85,442,506)	4,072,557,494
Interest rate			LIBOR+spread						
Philippine peso-denominated five-year floating rate loan	₱2,000,000	₱2,000,000	₱3,992,000,000	₱–	₱–	₱–	3,996,000,000	(18,239,574)	3,977,760,426
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
Philippine peso-denominated five-year bilateral loans	₱62,500,000	₱3,062,500,000	₱46,875,000	₱–	₱–	₱–	3,171,875,000	(10,952,398)	3,160,922,602
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%						
U.S. dollar-denominated bilateral loans	$–	$30,000,000	$–	$25,000,000	$–	$–	2,541,000,000	(33,704,977)	2,507,295,023
Interest rate		LIBOR+spread		LIBOR+spread					
China yuan renminbi-denominated five-year loan	¥16,000,000	¥20,000,000	¥30,000,000	¥40,000,000	¥244,000,000	¥–	2,368,520,000	–	2,368,520,000
Interest rate	5.184%	5.184%	5.184%	5.184%	5.184%				
U.S. dollar-denominated three-year term loans	$–	$–	$20,000,000	$–	$–	$–	924,000,000	(4,437,535)	919,562,465
Interest rate			LIBOR+spread						
China yuan renminbi-denominated eight-year bilateral loan	¥35,000,000	¥40,000,000	¥40,000,000	¥–	¥–	¥–	778,228,000	–	778,228,000
Interest rate	5.35%	5.35%	5.35%						
Philippine peso-denominated corporate notes	₱300,000	₱300,000	₱300,000	₱300,000	₱198,800,000	₱–	200,000,000	(1,735,788)	198,264,212
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Other bank loans	₱–	₱–	₱–	₱750,000,000	₱3,830,000,000	₱–	4,580,000,000	(23,918,070)	4,556,081,930
Interest rate				PHIREF+margin%	PDST-F+margin%				
							₱32,711,633,000	(₱255,565,332)	₱32,456,067,668

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
2010	**100**	**(₱60,891,132)**
	50	**(30,445,566)**
	(100)	**60,891,132**
	(50)	**30,445,566**
2009	100	(₱42,056,486)
	50	(21,028,243)
	(100)	42,056,486
	(50)	21,028,243

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
To manage its foreign currency risk, stabilize cash flows and improve investment and cash flow planning, the Company enters into foreign currency swap contracts, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows (see Note 24).

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱9,653 million (US$220 million) and ₱10,090 million (US$230 million), respectively, as of December 31, 2010 and ₱7,910 million (US$171 million) and ₱7,755 million (US$168 million), respectively, as of December 31, 2009.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱43.84 to US$1.00 and ₱46.20 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2010 and 2009, respectively.

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

	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)**

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
2009	₱1.50	(₱1,254,612)
	1.00	(836,408)
	(1.50)	1,254,612
	(1.00)	836,408

Credit Risk

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

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, short-term investments, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 24.

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

Credit Quality of Financial Assets

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

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

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

As of December 31, 2010 and 2009, the credit quality of the Company's financial assets is as follows:

	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.*

	2009			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
Loans and Receivables				
Cash and cash equivalents*	₱3,755,924,815	₱–	₱–	₱3,755,924,815
Short-term investments	924,000,000	–	–	924,000,000
Receivables from:				
Rent	–	2,841,589,278	231,100,558	3,072,689,836
Accrued interest	21,725,664	–	–	21,725,664
Advances to suppliers and others	–	570,468,916	–	570,468,916
Financial Assets at FVPL				
Investments held for trading -				
Corporate and government bonds	389,186,100	–	–	389,186,100
Derivative assets	355,235,235	–	–	355,235,235
AFS Investments				
Debt securities	1,102,794,710	–	–	1,102,794,710
	₱6,548,866,524	₱3,412,058,194	₱231,100,558	₱10,192,025,276

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

Liquidity Risk

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

The Company's financial assets, which have maturity of less than 12 months and used to meet its short term liquidity needs, are cash and cash equivalents, short-term investments and investments held for trading amounting to ₱9,720 million, ₱877 million and ₱500 million, respectively, as of December 31, 2010 and ₱3,786 million, ₱924 million and ₱389 million, respectively, as of December 31, 2009. Also included in the Company's financial assets used to meet its short-term liquidity needs are current AFS investments amounting to ₱1,104 million and ₱1,000 million as of December 31, 2010 and 2009, respectively.

