SM PRIME HOLDINGS
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50TH ANNIVERSARY ISSUE

PRIMER

ANNUAL REPORT 2007

WHAT'S NEW At SM Mall of Asia?

SNEAK PREVIEW: The Greening of SM North Edsa

SPOTLIGHT: CFO Jeffrey C. Lim

ENABLING THE DISABLED At SM Malls

SM celebrating 50 years

SM PRIME HOLDINGS, INC. PRIMER 50TH ANNIVERSARY ISSUE ANNUAL REPORT 2007

STEADFAST VISION
SOUND INNOVATION

For its multitude of customers, tenants, employees, and investors, SM Prime Holdings, Inc. has maintained its steadfast vision of complete and ideal shopping, dining, entertainment, and leisure. Notwithstanding, persistently sound innovation has propelled SM Prime to continue to set the benchmark in Philippine shopping mall development and operations.

ABOUT THE COVER

As SM celebrates its 50th Anniversary, we honor the man who started it all, Mr. Henry Sy, Sr. – a man who dared to dream big, even as a child who migrated from Jinjiang, China. He made his dreams become a reality in the Philippines where he spent most of his life growing up, facing many challenges, building a family and building SM, from a small shoe business known then as Shoemart. Mr. Sy continues to dream. He now shares his vision with his family and together, they take SM to a new level of growth and progress. So, from thirty malls, of which three are listed among the ten largest in the world, SM Prime expands further in the Philippines, and begins to explore new horizons. First stop: Mr. Sy's birthplace—China.

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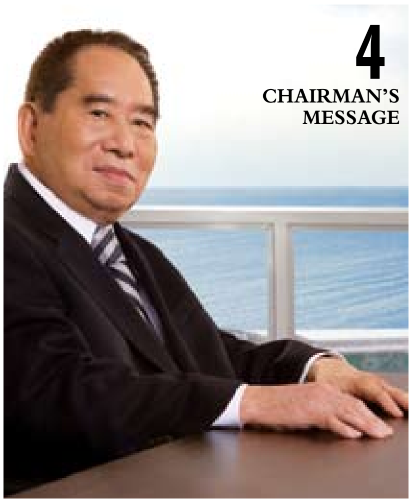

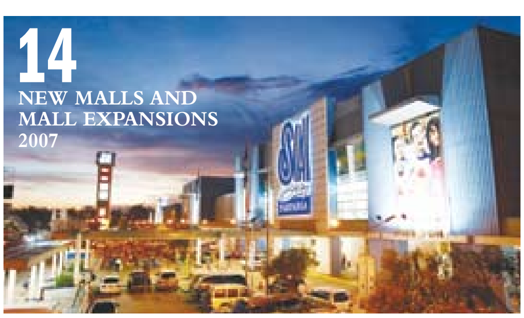

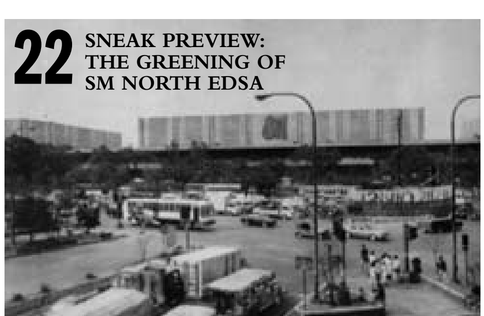

50TH ANNIVERSARY ISSUE

P R I M E R

ANNUAL REPORT 2007

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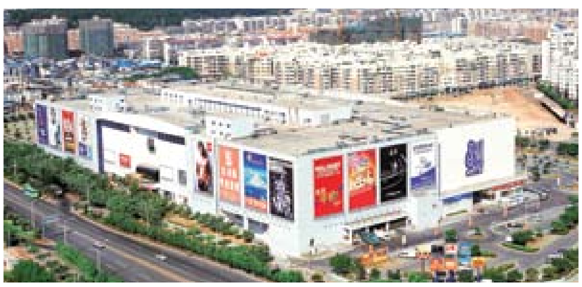

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MALL EVENTS

LARGE 8

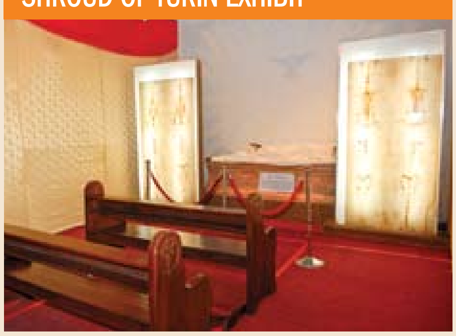
BORNE OUT OF a common passion to demonstrate how photography, in its abstract execution, could be elevated into an art form, eight of the Philippines' highly-acclaimed photographers came together to stage the largest photo exhibit of its kind in Asia titled, "Large 8."

Presented by SM Supermalls, the exhibit featured the works of eight renowned photographers namely, Wig Tysmans, Ben Cabrera, Bien Bautista, Quincy Castillo, Emil Davocol, Pancho Escaler, Jojo Guingona and Jaime Zobel.

"Large 8" was launched at the SM Mall of Asia on March 8, 2007 and then toured to other SM malls such as SM Megamall, SM City Baguio, SM City Clark, SM North Edsa The Block, SM City Davao and SM City Bacolod.

The 16 art pieces, each measuring 6 feet x 10 feet in size, were truly a visually arresting spectacle.

SHROUD OF TURIN EXHIBIT



THE SHROUD OF TURIN is said to be the very cloth that enveloped the body of Jesus Christ when he was buried. As such, the centuries-old linen cloth bearing the image of a crucified man has been revered for hundreds of years. Locked away in a cathedral in Turin, Italy, the Shroud is only displayed three or four times a century, drawing pilgrims from all over the world.

For the first time in the Philippines and in Asia, Shroud Exhibit International, Inc. presented the Philippine Exhibition of the Mystery of the Shroud of Turin. On July 20, 2007, the exhibit opened in SM City Pampanga.

The Shroud of Turin exhibit was also held subsequently at SM Mall of Asia, SM City Davao and SM City Cebu where the public had the chance to view the replica of this artifact.

Visitors were taken on a module-by-module tour of the historical pilgrimage of the Shroud, including the Way of the Cross and the various theories based on art, science, technology, and the Bible, that aims to shed light on this historical, scientific and ecclesiastical phenomenon. A reflection room also allowed visitors to spend time in solace and prayer.

SKATE ASIA 2007

ON AUGUST 12-18, 2007, the SM Mall of Asia's International Ice Skating Rink became the venue of "Skate Asia 2007," the biggest international recreational ice skating competition to be held in Manila.

Displaying "fire on ice," more than 600 skaters from Asia and the United States competed in the week-long "Skate Asia 2007." The competition pitted 16 teams from China, Hong Kong, Macau, Indonesia, Singapore, Taiwan, the United States and the Philippines in some 3,000 events, including male and female solos, couples events and ensemble programs.

The event was sanctioned by the Ice Skating Institute of America, the international governing body for recreational skating. It showcased the skaters' clean pirouettes, graceful glides and snappy leaps as well as their glittery, colorful and attractive costumes.

The Philippines fielded three teams—SM Megamall, SM Southmall and SM Mall of Asia, with SM Megamall garnering first place out of the 16 rink teams that participated. SM Southmall took second place while SM Mall of Asia placed fifth. With the excellent performance of the three teams, the Philippines once again emerged as the overall champion, reasserting its mastery over its foreign rivals.

SM LITTLE STARS

IN SEPTEMBER 2007, over 5,000 girls and boys aged 3 to 6 years old trooped to SM malls nationwide to join the search for "SM Little Stars."

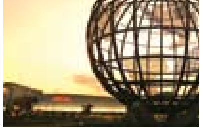
From the thousands who auditioned, 12 pairs were chosen as regional finalists.

The children were judged according to star quality or X factor; personality, cuteness, wit and talent.

Pretty and talented Koch Cabillo from SM City Cebu and Andre Roberto Tagle from SM City Cagayan De Oro were proclaimed "SM Little Stars" during the Grand Finals held on October 20, 2007 at the SM Mall of Asia Centerstage. Each of them received cash and various prizes from sponsors BDO, SM Department Store, Toy Kingdom and Storyland; plus a modeling contract with SM Department Store.

LARGEST WEDDING CAKE AT SM CITY BAGUIO

ANOTHER FEAT WAS achieved in an SM mall as the largest wedding cake was showcased during a mass wedding held at SM City Baguio in September 2007. The wedding cake was presented as part of an annual tourism festival organized by the Hotel and Restaurants Association of Baguio City (HRAB) to attract visitors to the summer capital. The 16-foot, four layer chocolate cake was big enough for the 56 couples who got married and their guests. Cake slices were also distributed to mall goers. The HRAB said the three-ton cake can feed 15,000 people. The cake, made by 20 bakers and 40 chefs, was covered with white sponge icing and decorated with fresh flowers and pieces of strawberries and grapes and slices of oranges and apples.



MESSAGE TO STOCKHOLDERS

Your company has, by now, established itself as a stable, profitable, and deeply entrenched business in the Philippine mall industry. SM Prime is one among many that has withstood many challenges and will continue to do so for many years to come.

2007 MARKED A MILESTONE in SM Prime Holdings' history, ending the year with thirty (30) malls in just over two decades. It is also pleasing to note that these thirty malls, including the iconic SM Mall of Asia, as well as the SM Megamall and SM North EDSA, ranking among the ten largest malls in the world based on studies done by the American Studies at Eastern Connecticut State University and Forbes.Com. Not far behind is SM City Cebu ranking as the 11th largest. This milestone encourages us to constantly innovate and introduce new concepts to our malls for them to achieve their optimum levels of competitiveness amid a very dynamic environment.

More than just being a dominant player in mall development, SM Prime is the frontrunner of a strong brand franchise such as SM—a name that every Filipino can own up to. Our malls showcase many of the qualities SM represents: Commitment, Focus, Innovation, and Value. Thus, SM Malls are about a great shopping experience, a destination for leisure and entertainment, an enabling environment for businesses, and a catalyst for economic activity in the communities where the malls are located.

In the process, we enhance the value of SM malls, making them a productive and valuable asset for you, our stakeholders—investors, consumers, employees, tenants and suppliers. Your constant support and confidence throughout the years are rewarded and appreciated, as they have made your company what it is today—one of the country's leading and most stable companies. SM Prime is among a few that has withstood many challenges and will continue to do so for many years to come.

In 2008, while we embark on a yearlong celebration of the 50 years of SM as a brand and as an institution, we also mark the beginning of a new era for SM Prime. Even as we reinforce our commitment in the Philippines through further growth, we find it timely to explore new markets where we could envision the SM brand, its quality of malls and its level of service thriving. We start off with two provinces in China, Fujian and Sichuan, where SM Prime recently acquired three malls. Our focus is on cities that are emerging and highly populated. These cities have a similar market profile with those of the areas we cater to in the Philippines, giving us the competitive advantage. This, in turn, helps us manage our business risks better. Likewise, growth areas such as these present countless possibilities for a company that has yet to explore the world.

Thank you, our stakeholders, for your unwavering trust and belief in our long-term vision for SM Prime. Rest assured that we will continue to steer your company toward greater heights led by our desire to make SM Prime a truly world-class institution.

Henry Sy, Sr.
Chairman

PRESIDENT'S REPORT OF 2007 PERFORMANCE

Targets were met and objectives attained, that in a nutshell, is how I would describe SM Prime's performance in 2007.

A GLANCE AT OUR COMPANY'S HISTORY, especially during the last five years, shows sustained growth and expansion for SM Prime. I am pleased to report that in 2007, we continued to pursue that trend. We opened three new malls and expanded an equal number of our existing malls in 2007. The inauguration of SM City Bacolod, SM City Taytay, and SM Supercenter Muntinlupa, together with the expansion of SM City Pampanga, SM City Cebu, and SM Mall of Asia added 353,000 square meters (sqm) to our total gross floor area (GFA). Consequently, our 30 malls nationwide had, as of end 2007, a combined GFA of 3.9 million sqm. and an unprecedented average daily pedestrian count of 2.5 million.

We posted a net income of ₱6.0 billion in 2007, a 10% increase over that of the previous year's ₱5.4 billion. Our gross operating revenues, on the other hand, registered a 16% growth to ₱15.3 billion. EBITDA reached ₱11.0 billion, rising by 16%. Income from operations rose 14% to ₱8.7 billion, while operating expenses grew 19% to ₱6.6 billion.

Rental revenues, the largest contributor to gross revenues, reached ₱12.8 billion for a growth of 17%, of which same-store sales, and expansions contributed 7% and 10%, respectively.