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

	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**
Other noncurrent liabilities*	**–**	**2,375,075,078**	**–**	**2,375,075,078**
	₱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.*

	2009			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱1,005,972,222	₱–	₱–	₱1,005,972,222
Accounts payable and other current liabilities*	5,103,211,559	–	–	5,103,211,559
Long-term debt (including current portion)	2,335,788,158	33,848,773,149	5,226,568,028	41,411,129,335
Derivative liabilities:				
Interest rate swaps	95,271,808	(2,393,981)	–	92,877,827
Forward currency contracts	403,012,500	–	–	403,012,500
Tenants' deposits	–	5,708,755,024	–	5,708,755,024
Other noncurrent liabilities*	–	2,901,839,861	–	2,901,839,861
	₱8,943,256,247	₱42,456,974,053	₱5,226,568,028	₱56,626,798,328

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

Capital Management

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

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

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

As of December 31, 2010 and 2009, the Company's gearing ratio are as follows:

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

	2010	2009
Loans payable	**₱–**	₱1,000,000,000
Current portion of long-term debt	**766,703,000**	421,467,200
Long-term debt - net of current portion	**38,076,546,811**	32,034,600,468
Total interest-bearing debt (a)	**38,843,249,811**	33,456,067,668
Total equity attributable to equity holders of the Parent	**58,191,167,414**	47,349,171,758
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱97,034,417,225**	₱80,805,239,426
Gearing ratio (a/b)	**40%**	41%

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

	2010	2009
Loans payable	₱–	₱1,000,000,000
Current portion of long-term debt	**766,703,000**	421,467,200
Long-term debt - net of current portion	**38,076,546,811**	32,034,600,468
Less cash and cash equivalents, short-term investments, investments held for trading and AFS investments	**(12,200,813,932)**	(6,202,447,532)
Total net interest-bearing debt (a)	**26,642,435,879**	27,253,620,136
Total equity attributable to equity holders of the Parent	**58,191,167,414**	47,349,171,758
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱84,833,603,293**	₱74,602,791,894
Gearing ratio (a/b)	**31%**	37%

24. 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:

	2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱9,719,718,284**	**₱9,719,718,284**	₱3,786,466,722	₱3,786,466,722
Short-term investments	**876,800,000**	**876,800,000**	924,000,000	924,000,000
Receivables from:				
Rent	**3,526,843,004**	**3,526,843,004**	3,072,689,836	3,072,689,836
Accrued interest	**33,293,073**	**33,293,073**	21,725,664	21,725,664
Advances to suppliers and others	**629,179,271**	**629,179,271**	570,468,916	570,468,916
	14,785,833,632	**14,785,833,632**	8,375,351,138	8,375,351,138
Financial assets at FVPL:				
Investments held for trading - corporate and government bonds	**500,134,177**	**500,134,177**	389,186,100	389,186,100
Derivative assets	**738,228,976**	**738,228,976**	355,235,235	355,235,235
	1,238,363,153	**1,238,363,153**	744,421,335	744,421,335
AFS investments -				
Debt securities	**1,104,161,471**	**1,104,161,471**	1,102,794,710	1,102,794,710
	₱17,128,358,256	**₱17,128,358,256**	₱10,222,567,183	₱10,222,567,183

	2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱709,909,803**	**₱709,909,803**	₱386,828,566	₱386,828,566
Other financial liabilities:				
Loans payable	**–**	**–**	1,000,000,000	1,000,000,000
Accounts payable and other current liabilities*	**6,646,207,309**	**6,646,207,309**	5,103,211,559	5,103,211,559
Long-term debt (including current portion)	**38,843,249,811**	**40,451,280,851**	32,456,067,668	33,574,764,925
Tenants' deposits	**6,465,889,827**	**6,195,895,322**	5,708,755,024	5,613,131,081
Other noncurrent liabilities*	**2,375,075,078**	**2,280,152,034**	2,901,839,861	2,853,232,876
	54,330,422,025	**55,573,535,516**	47,169,874,112	48,144,340,441
	₱55,040,331,828	**₱56,283,445,319**	₱47,556,702,678	₱48,531,169,007

* *Excluding nonfinancial liabilities included in "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts amounting to ₱151 million and ₱475 million, respectively, as of December 31, 2010 and ₱127 million and ₱487 million, respectively, as of December 31, 2009.*

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 transactions.

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 in mandatorily redeemable preferred shares 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 rates used range from 3.31% to 4.33% as of December 31, 2010 and 6.28% to 7.09% as of December 31, 2009.

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

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.30% to 7.12% as of December 31, 2010 and 5.25% to 8.94% as of December 31, 2009.

Debt Type	Fair Value Assumptions
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rate used was 1.94% to 3.55% as of December 31, 2010 and 1.92% to 3.52% as of December 31, 2009.

Tenants' Deposits 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 3.40% to 4.41% as of December 31, 2010 and 5.81% to 6.11% as of December 31, 2009.

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, 2010 and 2009 based on Levels 1 and 2:

	2010		2009	
	Level 1	**Level 2**	Level 1	Level 2
Financial Assets				
Financial assets at FVPL:				
Investments held for trading -				
corporate and government bonds	**₱500,134,177**	**₱–**	₱389,186,100	₱–
Derivative assets	**–**	**738,228,976**	–	355,235,235
	500,134,177	**738,228,976**	389,186,100	355,235,235
AFS investments:				
Corporate notes - quoted	**1,000,000,000**	**–**	1,000,000,000	–
Redeemable preferred shares -				
unquoted	**–**	**104,161,471**	–	102,794,710
	₱1,500,134,177	**₱842,390,447**	₱1,389,186,100	₱458,029,945
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liabilities	**₱–**	**₱709,909,803**	₱–	₱386,828,566

During the years ended December 31, 2010 and 2009, there were no transfer 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.

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

	2009		
	<1 Year	>1-<2 Years	>2-<5 Years
Floating-Fixed:			
Outstanding notional amount	$145,000,000	$115,000,000	$25,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	4.10%– 5.40%	4.10%– 5.40%	4.10%

	2009		
	<1 Year	>1-<2 Years	>2-<5 Years
Outstanding notional amount	₱750,000,000	₱750,000,000	₱750,000,000
Receive-floating rate	3 months PHIREF+margin%	3 months PHIREF+margin%	3 months PHIREF+margin%
Pay-fixed rate	8.20%	8.20%	8.20%
Fixed-Floating:			
Outstanding notional amount	₱990,000,000	₱985,000,000	₱980,000,000
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 2010, the Parent Company entered into two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The combined net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 16). As of December 31, 2010, these swaps have positive fair values of ₱87 million.

Also in 2010, the Parent Company entered into US$ interest rate swap agreement with notional amount of US$40 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year club loan into fixed rate loan with semi-annual payment intervals up to October 28, 2012 (see Note 16). As of December 31, 2010, the floating to fixed interest rate swap has negative fair value of ₱6 million.

Also in 2010, the Parent Company entered into US$ interest rate swap agreement with notional amount of US$20 million. Under the agreement, the Parent Company effectively converts the floating rate U.S. dollar-denominated three-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to January 14, 2013 (see Note 16). As of December 31, 2010, the floating to fixed interest rate swaps has negative fair value of ₱2 million.

Also in 2010, the Parent Company entered into US$ interest rate swap agreement with notional 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 16). As of December 31, 2010, the floating to fixed interest rate swap has positive fair value of ₱20 million.