In 2007, our additional space added 5,106 cinema seats to the existing total seating capacity of 119,320. This growth, together with the sustained popularity of the IMAX Theater at the SM Mall of Asia and the showing of blockbuster movies, resulted in a 15% increase in cinema ticket sales to ₱1.8 billion.

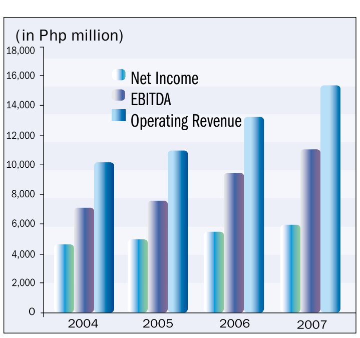
Also in 2007, new developments unfolded in our flagship mall, the SM Mall of Asia. The SM Science Discovery Center and Planetarium opened inside the mall, enabling the public to experience an exciting display of the latest in cutting edge technology, robotics, and astronomy. Likewise opened in SM Mall of Asia was the state-of-the-art, 32-lane Bowling Center. These additions enhance and reinforce our flagship mall's stature as a destination mall.

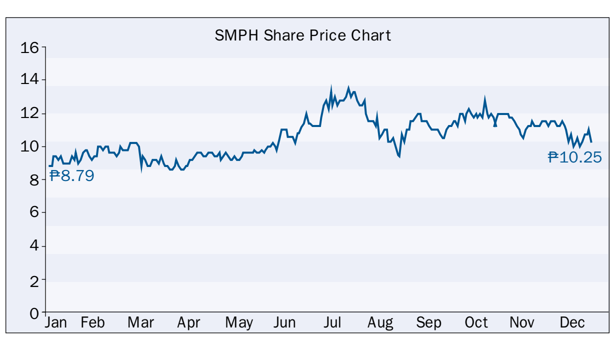
We implemented innovations in our other malls as well. These included the retrofitting of certain mall facilities for the benefit of persons with disabilities, priority lanes for the elderly, novel recycling measures, and other architectural improvements, among others.

Another 2007 milestone was the announcement of our intent to acquire three SM malls in China. This move is in line with the company's steadfast vision and sound innovation, opening up bigger, bolder opportunities for further growth.

Targets were met and objectives attained, that in a nutshell, is how I would describe SM Prime's performance in 2007. We expect to do the same in 2008, that is, in spite of looming economic challenges brought about by a recession in the US, and higher oil and food prices.

Central to this accomplishment are all our stakeholders. Thus, I sincerely thank our customers, our tenants, our suppliers, our workforce, and our shareholders for their continued patronage, as well as for the trust and confidence they placed on us in leading and managing SM Prime.





(in Php million)	January to December 2007	2006	% chg
Operating Revenues	15,350	13,222	16%
Operating Expenses	6,621	5,565	19%
Income from Operations	8,728	7,657	14%
Income Before Tax and Minority Interest	8,911	8,003	11%
Provision for Income Tax	2,625	2,253	17%
Income Before Minority Interest	6,286	5,750	9%
Minority Interest	311	301	3%
Net Income	5,975	5,449	10%

Hans T. Sy
President

TRENDS & EXPECTATIONS

HANS SY
President
SM Prime Holdings, Inc.

The Philippine economy did very well in 2007. Did that translate to a better performance for the malls?

Yes, it did. From a financial standpoint, we achieved a 14% growth in our operating income of Php8.7 billion, which is still higher than the annual average of 10% we had been posting prior to 2006. Operating revenues also grew by 16% compared to the annual average growth of 13% prior to 2006. Net income grew at a steady pace of 10% tempered by the increase in corporate income taxes and decrease in other income.

2007 reaffirmed SM Prime's dominance in mall operations as it opened three new malls—SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. SM Prime also expanded one of its biggest malls in Central Luzon, SM City Pampanga, and in the Visayas Region, SM City Cebu. Currently ranked as the third largest mall in the world, the Mall of Asia also saw a bit of expansion with the opening of the SM Science Discovery Center and Planetarium, which is a cutting edge display of new technology, astronomy, and robotics, among others. Mall of Asia also opened the 32-lane state of the art bowling facility which is attached to a billiards hall. Later in the year, SM Prime also launched the strip mall fronting the Manila Bay called San Miguel by the Bay. This 17,000-sqm. strip is a place where customers can relax and enjoy dining or take a leisurely walk by the Manila Bay.

How much of your growth could be attributed to the economy and how much from expansion?

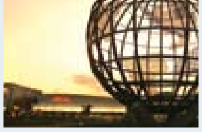
Out of the total increase in rental revenue of 17%, same-store sales contributed 7%, while 10% came from the new malls and expansions.

Average occupancy of your malls is 97%. How do you manage to maintain it at this level? How do you also manage to keep the foot traffic very high in the malls?

We constantly innovate our malls to enhance the experience of customers who are ever growing in sophistication. We improve our tenant mix to address the changing needs, tastes and preferences of our customers. Aside from this, we continuously improve infrastructure and conduct maintenance procedures. In terms of infrastructure, we built more bridgeways to connect our malls to annexes. We created more covered pedestrian walks and overpasses, and we renovated main mall lobbies. We added architectural improvements by raising ceilings and adding skylights in selected malls.

Other enhancements include improving traffic flow by adding public transport depots; greater provision of security through tighter security procedures and increased personnel. We also installed more ATM and increased the WiFi capability of most malls.

We also try to cater to the needs of our disabled customers. As such, we add features to our malls so as to make them more accessible. Further adjustments are made in toilet facilities, elevators, public phones, signages, entrances and doorways, corridors, stairs, and even the drinking fountain. We make sure the malls are friendly to wheelchair-bound patrons. SM also takes pride in giving employment to the handicapped in some of our facilities like



We make sure the malls are friendly to wheelchair-bound patrons. SM also takes pride in giving employment to the handicapped in some of our facilities like the cinemas. Put together, all these enhancements now exist in Mall of Asia, which made it the Most Disabled Friendly Mall of the Year in 2007. We are therefore making sure all our malls adopt the same standards.

the cinemas. Put together, these enhancements now exist in Mall of Asia, which made it the Most Disabled Friendly Mall of the Year in 2007. We are therefore making sure all our other malls adopt the same standards.

Other innovations in SM malls include alarm lights that are meant to warn hearing-impaired customers of an emergency; priority lanes in supermarkets for the handicapped and the elderly. The mall staff are now required to learn basic sign language skills. Plans to include captions in movies to aid the deaf are also underway.

SM has also installed breastfeeding stations within the malls to give privacy and sterile surroundings to nursing moms and their babies. Diaper boards were also installed in the men's rooms, as even fathers can be expected to be active in tending to their children. Soon, toilet facilities will be placed for little boys and girls in all ladies' room.

In an effort to provide greater convenience to shoppers, the SM Mall of Asia has put up a pick-up counter where items bought in the mall can be deposited while shoppers continue to shop in other stores or simply enjoy the mall's many offerings.

In addition, in light of the increasing awareness in caring for the environment, our operations have adopted energy conservation measures such as the automation of power consumption, waste segregation, waste recycling and waste treatment.

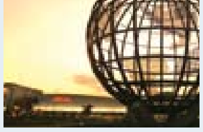
To provide the public with convenient, accessible and regular drop-off areas for their recyclables and non-traditional waste, we made SM malls a monthly venue for the Recycling Market. We are also introducing new activities such as story telling for children about the importance of environmental conservation and sustainable development, product demo of recyclers and the like.

Mall Expansion Program for 2008

	Gross Floor Area (sqm)
SM Marikina	122,000
SM Rosales	31,000
SM Baliuag	61,000
SM Megamall Expansion	15,000
SM Fairview Expansion	29,000
Total Floor Area	258,000
Number of Malls by end of 2008	33
Total GFA by end 2008 (7% increase from 2007)	4,160,072
Total CAPEX for 2008	₱6.0 B

How did the Mall of Asia perform in 2007? Is it doing better than expected?

Mall of Asia is doing better than we expected. Just in its second year of operations, Mall of Asia is now 100% leased and is SM Prime's third best performing mall in terms of revenues. The mall contributes 9% of total revenues and 5% of net income. Average daily foot traffic in MOA is between 200,000 to 300,000 during weekdays and up to 500,000 to 1,000,000 during weekends. We expect this to grow further as new adjacent buildings rise at the Mall of



TRENDS & EXPECTATIONS

SM Supermalls Geographic Mix		
Metro Manila	2,218,817	sqm.
Luzon	1,120,045	sqm.
Visayas	431,759	sqm.
Mindanao	131,451	sqm.

Asia through the property group of our parent company, SM Investments Corporation.

Are there plans to further expand Mall of Asia anytime soon?

There are no immediate plans for expansion.

What are your expansion plans for 2008?

For 2008, we have three new malls lined up: SM Supercenter Rosales with a gross floor area (GFA) of 31,000 sqm., SM City Baliuag with 61,000 sqm. and SM City Marikina with 122,000 sqm. The expansion of existing malls include SM City Fairview Annex 3 with an additional GFA of 29,000 sqm., and SM Megamall with an additional 15,000 sqm. All these will expand our gross floor area by 258,000 sqm. to 4.2 million sqm. We are also expanding our very first mall, SM North Edsa.

How much will your expansion plan cost and what will your source of funding be?

The planned capital expenditures for 2008 is Php6 billion. This will be funded both from internally generated funds and external borrowings.

You announced the acquisition of the SM malls in China. What is the rationale for this acquisition?

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 the Philippines where it is clearly the dominant player in the mall business. So, as expansion continues in the Philippines, China will provide its shareholders the opportunity to tap and take advantage of the high-growth prospects, being Asia's growth leader and having a market profile that is likewise emerging. While we take pride in being a Filipino company, it is also the goal of SM Prime to give pride to Filipinos by becoming an active player in the Asian region. Moving forward, our parent company SM Investments Corporation, will consolidate all its mall operations around the region under one entity, which is SM Prime.

While we are taking bold steps by going into China, the expansion overseas will be approached with caution; hence, we will carefully study the business risks in each area we penetrate. This continues to be our policy even as we open new malls in the Philippines, where we are expected to already know the market pretty well.

How much is the acquisition cost for the China malls and what was the method of valuation used in determining the cost?

The net acquisition price of Php10.8 billion was arrived at based on a 20% discount to the gross appraised value of the China properties of Php18.4 billion less outstanding liabilities of Php3.9 billion. The valuation of the China malls was based on the discounted cash flows and net appraised values. For purposes of this transaction, SM Prime has tapped Citigroup Global Markets Limited and Macquarie Securities (Asia) Pte Ltd. as financial advisers for the acquisition. Grant Thornton International was the independent financial adviser, while Savills Valuation and Professional Services Ltd. was the property appraiser.

What is the payment scheme for the China malls?

The malls will be acquired through a share swap arrangement. SM Prime will issue 913 million new shares to the Sy Family valued at Php11.86 per share. The issue price, on the other hand, was based on SM Prime's 30-day volume-weighted average price as of November 13, 2007. This means that instead of cashing in on the assets, the original owner of the malls which is the Sy Family will increase its stake in SM Prime. This ensures full alignment of interests of the SM Group with that of SM Prime's minority shareholders.

Aside from China, are there any other countries you are looking at for further expansion?

We are looking at opportunities in other countries but everything is exploratory at this time.