In 2009, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$145 million. Under these agreements, the Parent Company effectively converts the floating rate 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 16). The Parent Company preterminated the US$30 million on November 30, 2010. Fair value changes from the preterminated swap recognized in the consolidated statements of income amounted to ₱6 million gain in 2010. As of December 31, 2010 and 2009, the outstanding floating to fixed interest rate swaps have net negative fair values of ₱130 million and ₱99 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 16). As of December 31, 2010 and 2009, the floating to fixed interest rate swap has negative fair value of ₱30 million and positive fair value of ₱10 million, respectively .

In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million with repayment of ₱5 million every anniversary. Under these agreements, the Parent Company effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013 (see Note 16). As of December 31, 2010 and 2009, the fixed to floating interest rate swaps have positive fair values of ₱90 million and ₱58 million, respectively.

In 2004, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009 (see Note 16). As of December 31, 2008, the floating to fixed interest rate swaps have negative fair values of ₱41 million. Fair value changes from these interest rate swaps recognized in the consolidated statements of income amounted to ₱41 million gain in 2009.

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

To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, the Parent Company entered into the following cost reduction trades in 2007:

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

In these trades, the Parent Company will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the exchange rate between US$ and the ₱ trade above the strike price on the two dates, the Parent Company will have to pay a penalty based on an agreed formula. As of December 31, 2008, there were no outstanding foreign currency call options. Fair value changes from these currency options recognized in the consolidated statements of income amounted to ₱17 million loss in 2008.

Non-deliverable Forwards. In 2010, the Parent Company entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. The Parent Company recognized derivative asset and derivative liability amounting to ₱541 million from the outstanding forward contracts as of December 31, 2010. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱91 million gain in 2010.

In 2009, the Parent Company entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. The Parent Company recognized derivative asset and derivative liability amounting to ₱288 million from the outstanding forward contracts as of December 31, 2009. Net fair value changes from the settled forward contracts recognized in the consolidated statements of income amounted to ₱74 million and ₱23 million gains in 2010 and 2009, respectively.

In 2007, the Parent Company entered into sell ₱ and buy US$ forward contracts. At the same time, it entered into sell US$ and buy ₱ with the same aggregate notional amount as an offsetting position. The Parent Company recognized derivative asset and derivative liability amounting to ₱272 million from the outstanding forward contracts as of December 31, 2007. Net fair value changes from these forward contracts recognized in the consolidated statements of income amounted to ₱47 million gain in 2008.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments as of December 31 are as follows:

	2010	2009
Balance at beginning of year	**(₱31,593,331)**	(₱867,503,534)
Net changes in fair value during the year	**161,117,267**	(128,751,715)
Less fair value of settled derivatives	**(101,204,763)**	(964,661,918)
Balance at end of year	**₱28,319,173**	(₱31,593,331)

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 marked-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 marked-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:

	2010	2009
Derivative assets	**₱738,228,976**	₱355,235,235
Derivative liabilities	**(709,909,803)**	(386,828,566)
	₱28,319,173	(₱31,593,331)

25. **Basic/Diluted EPS Computation**

Basic/diluted EPS is computed as follows:

	2010	2009	2008
Net income attributable to equity holders of the Parent (a)	**₱7,856,348,789**	₱7,023,350,225	₱6,412,215,308
Common shares issued at beginning of year	**13,348,191,367**	13,348,191,367	13,348,191,367
Weighted average number of shares issued in equity placement (see Note 17)	**118,668,479**	–	–
Common shares issued at end of year	**13,466,859,846**	13,348,191,367	13,348,191,367
Less treasury stock	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**13,448,002,846**	13,329,334,367	13,329,334,367
Earnings per share (a/b)	**₱0.584**	₱0.527	₱0.481

26. **Other Matters**

The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the vatability of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The motion for reconsideration (MR) of the Bureau of Internal Revenue (the Respondent) was denied on December 18, 2006. The Respondent filed an appeal on January 19, 2007, which the CTA nullified in its decision dated April 30, 2008 and December 18, 2008. The Supreme Court promulgated a favorable decision on the tax cases dated February 26, 2010 and March 22, 2010. On April 28, 2010 and September 10, 2010, the Supreme Court denied with finality the subsequent MR of the Respondent and an Entry of Judgment dated June 9, 2010 and October 12, 2010 stated that the decision of the Supreme Court on February 26, 2010 and March 22, 2010 have already become final and executory.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
SM Corporate Offices, Building A
J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 of SM Prime Holdings, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 14, 2011. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-2
Tax Identification No. 102-085-577
PTR No. 2641521, January 3, 2011, Makati City

February 14, 2011

ANNEX 68.1 - M

SM PRIME HOLDINGS, INC AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2010

Schedule A. Marketable Securities (Current Marketable Equity Securities and Other Short-term Cash Investments)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Income Received and Accrued
Temporary Investments			
Peso Time Deposits		₱5,577,626,900	
Dollar Time Deposits	$215,400	9,443,136	
		₱5,587,070,036	**₱118,325,571**
Short-term Investments			
Dollar Time Deposits	$20,000,000	**₱876,800,000**	**₱28,363,556**
Investments Held for Trading			
Banco de Oro (BDO) RTB	₱150,000,000	₱159,750,000	
Bureau of Treasury RTB	₱50,000,000	53,535,500	
Energy Development Corp.	₱10,000,000	10,684,182	
Ayala Corporation	₱5,000,000	5,114,895	
Travellers International Hotel	$5,000,000	215,592,000	
SM Investments Corp Bond	$1,100,000	55,457,600	
		₱500,134,177	**₱13,039,787**
Available-for-sale Investments			
BDO Tier 2	₱1,000,000,000	₱1,000,000,000	₱67,700,000
Aboitiz Equity	₱10,000,000	104,161,471	14,820,812
		1,104,161,471	**₱82,520,812**

Schedule I. Capital Stock

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	20,000,000,000	13,898,943,067*	–	9,650,553,487	16,064,977	4,232,324,603

* *Net of treasury stock totaling 18,857,000 shares.*

SM Prime Holdings, Inc. and Subsidiaries
SM Corporate Offices, Building A, J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City 1300

Retained Earnings Available for Dividend Declaration
December 31, 2010

Unappropriated retained earnings, January 1, 2010		₱24,043,028,119
Cumulative equity in net income of subsidiaries, January 1, 2010		(4,067,136,045)
Unappropriated retained earnings as of January 1, 2010, as adjusted to available for dividend distribution		19,975,892,074
Net income closed to retained earnings in 2010	7,295,008,938	
Less non-actual/unrealized income, net of applicable tax:		
Unrealized foreign exchanges gain (net of exchange differences attributable to cash and cash equivalents)	59,408,935	
Unrealized marked-to-market gain on derivatives	17,628,179	
Unrealized marked-to-market gain on investments held for trading	9,243,563	
	86,280,677	
Net income actually earned in 2010		7,208,728,261
Less: Cash dividends declared in 2010	3,337,047,842	
Treasury stock	101,474,705	
		3,438,522,547
Retained earnings as of December 31, 2010 available for dividend declaration		**₱23,746,097,788**

INDEX TO EXHIBITS

Form 17-A

* These Exhibits are either not applicable to the Company or require no answer.