MALL TRIVIA

(as of 31 December 2007)

30 Malls Nationwide

3.9 million sqm. Total Gross Floor Area

9,144 Mall Tenants

883 Food Tenants

543 Food Court Tenants

20,707 Food Court Seats

2,277 Kiosks and Carts

185 Movie Screens

124,426 Cinema Seats

124 Bowling Lanes

48,267 Parking Slots

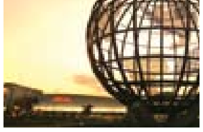
2.5 million Average Daily Pedestrian Count

WORLD'S LARGEST SHOPPING MALLS*

Shopping Mall	Year Opened	GLA Square feet *(Square meters)*	Total Area Square feet *(Squaremeters)*
South China Mall Dongguan, China	2005	7.1-million *(660,000)*	9.6-million *(892,000)*
Jin Yuan (Golden Resources Shopping Mall) Beijing, China	2004	6.0-million *(560,000)*	7.3-million *(680,000)*
SM Mall of Asia Pasay City, Philippines	2006	4.2-million *(386,000)***	
West Edmonton Mall Edmonton, Alberta, Canada	1981	3.8-million *(350,000)*	5.3-million *(570,000)*
Cevahir Istanbul Istanbul, Turkey	2005	3.8-million *(348,000)*	4.5-million *(420,000)*
SM City North Edsa Quezon City, Philippines	1985	3.6-million *(332,000)***	
SM Megamall Mandaluyong City, Philippines	1991	3.6-million *(332,000)***	
Berjaya Times Square Kuala Lumpur, Malaysia	2005	3.4-million *(320,000)*	7.5-million *(700,000)*
Beijing Mall Beijing, China	2005	3.4-million *(320,000)*	4.7-million *(440,000)*
Zhengjia Plaza (Grandview Mall) Guangzhou, China	2005	3.0-million *(280,000)*	4.5-million *(420,000)*
SM City Cebu Cebu City, Philippines	1991	2.9-million (267,000)	

* *American Studies at Eastern Connecticut State University, Shopping Mall and Shopping Center Studies, Last revised Feb. 1, 2008.*

** *Cited as "gross floor area," which may be somewhat greater than the comparable gross leasable area.*

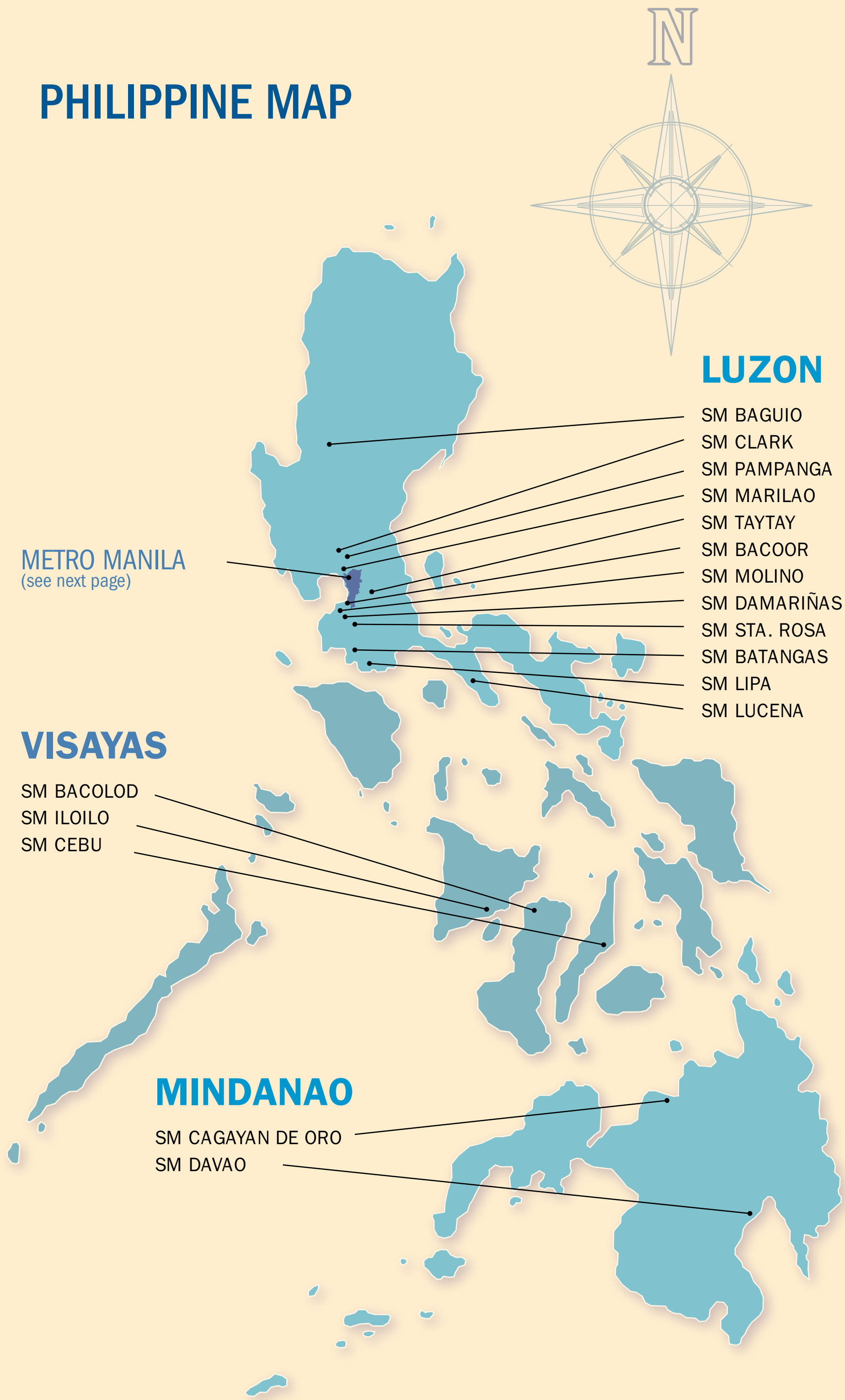


SM MALL LOCATIONS AT A GLANCE

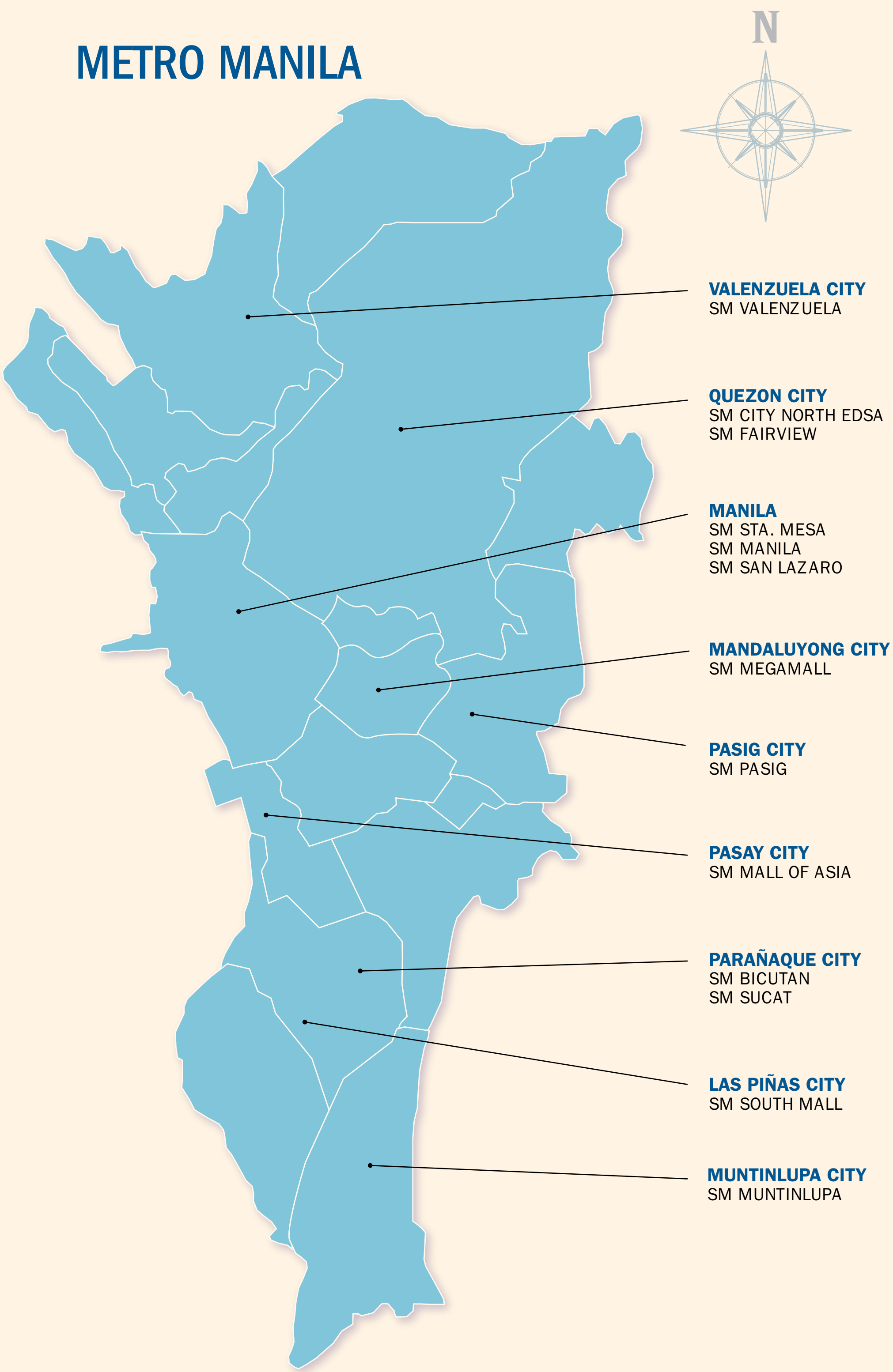
PROVINCIAL

MALL Address	DATE OPENED Gross Floor Area (In sqm.)
CEBU North Reclamation Area Cebu City	November 1993 268,611 sqm.
BACOOR Tirona Highway cor. Aguinaldo Highway, Bacoor, Cavite	July 1997 116,892 sqm.
ILOILO Benigno Aquino Avenue Diversion Road, Manduriao, Iloilo City.	June 1999 101,735 sqm.
PAMPANGA Brgy. San Jose, City of San Fernando Pampanga	November 2000 129,102 sqm.
DAVAO Quimpo Blvd. cor. Tulip Drive Ecoland, Matina, Davao City	November 2001 75,440 sqm.
CAGAYAN DE ORO Masterson Avenue cor. Coranvia Carmen, Cagayan de Oro	November 2002 56,011 sqm.
LUCENA Dalahican Road cor. Maharlika Highway, Lucena City	October 2003 78,655 sqm.
BAGUIO Luneta Hill, Upper Session Road Baguio City	November 2003 105,331 sqm.
MARILAO McArthur Highway, Brgy. Lias Marilao, Bulacan	November 2003 88,654 sqm.
DASMARIÑAS Barrio Pala-pala Dasmariñas, Cavite	May 2004 79,792 sqm.
BATANGAS Pallocan West Batangas City	November 2004 76,819 sqm.
MOLINO Brgy. Molino, Bacoor Cavite City	November 2005 48,710 sqm.
STA. ROSA Barrio Tagapo, Sta. Rosa Laguna	February 2006 79,325 sqm.
CLARK M.A. Roxas Highway, Clark Special Economic Zone Angeles City, Pampanga	May 2006 98,824 sqm.
LIPA Ayala Highway, Lipa City Batangas	September 2006 72,035 sqm.
BACOLOD Rizal St., Bacolod City Negros Occidental	March 2007 61,413 sqm.
TAYTAY Manila East Road, Brgy. Dolores Taytay, Rizal	November 2007 91,920 sqm.

PHILIPPINE MAP

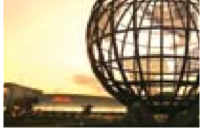


METRO MANILA



METRO MANILA

MALL Address	**DATE OPENED** Gross Floor Area (In sqm.)
SM CITY NORTH EDSA Edsa cor. North Avenue Quezon City	November 1985 331,861 sqm.
STA. MESA Magsaysay Avenue corner Araneta Avenue, Sta. Mesa, Manila	September 1990 133,327 sqm.
MEGAMALL Edsa cor. Julia Vargas Avenue Ortigas Center, Mandaluyong City	June 1991 331,679 sqm.
SOUTHMALL Alabang Zapote Road Las Piñas City	April 1995 205,120 sqm.
FAIRVIEW Quirino Highway cor. Regalado Avenue Greater Lagro, Fairview, Quezon City	October 1997 154,183 sqm.
MANILA Concepcion Avenue cor. Arroceros and San Marcelino Sts., Manila	April 2000 166,554 sqm.
SUCAT Sucat Road Parañaque City	July 2001 98,106 sqm.
BICUTAN Doña Soledad Avenue cor. West Service Road, Parañaque City	November 2002 112,737 sqm.
SAN LAZARO Cor. Felix Huertas St. and A. H. Lacson Ext., Sta. Cruz, Manila	July 2005 178,516 sqm.
VALENZUELA Mc Arthur Highway Brgy. Karuhatan, Valenzuela City	October 2005 70,616 sqm.
MALL OF ASIA SM Central Business Park J.W. Diokno Blvd., Pasay City	May 2006 407,101 sqm.
PASIG Frontera Verde Ortigas, Pasig City	August 2006 29,017 sqm.
MUNTINLUPA Manila South Road, Brgy. Tunasan Muntinlupa City	November 2007 53,986 sqm.



NEW MALLS AND MALL EXPANSIONS 2007

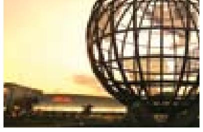
SM PRIME continues to achieve growth and expansion in 2007

2007 marks another remarkable year for SM Prime. The company successfully achieved its targets as it opened three new malls and expanded three existing ones.