SM PRIME HOLDINGS, INC.
AGING OF RENT RECEIVABLE
AS OF DECEMBER 31, 2010

MALL	BALANCE	CURRENT	Over 30 days
SM NORTH EDSA	396,936,514	327,589,677	69,346,837
SM MEGAMALL	363,739,660	297,080,392	66,659,268
SM MALL OF ASIA	272,049,149	240,265,728	31,783,421
SM FAIRVIEW	189,952,803	162,849,407	27,103,396
SM CEBU	157,835,269	121,658,111	36,177,158
SM SOUTHMALL	123,900,142	108,558,104	15,342,038
SM PAMPANGA	113,433,216	109,764,797	3,668,419
SM MANILA	108,895,155	85,200,043	23,695,112
SM BACOOR	102,842,978	91,003,046	11,839,932
SM SAN LAZARO	93,628,598	91,271,000	2,357,598
SM ILOILO	93,546,271	83,033,919	10,512,352
SM DASMARINAS	79,512,434	74,262,753	5,249,681
SM CLARK	76,039,458	69,970,302	6,069,156
SM DAVAO	74,195,777	68,075,096	6,120,680
SM BAGUIO	69,323,951	67,668,145	1,655,807
SM STA ROSA	68,833,704	68,319,556	514,148
SM MARILAO	66,718,099	65,428,911	1,289,188
SM LIPA	62,354,930	60,861,287	1,493,643
SM STA MESA	61,948,522	53,644,875	8,303,647
SM SUCAT	61,402,173	56,426,677	4,975,496
SM BICUTAN	61,155,761	59,722,275	1,433,486
SM MARIKINA	60,637,851	59,004,570	1,633,281
SM BATANGAS	56,828,673	50,829,196	5,999,477
SM BACOLOD	52,148,354	49,636,689	2,511,665
SM TAYTAY	49,566,896	49,027,566	539,330
SM CALAMBA	48,989,282	46,152,036	2,837,246
SM ROSALES	42,728,299	40,401,699	2,326,599
SM LUCENA	41,386,551	40,418,499	968,052
SM CAGAYAN DE ORO	40,870,979	35,930,002	4,940,977
SM BALIWAG	40,850,016	39,803,658	1,046,357
SM TARLAC	40,051,889	39,368,549	683,340
SM NAGA	38,405,162	37,513,967	891,196
SM ROSARIO	38,363,222	38,337,097	26,124
SM NOVALICHES	34,163,021	31,277,767	2,885,254
SM VALENZUELA	33,369,313	32,709,467	659,846
SM MOLINO	31,346,333	30,169,969	1,176,364
SM BY THE BAY	30,513,271	15,910,591	14,602,680
SM MUNTINLUPA	29,282,823	28,283,297	999,526
SM SAN PABLO	28,896,099	28,623,771	272,328
SM PASIG	23,923,037	21,751,852	2,171,185
SM LAS PINAS	23,831,892	23,066,146	765,746
SM NAGTAHAN	5,905,796	5,880,832	24,964
SM CHINA MALLS	36,539,683	33,655,674	2,884,009
	3,526,843,004	3,140,406,994	386,436,010

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City MAKATI on MARCH 17, 2011

SM PRIME HOLDINGS, INC.

Pursuant to the requirements of the Securities Regulations Code, this annual report has been signed by the following persons in their capacities and on the dates indicated.

By:

JOSE L. CUISIA, JR.
Vice Chairman
Date: 3/17/11

HANS T. SY
President
Date: 3/17/11

JEFFREY C. LIM
Executive Vice-President
Date: 3/17/11

EMMANUEL C. PARAS
Corporate Secretary
Date: 3/17/11

SUBSCRIBED AND SWORN to before me this MAR 17 2011 at Makati City, affiants exhibiting to me their passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
JOSE L. CUISIA, JR.	XX2395719	October 28, 2008	Manila
HANS T. SY	XX2657155	December 6, 2008	Manila
JEFFREY C. LIM	XX1561590	July 8, 2008	Manila
EMMANUEL C. PARAS	XX4824591	October 23, 2009	Manila

MARIA VIOLA B. VISTA
Notary Public for Makati City
Appointment No. M-495 until Dec. 31, 2011
Roll of Attorney No. 58565
PTR No. 2669595MB; 01/05/11; Makati City
IBP No. 843394; 01/04/11; Makati Chapter
SGHG Law Centre, 105 Paseo de Roxas
Makati City, 1226 Metro Manila, Philippines

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BOOK NO. 2;
SERIES OF 2011.