The three new malls inaugurated in 2007 were SM City Bacolod, with a gross floor area (GFA) of 61,413 square meters (sqm); SM City Taytay, with a GFA of 91,920 sqm; and SM Supercenter Muntinlupa, with a GFA of 53,986 sqm. Those expanded were SM City Pampanga, SM City Cebu, and SM Mall of Asia.

As of end 2007, SM Prime's 30 malls nationwide, 13 of which are in Metro Manila, had a combined GFA of 3.9 million sqm, with an average daily pedestrian count of 2.5 million. The total number of mall tenants has likewise grown to 9,144 from 8,685 in 2006.

For 2008, the company is scheduled to open three new malls and expand two existing ones, which is expected to add 258,000 sqm. of GFA to its nationwide chain of shopping centers. By the end of 2008, SM Prime will have 33 malls all over the country, with a total GFA of approximately 4.2 million sqm.



SM Prime Opens Third Mall in the Visayas with SM City Bacolod

SM Prime Holdings, Inc. opened SM City Bacolod, its third mall in the Visayas, on March 2, 2007, in addition to existing SM City Iloilo and SM City Cebu. SM City Bacolod, which is located at the Reclamation Area, has a gross floor area (GFA) of 61,413 square meters (sqm) divided between two main structures, namely Buildings A and B.

SM City Bacolod offers, among others, an SM Department Store, an SM Supermarket, a food court, and four cinemas. Other mall tenants include fast food chains Jollibee, McDonald's, and KFC. Notably, there are Bacolod-based tenants such as steakhouse Cattlefarm, Japanese restaurant L Kaiseh, and food outlets Chicken Deli and Bob's.

SM Prime President Mr. Hans Sy said, "Bacolod City was cited for having the most business-friendly local government unit in the Visayas for 2006. The city currently hosts several multinational BPO and ICT companies. Furthermore, it has a vibrant tourism industry, with the world famous Maskara Festival among its major attractions. Its local cuisine is one of the Philippines' best. These attributes make Bacolod City an ideal and suitable location for an SM Prime mall."

Bacolod is the capital and the largest city in the province of Negros Occidental, the Philippines' sugar bowl. With a population of nearly 450,000, Bacolod is a hall of fame awardee as the cleanest and greenest urbanized city in the country. It is home to a number of universities and colleges, and is the gateway to the other cities and towns within the province.

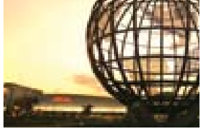
SM City Bacolod was the very first SM Prime mall to open in 2007, bringing the total number of SM Prime malls to 28 nationwide, with a combined gross floor area of 3.6 million sqm.

The First SM Mall in Rizal Province Opens in Taytay

SM Prime Holdings, Inc. opened SM City Taytay, its first mall in Rizal Province on November 9, 2007. The new mall has a gross floor area (GFA) of 91,920 square meters (sqm) and stands on 38,525 sqm of land.

SM City Taytay has a leasable area of 45,073 sqm and has as its main tenants SM Department Store, SM Hypermarket, a food court, and three cinemas. The three cinemas have a combined seating capacity of 1,250. Its other mall tenants include Bench, The Face Shop, Penshoppe, Oxygen, Celine, Jollibee, McDonald's, National Bookstore, Kevin's Playhouse, Max's, Floring's Barbecue, French Baker, among others.

SM Prime President Mr. Hans Sy said, "We welcome SM City Taytay. It is situated in a city that is recognized as the garments capital of the Philippines. It has a large residential community and it houses the biggest school campus of one of the country's leading colleges. It is easily accessible from various points of Metro Manila, through major thoroughfares such as the Ortigas Avenue Extension and the Sumulong Highway, which makes it an ideal location for an SM City in the province of Rizal."



SM Supercenter Muntinlupa Brings Great Shopping, Entertainment to South Metro Area

On November 16, 2007, SM Prime opened its 30th mall, in Muntinlupa City. The new mall, SM Supercenter Muntinlupa, has as its main anchor tenant an SM Hypermarket, which conveniently offers a balanced mix of food and non-food items at highly affordable prices. The Supercenter occupies 36,601 square meters (sqm.) of land and has a gross floor area (GFA) of 53,986 sqm. Of this, the leasable area is 26,828 sqm with the hypermarket occupying more than 11,000 sqm.

SM Supercenter Muntinlupa likewise offers a food court and four cinemas with a combined seating capacity of 1,600. Other mall tenants include Jollibee, McDonald's, Tokyo Tokyo, Chowking, National Bookstore, Penshoppe, Ricky Reyes Hair Salon, Ideal Vision, Let's Face It, and Global Medical Group Specialists, among others.

SM Prime President Mr. Hans Sy said, "We welcome our customers to SM Supercenter Muntinlupa. Inasmuch as it is in the southernmost part of the metropolis, the City of Muntinlupa is one of the key areas of Metro Manila, as it serves as a gateway to and from the burgeoning CALABARZON area, a fitting location for a community mall such as an SM Supercenter."

The Biggest Mall in Central Luzon Just Got Bigger as SM City Pampanga Opens Third Annex

SM City Pampanga shoppers are now enjoying more shopping, dining and fun options following the opening of the mall's newest annex on October 19, 2007.

SM City Pampanga's newest annex is the third addition to the mall's main building, after the first two mall annexes added in October 2002 and October 2003, respectively. Annex 3 has a 17,095.45 square meter (sqm) area, with 46 new shops offering more shopping and dining choices.

New apparel shops are Kipling, Von Dutch, Tribal, Bysi Boutique, Celine, Celio, Charles & Keith, Crocs, Flojo's, Florsheim Kids, People are People, Periwinkle, Triumph, Mossimo Underwear, Red Hot Chili Jeans Wear, and Swiss Gear. For an exquisite dining experience, shoppers can dine at Tempura, Flavours of China, and The Aristocrat.

Meanwhile, specialty shops located at SM City Pampanga Annex 3 are David's for Rever, George Optical, Hearts and Arrow, Kitchen One, SF-QI Wellness Holistic Spa, and 7 Eleven.

Annex 3 also houses BDO and China Bank as well as business process outsourcing (BPO) company, Teletech.

The very first SM Supermall in Central Luzon when it opened in 2000, SM City Pampanga is now the longest and biggest mall in the region, with 129,102 sqm of gross floor area and more than 400 stores to satisfy every shopper's needs.

SM City Cebu Now 4th Largest SM Mall with the Opening of It's Northwing

In addition to the expansion of SM City Pampanga, SM Prime Holdings, Inc. has also expanded SM City Cebu with the opening of its new annex called the Northwing. This expansion brings the total gross floor area (GFA) of SM City Cebu to 268,611 square meters (sqm), making it the largest SM mall in the Visayas region and SM's fourth largest mall. The Northwing of SM City Cebu, which was inaugurated on November 30, 2007 has a GFA of 107,049 sqm.

SM Prime President Mr. Hans Sy said, "SM City Cebu is now our fourth largest mall. This attests to our optimism about Cebu's bright future and its unquestionable role as the center for trade, business and tourism in the Visayas region. It enjoys many natural attractions ranging from its rich history, culture, excellent beaches and dive destinations. As such, we honor the place with this significant expansion of SM City Cebu."

The Northwing features two floors of retail stores, restaurants and cafes; three levels of covered parking; and one level of roof deck parking. It houses over 200 tenants featuring Al Fresco dining, retail and specialty shops catering to a more upscale clientele.

The Northwing houses popular food and beverage outlets Pizza Hut, Gerry's Grill, Figaro, and BreadTalk; fashion boutiques Bayo, Charles & Keith, and People are People; and specialty shops The Skin Food and The Face Shop, among others. In addition, it also houses SM Appliance, Watsons, Our Home, Kultura and BDO as junior anchor tenants.

SM City Cebu opened in 1993 as SM's first mall outside Metro Manila.

North EDSA in 1985

THE GREENING OF SM North EDSA

SM North EDSA, SM Prime's very first mall is about to turn green. Construction is now underway to create a 400-meter long "Skygarden" with a gross floor area of approximately 31,000 square meters. It's a haven where shoppers and visitors of SM North EDSA can stroll along a landscaped and covered path, pleasantly lined with tropical trees, flowering plants, and shrubs. The Skygarden will stretch from one end of the mall to the other so that it will have a number of entryways leading to different sections of the mall.

It will be decorated with a lagoon, an aviary for bird lovers, an amphitheater for shows and special events, cafés, casual dining, and novelty shops. A waterfall will cascade from the Skygarden at level four down to ground level facing EDSA—a piece of art that promises to create a calming and colorful scene, especially at night when various lights provide an added dimension to the falls and the pond beneath. Below the Skygarden will be a transport depot for buses and added parking space for shoppers.

"This project is the first to be introduced to any SM mall as we honor SM North EDSA, being our very first, by sprucing it up with natural elements. This is part of SM Prime's commitment toward enhancing the environment, and bringing nature and the beauty that comes with it closer to our customers," said Mr. Hans T. Sy, President of SM Prime.

It may be recalled that SM Prime built its very first mall in 1983 on the north end of a main thoroughfare in Metro Manila called EDSA, the acronym for Epifanio De Los Santos Avenue. Back then, the lot that was purchased in 1978 was no better than a vacant swamp remotely located from the center of the metropolis. SM Prime's Chairman, Mr. Henry Sy, Sr. saw the potential of the place, standing at the crossroad for regional traffic coming to and from the northern provinces of Luzon.

North EDSA's "The Block"'s facade and shops inside

An artist rendering of the Skygarden

Mr. Sy took his inspiration to build SM North EDSA from the first few malls built in the U.S., which he thought Filipinos will want to have. Ironically, many thought his plan was ill-timed because the construction of the North EDSA mall happened when divisive political issues were prevalent in the country. The mall opened in 1985 with a gross floor area of 125,000 square meters, at the height of one of the country's worst crises.

"We had a tough time getting tenants to fill up the place. It was a risky period in our country's history. So, we opened with only the SM Department Store and another small shop as the mall's tenants," said Mrs. Teresita Sy-Coson, Vice Chairperson of SM Investments Corporation.

But to everyone's surprise and those of many skeptics, crowds came and filled the mall. "It was an instant success," noted Mrs. Sy-Coson.

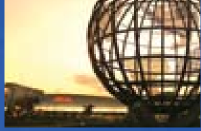
As more tenants came in and entertainment concepts were introduced to the mall such as cinemas, SM North Edsa came to be known as one that institutionalized the "one-stop shopping concept" and was the first to introduce "malling" as a pastime in the Philippines.

Businesses and real estate thrived where SM North EDSA was built, that over a period of 20 years, it has seen four expansions including The Block which opened in 2006. It continues to draw an average foot traffic of about 400,000 per day giving enough scope for SM Prime to undertake yet another expansion.

By the time this current project is completed to include the Skygarden and the Annex building expansion, SM North EDSA's gross floor area will quadruple to 456,000 square meters from its original size, and make it the country's largest, and among the most successful malls in the world.

In addition, it will carry the distinction of being the first mall to truly influence and revolutionize the malling experience for Filipinos.

This speaks of SM's ability to build, expand and sustain its malls, allowing each and every area to establish its own identity and grow within its surrounding community.



What's New at SM MALL OF ASIA?

The SM Mall of Asia, the country's largest mall and the flagship project at the 60-hectare Mall of Asia Complex in Pasay City, opened in May 2006 with a record crowd of about one million.

To date, the mall's tasteful architecture and its numerous shopping and leisure offerings beckon tourists and shoppers, drawing an average daily foot traffic of between 200,000 to 300,000 during weekdays and up to 500,000 to 1,000,000 during weekends.

The success achieved by the Mall of Asia has recently been recognized by the Philippine Retailers' Association which awarded it the Shopping Center of the Year for 2007. In addition, the mall has received the prestigious Apolinario Mabini Award for being adjudged as the Most Disabled Friendly Mall. This is in recognition of its commitment to serve its customers better by providing facilities that lend support to persons with disabilities and with special needs.

In spite of Mall of Asia's achievements and the loyal patronage of shoppers, SM Prime Holdings continues to find ways to offer new and exciting venues to its customers. As of end 2007, the gross floor area (GFA) of the Mall of Asia has been expanded to 407,000 square meters (sqm.) from 386,000 sqm. in 2006 with the opening of the Science Discovery Center and the 32-lane Bowling Center and the San Miguel by the Bay. These new venues along with the Imax theater, Olympic-sized ice skating rink, and about 900 shops, boutiques and restaurants promise to provide a wealth of leisure experience to the Mall of Asia's thousands of customers.

Mr. Henry Sy, Sr., SM Prime chairman, once said that the Mall of Asia is the greatest project of his life. The continued expansion and the mall's latest offerings, indeed, underscore SM Prime's desire to make the Mall of Asia not only one of the world's largest malls but also one of the world's best leisure destinations.

SM MALL OF ASIA **BOWLING CENTER:** Where Fun Rolls

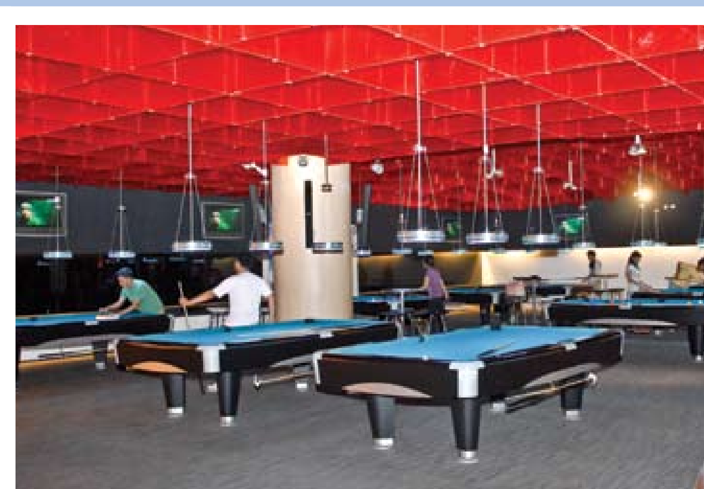
Aware of Filipinos' affinity or love affair with bowling, SM Prime Holdings, Inc. opened in July 2007 the innovative and trend-setting SM Bowling Center at its flagship mall, the SM Mall of Asia. This is the company's latest addition to its three existing bowling centers located at SM Megamall, SM City Fairview, and SM City Cebu. Another SM Bowling Center at SM North Edsa is currently under renovation.

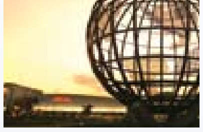
"Spectacular" and "awesome" immediately come to mind upon first setting foot on the sleek, world-class SM Bowling Center at the SM Mall of Asia. Amidst the cozy furniture, eye-catching décor, and bright neon lighting, lie 32 immaculate bowling lanes, each with state-of-the-art peripheral equipment such as plasma TV monitors and an Italian manufactured scoring system, the only one of its kind in the Philippines. The Australia-based architectural firm, Architects EAT, skillfully designed this premier bowling center.

Beyond the cutting edge equipment and inviting ambience, the bowling center offers customers an opportunity to unwind, where family and friends could also indulge in other forms of recreation. There are billiard tables and a sports bar and restaurant, which serves culinary delights and refreshing drinks, making the bowling center a complete leisure and entertainment destination.

For competitive bowlers, the center likewise meets stringent requirements. Complying with, if not surpassing, international standards, the bowling center is a perfect venue for tournaments and league events. Many major corporations hold their tournaments at the center, to the sheer delight of their employees.

With all those exciting amenities and features, whether you are a casual bowler or a serious enthusiast, now is the perfect time to don those bowling shoes and experience first hand SM Bowling Center's catchy tag line, "Where Fun Rolls!"





EXPERIENCE THE **Wonders of Science and Technology** at the SM Science Discovery Center

A fun way to learn and experience science and new technology await kids and even adults at the Mall of Asia's new Science Discovery Center, a cutting edge display of new technology, astronomy, robotics, marine life and many other scientific facts and breakthroughs.

The 3,241-square meter SM Science Discovery Center which opened on October 19, 2007 is the first of its kind in the Philippines, designed by US-based Leisure Entertainment Consultancy (LEC). Some of LEC's known projects include Downtown Disney, Disney's California Adventure and Universal Studios in Hollywood and Orlando.

SM Prime President, Mr. Hans Sy said, "We are very excited about this new facility at the SM Mall of Asia. The Science Discovery Center adds a totally new dimension to malling as it guarantees to educate, entertain, and amuse visitors of all ages."

The Science Discovery Center has 11 interesting offerings:

The **Digistar Planetarium** is a 15-meter, 160-seat theater with a dome-like screen. It offers its viewers a three-dimensional view of the stars, planets, and galaxies through very entertaining shows and documentaries.

The **Life Clock** at the ground level provides information on the WorldWideWeb and Planetarium show schedules. A digital time capsule is also available at the second level where visitors' messages and images are stored.

The **Image Port** focuses on the green screen technology and allows visitors to play around with the latest in photo technology by having their photos taken from a slew of interesting backgrounds. This technology allows the images to be printed on photo paper, mugs and shirts.

The **Media City** boasts of the best in computer software, PC games, trends in computer graphics, animation and special effects. Visitors can interact and play in computer kiosks and stations that generate blazing speeds and dazzling effects.

The **Transportation Nation** shows the latest in transport technology: planes, trains, ships, and cars. It has flight simulators, and a concept car designed with the latest gadgets, safety systems and fuel efficient engine.

In **Grossology,** visitors get to learn about the gross facts about the human body such as how burps are made or what bacteria causes the body to stink. There are also games such as one that tests the nostrils in identifying stinky smells, and another that simulates how the kidney works.

Spaceship Earth introduces us to Mother Earth like no other. It shows our planet in all its beauty and majesty through images and sounds that tell us how we should be caring for it, so we become masters of our own progress.

The **Virtual Reef** highlights the beautiful marine life in the Philippines. It transports visitors to life underwater through images, sounds and special effects. Meet Mr. T, a cartoon fish, who jumps out of the coral coves to tell everyone about how life goes underwater.

City Science talks about the magnificence of modern architecture and technology. This area gives visitors a chance to go on a real-time tour of specific buildings and cities all over the world through a webcam. It also has an earthquake simulator to give visitors a feel of what tremors are like when up in a building during an earthquake.

Robot Inc. is a collection of robots and machines that use robotic technology. Here, visitors can interact with remote-controlled robots like "Spiderbots" that can be maneuvered by joysticks. Visitors can also indulge in robotic workshops at the **Lego Mindstorm Robotics Center.**

SM PRIME ENTERS THE CHINA MARKET

with Acquisition of Three Malls

2007 marked another milestone for SM Prime Holdings, Inc. as the company announced its plans to acquire the three SM malls in China from the Sy Family. 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.

Chengdu

Jinjiang

Xiamen

• SM Prime will acquire the three malls in China by 2008.

• It will mark the start of SM Prime's expansion outside of the Philippines and into the shopping center business in China

Mall Name	SM Xiamen	SM Fupu (JinJiang)	SM City Chengdu
Location	Xiamen City Fujian Province	Quanzhou City, Fujian Province	Chengdu City, Sichuan Province
Gross Floor Area	128,203 sqm	169,584 sqm	169,407 sqm
Net Leasable Area	80,373 sqm	116,517 sqm	84,482 sqm
Levels	6 levels	6 levels	5 levels
Land Area (mall)	7.26 hectares	11.50 hectares	4.66 hectares
Parking Slots	1,014 slots	1,700 slots	949 slots
Years Opened	December 2001	November 2005	October 2006
Occupancy Ratio	100%	92%	72%
Major Tenants	Wal-Mart, SM-Laiya, McDonald's, KFC, Watson's, Cybermart, Book City	Wal-Mart, SM-Laiya, Wanda, McDonald's, Watson's	Wal-Mart, SM-Laiya, KFC, McDonald's, Wanda, Watson's
City Demographics (as of 2006)	Population: 2.64M Total GDP: USD 14.5B GDP per capita: USD 6,546	Population: 7.52M Total GDP: NA GDP per capita: NA	Population: 10.44M Total GDP: USD 34.4B GDP per capita: USD 2,580

The SM malls in China have a similar look and layout to the SM malls in the Philippines. They are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu.

First to open in December 2001 was the SM mall in Xiamen. The mall has a gross floor area (GFA) of 128,000 square meters (sqm.), almost similar in size to SM City Sta. Mesa and is 100% occupied. Xiamen has a population of three million. Meanwhile, SM Jinjiang opened in November 2005 with a GFA of 170,000 sqm. and is 92% occupied. Jinjiang's population is 8 million. The third mall, SM Chengdu, opened in October 2006 with a GFA of 170,000 sqm. and an occupancy rate of 72%. The population of Chengdu is 11 million, almost as large as Metro Manila.

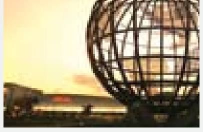
Among the anchor tenants of the three malls are Wal-Mart and SM-Laiya Department Store, Cybermart and Wanda Cinema. Junior anchors include Watsons, McDonald's, KFC, Giordano, Pizza Hut and a number of China-based outlets and stores.

SM Prime President Hans T. Sy said, "While SM Prime continues to expand its operations in the Philippines, its acquisition of the China malls will provide its shareholders the opportunity to tap and take advantage of the high growth prospects offered by China, being Asia's growth leader. SM Prime takes pride in being a Filipino company, but it is also the goal of SM Prime to give pride to Filipinos by becoming an active player in the Asian region as well."

The net acquisition price of Php10.8 billion is arrived at based on a 20% discount to the gross appraised value of the China properties less outstanding liabilities. The acquisition will be effected through a share swap whereby SM Prime will issue 913 million new shares to the Sy Family, the issue price of which is based on SM Prime's 30-day volume weighted average price. The company earlier appointed Citigroup Global Markets Limited and Macquarie Securities (Asia) Pte Limited as its financial advisers for the acquisition and Savills Valuation and Professional Services Limited as independent asset appraiser.

The three malls provide an existing platform for SM Prime to expand in this fast-growing market. While SM Prime is still firming up its expansion plans in China, and subject to the availability of suitable locations, the company may initially build one to three malls every year and will likely position its expansion in emerging cities. These are similar in demographics to the existing three malls and, in a way, to the Philippines. Management believes that the growth in these areas will be strong given the expansion of the middle income sector and rising consumer spending.

Subject to regulatory approvals, SM Prime is expected to complete the acquisition within the first half of 2008.



CORPORATE GOVERNANCE

SM Prime Holdings, Inc. (SM Prime) firmly believes in and adheres to sound corporate governance. The company gives utmost priority to corporate transparency and public accountability in all of its undertakings.

As such, SM Prime developed and follows a Revised Manual on Corporate Governance (CG Manual). The Board of Directors and Management of SM Prime commit themselves to the principles and best practices contained in the CG Manual, and acknowledge that these tenets guide the attainment of their corporate goals.

Presented below are highlights of SM Prime's CG Manual.

OBJECTIVE

The CG Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors and Management, employees, and shareholders believe that good corporate governance is a necessary component of what constitutes sound strategic business management and therefore undertake every effort necessary to create awareness for it within the organization.

COMPLIANCE SYSTEM

Compliance Officer

To ensure adherence to corporate principles and best practices, the Chairman of the Board designated a Compliance Officer who holds the position of at least a Vice President or its equivalent. The Compliance Officer has direct reporting responsibilities to the Chairman of the Board and performs the following duties:

- Monitors compliance with the provisions and requirements of the CG Manual
- Appears before the Philippine Securities and Exchange Commission (SEC)
- Determines violations of the CG Manual and recommends penalty
- Issues a yearly certification on the extent of SM Prime's compliance with the CG Manual and explains any deviation, and
- Identifies, monitors, and controls compliance risks.

Board of Directors

Compliance with the principles of good corporate governance starts with the Board of Directors, which is currently composed of seven directors, one of whom is an independent director.

It is the Board's responsibility to foster SM Prime's long-term success and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the company, its shareholders, and other stakeholders. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

General Responsibility

A director's office is one of trust and confidence. He acts in a manner characterized by transparency, accountability, and fairness.

Specific Duties and Functions

To ensure a high standard of best practice for SM Prime and its stakeholders, the Board:

- Installs a process of selection to ensure a mix of competent directors and officers
- Determines SM Prime's vision and mission and strategies to carry out its objectives
- Ensures that SM Prime complies with all relevant laws, regulations, and codes of best business practices
- Identifies SM Prime's major and other stakeholders, and formulates a clear policy on communicating or relating with them through an effective investor relations program
- Adopts a system of internal checks and balances
- Identifies key risk areas and key performance indicators and monitors these factors with due diligence
- Properly discharges Board functions by meeting regularly. Independent views during Board meetings are given due consideration and all such meetings are duly recorded
- Keeps Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules, and regulation.

Duties and Responsibilities of a Director

A director has the following duties and responsibilities:

- Conducts fair business transactions with SM Prime and ensures that personal interests do not bias Board decisions
- Devotes time and attention necessary to properly discharge his duties and responsibilities
- Acts judiciously

- Exercises independent judgment
- Has a working knowledge of the statutory and regulatory requirements affecting SM Prime, including the contents of its Articles of Incorporation and By-Laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies
- Observes confidentiality
- Ensures the continuing soundness, effectiveness, and adequacy of SM Prime's control environment.

Board Committees

To aid in complying with the principles of good corporate governance, the Board has constituted the following Committees:

Nomination Committee

The Board created a Nomination Committee, which has at least three voting directors (one of whom must be independent) and one non-voting member in the person of the HR Director or Legal Manager.

The Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the board of directors, in accordance with stipulated qualifications and disqualifications.

Compensation Committee

The Compensation Committee is composed of at least three members, one of whom is an independent director, and has the following duties and responsibilities:

- Establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with SM Prime's culture, strategy, and control environment
- Designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully
- Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired
- Disallow any director to decide his or her own remuneration Provide in SM Prime's annual reports, information, and proxy statements a clear, concise, and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year
- Review the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

Audit and Corporate Governance Committee

The Audit and Corporate Governance Committee is composed of at least three members of the Board, one of whom shall be an independent director. Each member has adequate understanding, at least, or competence, at most, of the company's financial management systems and environment.

The Audit and Corporate Governance Committee has the following duties and responsibilities:

- Checks all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements
- Performs oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of SM Prime, and crisis management
- Pre-approves all audit plans, scope, and frequency one month before the conduct of an external audit
- Performs direct interface functions with the internal and external auditors
- Elevates to international standards the accounting and auditing processes, practices, and methodologies
- Develops a transparent financial management system that will ensure the integrity of internal control activities throughout the company through a step-by-step procedures and policies handbook, which will be used by the entire organization.

The Corporate Secretary

The Corporate Secretary has the following duties and responsibilities:

- Gathers and analyzes all documents, records, and other information essential to the conduct of his duties and responsibilities to the company
- Gets a complete schedule of the agenda at least for the current year and puts the Board on notice before every meeting
- Assists the Board in making business judgment in good faith and in the performance of their responsibilities and obligations
- Attends all Board meetings and maintains records of those meetings
- Submits to the SEC, at the end of every fiscal year, an annual certification on the attendance of the directors during Board meetings.

External Auditor

An external auditor is selected and appointed by the stockholders upon recommendation of the Audit and Corporate Governance Committee. If an external auditor believes that the statements made in the company's annual report, information sheet, or proxy statement filed during his engagement are incorrect or incomplete, he shall present his views in those reports.

Internal Auditor

SM Prime has in place an independent internal audit function which is performed by an Internal Auditor, through which its Board, senior management, and stockholders are provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with. The Internal Auditor reports to the Audit and Corporate Governance Committee.

SPOTLIGHT

MEET SM PRIME'S CFO
MR. JEFFREY C. LIM

When did you assume the position of chief financial officer (CFO) for the company?
I assumed the position of CFO and executive vice president for SM Prime Holdings, Inc. (SM Prime) in August of 2006.

What are your specific roles and responsibilities as CFO?
I view my responsibility as being both a steward of and a strategist for the company.

As a strategist, I work closely with the president and the board of directors in steering SM Prime to its rightful direction. We do this by determining and understanding the factors that drive the numbers, and what strategies can be put in place to sustain and improve the performance of the company.

As a steward, I join other SM Prime executives who have a hands-on understanding of the company's financial and operating performance, and the relationship between risks and return, which are valuable in crafting the company's strategic direction.

Which among your past work experiences greatly helped in your current work as a CFO?
Like most certified public accountants, I started my career in public accounting practice. This experience greatly instilled in me the values of hard work, patience, honesty, perseverance, teamwork, and integrity. I also had the opportunity to work in a multinational company that gave me the experience on how businesses are run in a global perspective. But what prepared me the most for my role is my experience working for a great

visionary, Mr. Henry Sy, Sr. and several of his children namely, Ms. Tessie Sy-Coson, Mr. Henry Sy, Jr., and Mr. Hans Sy. I also learned a lot from Mr. Jose T. Sio, the SM Group CFO, who used to be my partner-in-charge at SyCip Gorres Velayo & Co. Their passion for the business, dedication, and fairness are outstanding.

What processes do you employ in managing the company's resources?

I am part of a team of executives, who are all well-focused on analyzing and evaluating proposed projects. Basically, all major projects are presented to the management committee for approval.

The key performance measures that we use are projected cash flows, payback period, and internal rate of return. For operating projects, we conduct regular reviews to ensure optimal returns and improve operational efficiency. For provincial locations, we also look at how we can contribute to the development and improvement of the surrounding communities and their population.

When reviewing the available options for financing, what factors do you consider before finally selecting an option?

When considering financing options available for shopping center development, it boils down to the cost of capital and projected cash flows of the project. Funding for new projects is 50% equity or internal cash and 50% borrowing. While majority of our land bank is owned, we have recently started to lease several properties, as there are instances when it makes more sense to rent. Leasing gives us more flexibility over the long term.

What would you consider as your greatest contribution to the company?

SM Prime has grown into what it is right now, and continuous to be a successful company because of the teamwork and dedication of everyone in the organization; from our president, Mr. Hans Sy, the senior executives and managers, down to the rank and file employees in all our malls.

I joined SM Prime as vice president for finance in June 1994, the same year that it went public and was listed at the Philippine Stock Exchange. At that time, there were only four shopping centers, with a net income of roughly ₱1.0 billion. We have since increased the number of our malls to 30 as of December 30, 2007, with net income of close to ₱6.0 billion. From a return on equity of just 7% in 1994, it went up to 15% as of end 2007.

Thus far, how would you describe your experience as the company's CFO?

It is challenging, considering the recent global business and economic environment. But at the same time, it is rewarding as I am given the chance to continuously contribute to the success of a world class company.

I also find it self-fulfilling in the sense that I enjoy the support and confidence of the Sy family and the cooperation of the senior executives of the SM Group.

As a CFO, what are your views on corporate governance?

Good corporate governance is of utmost importance to me as CFO of SM Prime. As a publicly-listed entity, I have to ensure full disclosure to and transparency with regulatory agencies and all stakeholders of the company.

Our financial statements must be well presented and internal processes must be clearly explained to and understood in all levels of our organization.

How big a role does a CFO have in terms of corporate governance?

The CFO's role has grown beyond stewardship and financial reporting. We now play an integral part in driving corporate strategy and putting in place processes to be able to execute these strategies. We have a pivotal role in maintaining corporate trust and business integrity by remaining transparent, responsible, and accountable to shareholders, investors, government regulators, tenants, customers, as well as to our own employees.

What initiatives have you undertaken to pursue sound corporate governance?

SM Prime formed the enterprise risk management committee, which acts as the monitoring body for the individual risk management activities of the different units within the company. It has the responsibility of responding to externally imposed regulatory guidelines concerning risk identification, disclosure, management, and monitoring. It is mandated to advise the appropriate authorities within the company on such risk concerns.

We also regularly conduct the corporate governance self rating system, which is monitored by our compliance officer, Atty. Corazon Morando. This system ensures that the members of the board, the officers, and the employees comply with all the leading practices and principles on good corporate governance as embodied in the company's manual.

"SM Prime has grown into what it is right now, and continues to be a successful company because of the teamwork and dedication of everyone in the organization; from our president, Mr. Hans Sy, the senior executives and managers, down to the rank and file employees in all our malls."

Do you see the traditional roles and responsibilities of a CFO evolving in the near future?

Definitely. In the past, the primary function of the CFO was mainly focused on financials, ensuring that the company stays financially healthy, be able to achieve its targeted returns, and meet its obligations at any time.

While those responsibilities remain important today, the evolution of the CFO's role has expanded to cover a wider and more common range of responsibilities, such that we now have to be sensitive to many factors other than the financials of an organization.

Issues such as corporate governance, business ethics, enterprise risk management, and the maintenance of effective systems of internal control have in recent years also emerged as essential.

The issues of globalization not only in terms of international trade but also in reporting standards are also bound to have consequences on the role of the CFO in the years to come. We should take a pro-active role in managing the business, not just from the financial point of view, to ensure that the set goals and directions will come to fruition.

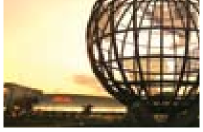
How was the past year for the company?

2007 was a good year for SM Prime, as we opened three new malls and expanded three existing ones. Revenues increased by 16% while net income grew by 10%. EBITDA increased to ₱11.0 billion and at a 72% margin. The Mall of Asia continues to surpass its previous year's performance and thus continues to exceed our expectations. It has become the company's third biggest revenue contributor after only less than two years of commercial operations.

How do you view 2008?

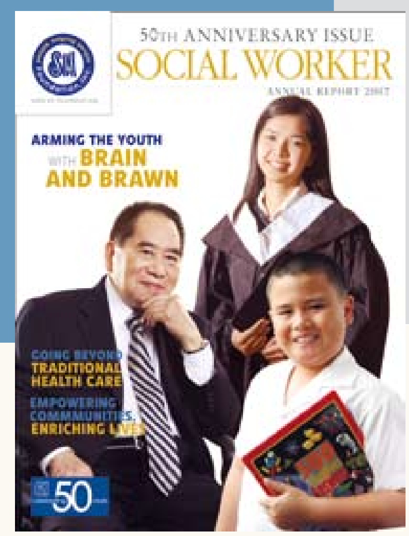
Despite the tough global economic environment as a result of the US sub-prime issue, I remain positive over better prospects for the company in 2008. SM Prime will open three new malls and expand two this year. These will contribute to the growth in revenues and income. We also expect to finalize the folding in of the three malls in China. Based on my recent review, their financials look very encouraging.

We will continue to expand in the Philippines to maintain our leadership in the local market and at the same time explore opportunities in China and in other parts of the region, for long term growth strategies.



Creating Ways for People to Help People: SM AND FILIPINO BAYANIHAN

An excerpt from the SM Foundation Annual Report



Armed with deep commitment, sincerity and a passion for service, SM Foundation, Inc. (SMFI) strives to live up to its mission to help thousands of disadvantaged who are deprived of opportunities for a brighter future.

Instituted in March 1983 by SM Founder and Chairman Henry "Tatang" Sy, Sr., SMFI is the social action arm of the SM group of companies. It aspires to uplift lives by taking a holistic approach in responding to the social needs of underprivileged communities. "This is our way of sharing the many blessings that the SM Group has received for so many years," Tatang says.

For more than two decades, SMFI unceasingly envisions itself as a channel for shoppers, employees, government and non-government organizations, media and companies to reach out to the needy. Now, on its golden anniversary, SM intensifies corporate social responsibility by allocating Php50 million more for its projects—almost doubling the budget for CSR.

The Foundation sets its eyes on the following four core advocacies: Education, Health and Medical missions, Mall-based Outreach, and Community projects.

Education advocacy, formally established in 1993, provides quality education to underprivileged but deserving students through the College Scholarship Program. To date, SMFI has produced 974 graduates coming from communities where SM malls are located all over the country: the National Capital Region, Pampanga, Baguio, Batangas, Bulacan, Lucena, Cavite, Laguna, Rizal, Bacolod, Cebu, Iloilo, Davao and Cagayan de Oro.

Advancing public education's furtherance and modernization, SM Prime Holdings Inc. using SMFI as its vehicle has built 17 schoolbuildings in public schools and has donated close to three million books supported by the Mall-based Outreach Donate-A-Book program.

Encouraging health, multi-sectoral coordination and community participation, the Health advocacy program, since 2001, has already conducted 315 medical and dental missions benefiting over 200,000 individuals. The Foundation acquired two Mobile Clinics in 2001 and 2007. Stationed in SM malls, they are equipped with up-to-date medical technologies to perform basic diagnostic tests for shoppers and by-standers. Aiming to not only heal but also provide a therapeutic environment for patients, SMFI has built a total of 36 wellness centers including pediatric activity centers, health centers, elderly centers and hospice units.

A series of quarterly mall-based programs—*Share Your Extras, Donate-A-Book, Gamot Para Sa Kapwa* and *Make A Child Happy*—enable shoppers, private companies and organizations to share what they have. Collection centers in the malls gather clothing, books, medicines and toys to be distributed in depressed communities. Book and medicine donations are channeled through SMFI's Education and Health missions.

SM Kabalikat Sa Kabuhayan Livelihood Program provides hands-on hybrid vegetable and fruit training to farmers and conducts Trade Fairs for micro entrepreneurs to showcase their businesses and marketing competencies and to tie-up with mainstream suppliers, thus improving standards of living.

Underscoring the importance of spiritual well-being, SM fervently supports the religious community by constructing and renovating churches. Conducting its own religious activities and celebrating Sunday masses in all SM malls, SM brings spirituality to the multitude.

In partnership with Gawad Kalinga, *SM* has built over 80 houses in the *SM Gawad Kalinga Village* for homeless families.

Special projects allow for the Foundation to render quick-response to victims of disasters with *Operation: Tulong Express*. Providing basic assistance and distributing donations from shoppers and sponsors, the Foundation has aided victims of tragedies such as the mudslide in Southern Leyte, the evacuation of thousands of families in Albay due to a seismic activity, and a medical mission for the affected families of the Guimaras oil spill, among other calamities.

People helping people is the philosophy that guides SM Foundation and its social soldiers—acknowledging the biblical precept that we are, indeed, our brothers' keepers.

FROM TRASH TO CASH:

SM Supermalls Hold Recycling Markets

There is also waste trading for scrap paper and empty ink and toner cartridges which can be exchanged with new paper or tissue paper and remanufactured ink and toner.

Apart from being the destination of choice for shopping and leisure activities, SM has raised the bar even more by making SM Supermalls a venue for waste market or waste trading activities.

This project aims to provide the public with convenient, accessible and regular drop-off areas and buying stations of recyclables and non-traditional waste. It also wants to promote environmental awareness and encourage more people to practice waste segregation and recycling.

Recycling markets were initially held once a month in select malls such as SM City Marilao, SM City San Lazaro, SM Southmall and SM City Fairview. However, because of the very good response from recyclers and the general public, the project has been expanded to include all SM malls nationwide held every first Saturday of the month.

The items which can be redeemed for cash by the recyclers are used papers and cartons, old electronics/electrical equipment and appliances, used lead acid batteries, used PET bottles and other plastics, aluminum cans, scrap glass, used ink/toner cartridges and used tires.

There is also waste trading for scrap paper and empty ink and toner cartridges which can be exchanged with new paper or tissue paper and remanufactured ink and toner cartridges. In addition, the public may also drop off styrofoam scrap, cellphones and cellphone batteries.

On top of waste trading, the malls will also be introducing related activities such as story-telling for children on the importance of environment conservation and sustainable development, product demonstration of recyclers and other educational activities.

Ms. Lorna Valerio, a resident of Parañaque says, "We are thankful to SM for providing a convenient and accessible venue where we can trade discarded items and appliances that are already out of order. It's good because we are able to rid our homes of trash and then receive cash in exchange for such items."

The recycling market resulted from a memorandum of undertaking between the Department of Environment and Natural Resources (DENR) and SM Prime Holdings, Inc. signed last April 2007. The partnership aims to strengthen SM's solid waste management program. It also solidifies SM's commitment to the environment by being an institutional partner in caring for the environment. For its part, the DENR provides technical assistance to SM to be able to promote and implement its environmental programs and advocacies.

The SM waste market is conducted in cooperation with the DENR-National Solid Waste Management Committee, the Philippine Business for the Environment and local government units.

SM Prime has spearheaded a number of environment-friendly programs for many years in its malls all over the country. These include energy conservation measures, waste segregation, waste recycling and waste treatment.

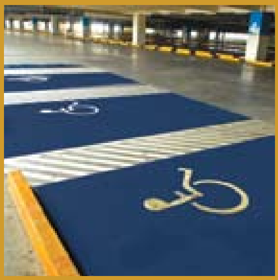
Enabling the Disabled:
A Look Into the Heart Of SM Malls

(An Interview with Ms. Annie Garcia)

WHO WOULD EVER THINK that SM, which is more known for its stores and malls, will someday be invited to an international forum that tackles programs for Persons With Disabilities or PWDs?

Well, that opportunity came by last June 2007, when SM Supermalls presented its plans and programs for PWDs at a conference that was sponsored by no less than the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). The event was held in Bangkok, Thailand where delegates from both developed and developing countries acclaimed SM's initiatives.

We talked to Ms. Annie Garcia, the President of SM Prime's Shopping Center Management Corporation who gave us a moving story about the heart of SM Malls.



Beginnings

According to Ms. Annie S. Garcia, President of Shopping Center Management Corporation, an SM subsidiary that manages SM Malls, it was five years ago that the company more vigorously implemented measures for, and heightened their sensitivity to, the special needs of PWDs.

Ms. Garcia shares a poignant story:

"From the beginning, SM Malls had always been compliant with the requirements of the handicapped, in as much as we had to conform to the National Building Code of the Philippines. It was in the law, and we followed it. But there was an incident some time in 2003 that sort of elevated our consciousness regarding PWDs.

"One day, a mother and her autistic son were accidentally separated from each other in one of our malls. The frantic mother went to the customer service counter and reported the incident. The mall's entire security staff was alerted by radio and a search was started. Initially, amidst the confusion and the crowds, her son could not be found.

"Later on, however, one of the mall guards saw a boy repeatedly banging his head against a display window. Fortunately and to the great relief of the mother, that boy, all safe and sound, proved to be her son."

Going Beyond The Stereotype

The incident made Ms. Garcia and the rest of the mall management realize that persons with disabilities go beyond those who could not see, walk, or hear.

Ms. Garcia continues, "It opened our eyes to the fact that there are other forms of disability, which we as operators of the malls must be aware of. There is a wide range of conditions such as autism, Down Syndrome, and attention deficit hyperactivity disorder or ADHD, each having its own special requirement. We thereafter consulted various organizations like the National Down Syndrome Society and the Philippine Autism Society to gain much-needed knowledge on these conditions."

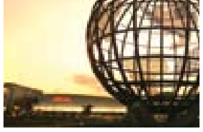
Commitment To Serve And Understand

The challenge then was how to make the mall environment more PWD-friendly. Thus, committees were formed to ensure the welfare of all mall-goers with special needs. Aside from the handicapped, committees were formed for women, children, the elderly, and even for breastfeeding.

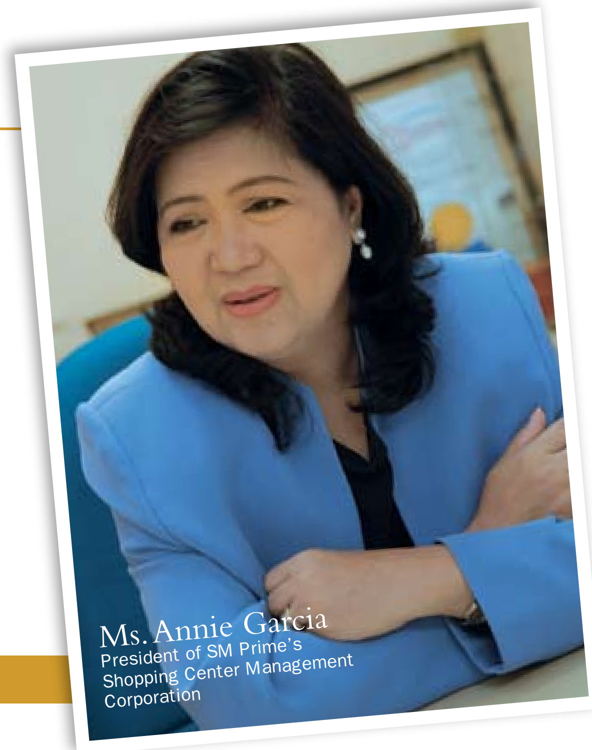
From then on, efforts to address the needs of PWDs went way beyond the perfunctory. As a matter of fact, a deep culture of service and understanding for PWDs evolved within the company.

With this culture and thinking spreading across the malls, various innovations and retrofitting were undertaken.

For instance, the malls adjusted their toilet facilities, parking areas, corridors, and pay phones, among others, to better suit PWDs. SM supermarkets and hypermarkets inside the malls established priority checkout lanes for the handicapped, and even for senior citizens. Signages and stickers, which request the public to give priority to PWDs, were installed in elevators and ramps.



"What is truly important for us is that our efforts and advocacy allow us to welcome everyone to our malls. We do not exclude anyone from experiencing our malls just because of their disabilities. We are able to serve all members of a family, and it is a service that comes from the heart."



Ms. Annie Garcia
President of SM Prime's Shopping Center Management Corporation

Consequently, SM malls created a "nonhandicapping" or barrier-free environment for PWDs.

The steps taken and the improvements put in place made the malls adhere better to the Magna Carta for the Disabled, the lead government agency for which is the Department of Social Welfare and Development (DSWD).

"We used to just make a listing of

handicap facilities our malls had. And these were just the standard facilities enumerated in the Building Code.

"We have, however, taken a more pro-active posture. Our committees often meet and discuss what enhancements to our existing facilities must be done. Regular, comprehensive audits are undertaken. We consult with the DSWD, local governments, and the various PWD associations. We make sure that SM malls under construction will have facilities that effectively address the needs of the disabled. Our architects, engineers, and designers are now more attuned to these special needs," Ms. Garcia added.

Training The Company's Greatest Asset

In its sincere desire to further enhance its service to PWDs, SM went beyond the improvement of its physical facilities and infrastructure. It focused on its most important asset – its human resources.

SM mall employees had to be aware of and be able to identify the different types of disabilities. More important, they had to know how to properly relate to people who have these disabilities. The mall workforce had to be trained and sensitized.

Ms. Garcia said, "We instituted a training program not only for our own employees, but also for those of our tenants. These training sessions educate our workforce on how to properly assist PWDs. We even came up with a video presentation, which must first be viewed by a new employee, before his or her ID card is released. The video serves as a convenient, cost-effective training tool and is disseminated to all our malls."

Frontline staff such as security guards, cashiers, and janitors are gathered at least once a month to make sure that their information and education on PWD-related issues are current. From time to time, guest speakers, such as members of the National Council for the Welfare of Disabled Persons (NCWDP), are invited to share their expertise on these issues.

Innovating Beyond The Expected

Today, as earlier related by Ms. Garcia, SM goes beyond the minimum legal requirements for PWDs. Other related issues and concerns are addressed as well inside SM malls.

For instance, there is the women's sector, and a truly noteworthy innovation implemented for them is the setting up of breastfeeding stations in SM malls. Nursing mothers could now attend to their babies in privacy and convenience inside these stations. At times, the SM malls also become venues for publicly discussing relevant topics such as breast cancer.

These are innovations that have made a positive and lasting impact.

Payback

When asked what sort of payback SM gets from the initiatives it has done for PWDs, Ms. Garcia replies, "The payback goes beyond the financial. The pride we get in knowing that we are of true service to the disabled is in itself rewarding for us.

"Of course, there are the recognition and honors we receive, such as the UNESCAP invitation to speak in their forum. We also received the government's Apolinario Mabini Award, which cited the SM Mall of Asia as the most disabled-friendly mall for 2007.

"But what is truly important for us is that our efforts and advocacy allow us to welcome everyone to our malls. We do not exclude anyone from experiencing our malls just because of their disabilities. We are able to serve all members of a family, and it is a service that comes from the heart.

"That for me is the payback," Ms. Garcia concludes.

Congratulates! Class 2007 Graduates of the SM College Scholarship Program

SM Foundation, Inc. — people helping people

SM Founder and Chairman **Henry Sy, Sr.** led SM Foundation officers and guests in honoring the 11th batch of graduates of the SM College Scholarship Program. He personally gifted each graduate with a wristwatch and certificate of graduation. The outstanding graduates received gift certificates as additional presents. Ms. Debbie P. Sy, Executive Director of SM Foundation, assisted in the presentation of gifts.

SM Foundation started the SM College Scholarship Program in 1993 and now counts 872 scholar-graduates. At any given time, 500 scholars are enrolled in colleges and universities in Metro Manila and key provincial cities where there are SM Supermalls.

Summa Cum Laude

CANCERAN, NIKKOLAI F.
Far Eastern University
BS in Accountancy

DENUSTA, CHRISTOPHER M.
Central Philippine University - Iloilo
BS in Accountancy

TOMON, MICHAEL C.
Far Eastern University
BS in Accountancy

Magna Cum Laude

GARCIA, ROSEMARIE S.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

QUIJANO, ERICKSON M.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

Cum Laude

AÑES, MARIA LINELL A. — Philippine Normal University, BSED Biology

BELLEZA, JOVANNIE B. — Central Philippine University-Iloilo, BS in Accountancy

CABAGUE, ZAIDA G. — Pamantasan ng Lungsod ng Maynila, BS in Accountancy

CANO, ELVIN B. — Philippine Normal University, Bachelor in Elementary Education

CASINILLO, MYLA CORAZON S. — Philippine Normal University, BSED Biology

DEMOL, LIBERTY JOY S. — University of San Carlos Cebu, BSED English

FAMORCAN, RAMON JR. C. — Central Philippine University - Iloilo, BS in Accountancy

GUAY, REMIA M. — Central Philippine University - Iloilo, BS in Accountancy

GUMANIT, MARIA LOREN C. — Philippine Normal University, Bachelor in Elementary Education

LEGASPI, ROMMEL M. — FEU – East Asia College, BS in Computer Engineering

MARTINEZ, JAY BERNARDO E. — Far Eastern University, BSC Financial Accounting

MATILDO, EDSEL F. — Ateneo de Davao University, BS in Chemical Engineering

MORSCO, MICAH RUTH S. — Pamantasan ng Lungsod ng Maynila, BS in Accountancy

NAVAL, MARIA CHRISTINA B. — UP Diliman, Bachelor in Elementary Education

PERANIA, SHEILA MAE D. — Central Philippine University - Iloilo, BS in Accountancy

RESURRECCION, HERSON S. — South Luzon Polytechnic College Lucena, BS in Accountancy

RUIZ, ROLINA L. — Philippine Normal University, BSED Physics

UY, ANGELO D. — Philippine Normal University, BS Math

VILLAGRACIA, FRACHESKA P. — FEU – East Asia College, BS in Computer Engineering

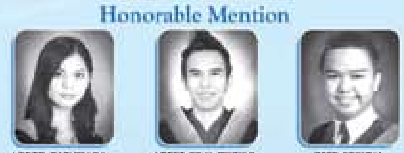
Academic Awardee with Distinction

CUNANAN, ROWENA A. — Far Eastern University, BSC Financial Accounting

PANOPIO, MARY ANN D. — South Luzon Polytechnic College - Lucena, BS in Accountancy

OBIAL, RICHARD DARYL B. — Asia Pacific College, BS in Computer Engineering

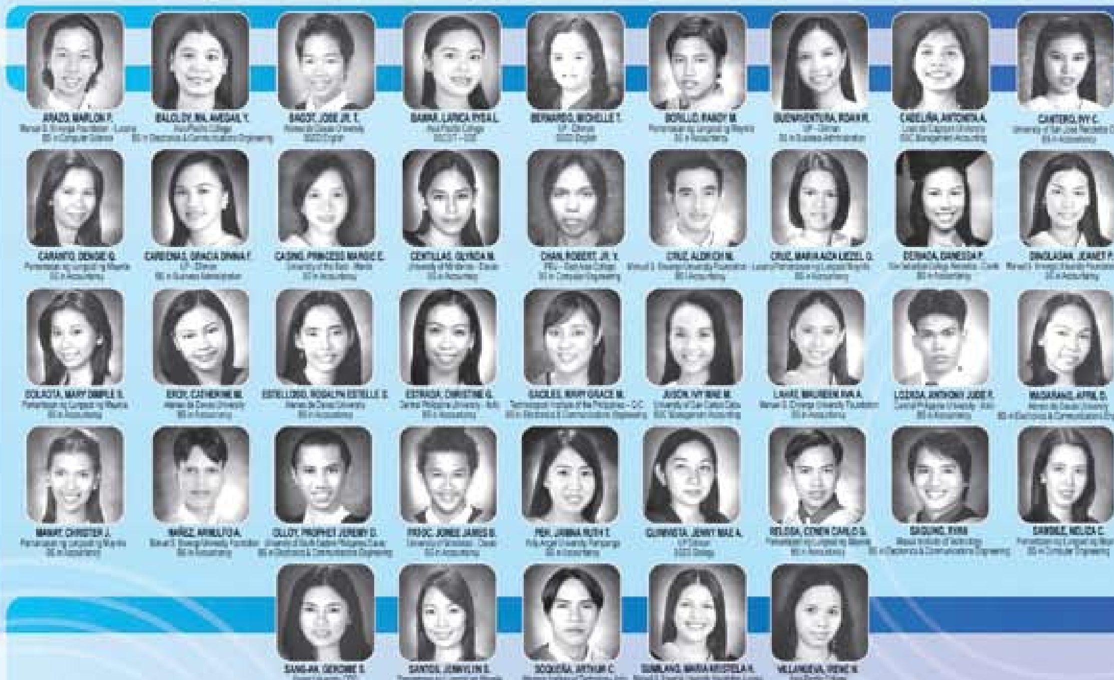
Honorable Mention



LODOR, RACHELLE L. — Asia Pacific College, BSCSIT – SSE

LOPEZ, EDJIL RIXON B. — Asia Pacific College, BSCSIT – SSE

REFE, NIKKO V. — Asia Pacific College, BSCSM



ARAZO, MARLON P.
BALOLOY, MA. AVEGAIL Y.
BAGOT, JOSE JR. T.
BAMBA, LARICA RYSA L.
BERNARDO, MICHELLE T.
BORILLO, RANDY M.
BUENAVENTURA, ROAN R.
CABELUÑA, ANTONITA A.
CANTERO, IVY C.
CARANTO, DENGIE Q.
CARDENAS, GRACIA DINNA F.
CASING, PRINCESS MARGIE C.
CENTILLAS, GLYNDA M.
CHAN, ROBERT, JR. Y.
CRUZ, ALDRICH M.
CRUZ, MARIA AIZA LIEZEL G.
DERADA, DANESSA P.
DINGLASAN, JEANET P.
DOLAOTA, MARY DIMPLE S.
EROY, CATHERINE M.
ESTELLOSO, ROSALYN ESTELLE S.
ESTRADA, CHRISTINE G.
GACILES, MARY GRACE M.
JUSON, IVY MAE M.
LAHAT, MAUREEN AVA A.
LOZADA, ANTHONY JUDE R.
MAGARANG, APRIL D.
MANAY, CHRISTER J.
NAÑEZ, ARNULFO A.
OLLOY, PROPHET JEREMY D.
PADOC, JONGE JAMES B.
PEH, JANINA RUTH T.
QUINVISTA, JENNY MAE A.
RELOSA, CENEN CARLO G.
SAGUNG, RYAN
SAMBILE, NELIZA C.
SANG-AN, GERONIE S.
SANTOS, JENNYLYN S.
SOQUEÑA, ARTHUR C.
SUMILANG, MARIA KRISTELA H.
VILLANUEVA, IRENE N.

BOARD OF DIRECTORS

Henry Sy, Sr.
Chairman

Jose L. Cuisia, Jr.
Vice Chairman and Independent Director

Teresita Sy-Coson
Director

Henry T. Sy, Jr.
Director

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 Emeritus of Banco de Oro Unibank, Inc., Honorary Chairman of China Banking Corporation, Chairman of ShoeMart, Inc., SM Investments Corporation, Highlands Prime, Inc. and SM Development Corporation. He opened the first ShoeMart store in 1958 and has been at the fore in SM Group's diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses.

JOSE L. CUISIA, JR.* has served as Vice Chairman of the Board of Directors of SM Prime since 1994. He is the President and Chief Executive Officer of the Philippine American Life Insurance Company, and he is Concurrently Chairman of the Board of various companies within the Philamlife Group. He is also a Director of several PHINMA-managed companies. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He also serves as Director of Bacnotan Consolidated Industries and Holcim Philippines, Inc.
*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.

TERESITA T. SY has served as Director since 1994. 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 President of ShoeMart, Inc. She also holds board positions in several companies within the SM Group.

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

Hans T. Sy
Director

Herbert T. Sy
Director

Senen T. Mendiola
Director

potential sites as well as the input of design ideas. At present, he is also Vice Chairman of SM Investments Corporation, SM Development Corporation, Highlands Prime, Inc. and Belle Corporation. He also serves as Director of Banco de Oro Unibank, Inc. and Pico de Loro Beach and Country Club, Inc. He graduated with a management degree from De La Salle University.

HANS T. SY, President, has served as Director since 1994 and was Senior Vice President for Operations. He holds many key positions in the SM Group. He is First Executive Vice President of SM Investments Corporation, Executive Vice President of Shoemart, Inc. and Vice Chairman and Director of China Banking Corporation, Director of Pico de Loro Beach and Country Club, Inc., Highlands Prime, Inc. and Belle Corporation. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

HERBERT T. SY has served as Director since 1994. He holds a Bachelor's degree in management from De La Salle University. At present, he is First Executive Vice President of SM Investments Corporation, and Director of Shoemart, Inc. and China Banking Corporation. He is actively involved in the SM Group's supermarket and hypermarket businesses.

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

BOARD COMMITTEES

Compensation Committee

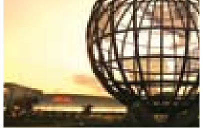
Hans T. Sy	Chairman
Jose L. Cuisia, Jr.	Member (Independent Director)
Henry T. Sy, Jr.	Member
Jose T. Sio	Member

Nomination Committee

Henry Sy, Sr.	Chairman
Jose L. Cuisia, Jr.	Member (Independent Director)
Herbert T. Sy	Member
Corazon I. Morando	Member
Senen T. Mendiola	Member

Audit and Corporate Governance Committee

Jose L. Cuisia, Jr.	Chairman (Independent Director)
Teresita Sy-Coson	Member
Senen T. Mendiola	Member
Jose T. Sio	Member
Serafin U. Salvador	Member
Corazon I. Morando	Member



EXECUTIVE OFFICERS

Henry Sy, Sr.
Chairman

Jose L. Cuisia, Jr.
Vice Chairman

Hans T. Sy
President

Jeffrey C. Lim
Executive Vice President/
Chief Finance Officer

Elizabeth T. Sy
Senior Vice President
Marketing

Corazon I. Morando
Consultant
Legal and Corporate Affairs/
Assistant Corporate Secretary

Emmanuel C. Paras
Corporate Secretary

Christopher S. Bautista
Vice President
Internal Audit

Ronald G. Tumao
Vice President
Market Research and Planning

Diana R. Dionisio
Vice President
Finance

Kelsey Hartigan Go
Vice President
Information Technology

SM PRIME HOLDINGS, INC.

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SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

2007

Financial and Operational Highlights

(in Million Pesos, except for financial ratios and percentages)

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

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

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts 16% increase in gross revenues for the year ended December 31, 2007 to ₱15.35 billion from ₱13.22 billion in the year 2006. Rental revenues remain the largest portion, with a significant growth of 17% amounting to ₱12.81 billion from last year's ₱10.97 billion. This is largely due to rentals from new SM Supermalls opened in 2006 and 2007, namely, SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM City North Edsa, SM Supercenter Pasig, SM City Lipa, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. The new malls opened with a total gross floor area of almost 1 million square meters. Currently, these new malls have an average occupancy level of 96%. Same store rental growth is at 7%.

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

Operating expenses increased by 19% from ₱5.56 billion to ₱6.62 billion mainly due to the new malls. Likewise, income from operations enjoyed a favorable growth of 14% from ₱7.66 billion in 2006 to ₱8.73 billion in 2007.

Net income for the year ended 2007 increased 10% at ₱5.97 billion from same period last year of ₱5.45 billion.

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

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

The significant decrease in available-for-sale investments of 58% mainly pertains to the early redemption of Ayala preferred shares amounting to ₱2.5 billion. The shares were redeemed in July and August 2007 and were used to prepay a portion of long-term debt.

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

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

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

Loans payable decreased 93% due to principal payments. Likewise, long-term debt also decreased 7% due to principal amortization and prepayment of loans amounting to ₱3.5 billion. In 2007, the Company availed ₱4 billion used for capital expenditure requirements and to prepay a portion of long-term debt.

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

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

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

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

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

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

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

EBITDA increased 16% to ₱10.99 billion for the year 2007 from ₱9.44 billion in 2006. Debt to EBITDA decreased at 1.56:1 from 2.74:1 as of December 31, 2007 and 2006, respectively. Likewise, EBITDA to interest expense increased from 12.37:1 to 16.79:1 for the years ended December 31, 2006 and 2007, respectively.

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

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

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

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

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

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

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

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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, 2007 and 2006, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2007, and the summary of significant accounting policies and other explanatory notes. 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. 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 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.

SyCip Gorres Velayo & 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 its opinion on the fairness of presentation upon completion of such audit, in its report to the stockholders and Board of Directors.

Henry Sy, Sr.	Hans T. Sy	Jeffrey C. Lim
Chairman	President	Executive Vice President

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

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

SGV & Co

We have audited the accompanying financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of 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, 2007, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0017602, January 3, 2008, Makati City

February 7, 2008

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 14, 19, 21 and 22)	₱2,114,940,507	₱7,581,307,508
Investments held for trading (Notes 6, 14, 19, 21 and 22)	149,688,504	294,094,198
Receivables (Notes 3, 7, 19 and 22)	2,896,342,346	2,764,804,645
Prepaid expenses and other current assets (Note 8)	950,480,849	1,117,275,182
Total Current Assets	6,111,452,206	11,757,481,533
Noncurrent Assets		
Investment properties - net (Notes 3 and 9)	51,985,268,210	47,074,871,189
Shopping mall complex under construction (Note 10)	5,470,043,177	4,595,222,248
Available-for-sale investments (Notes 11, 19, 21 and 22)	2,218,254,419	5,270,194,577
Derivative assets (Note 22)	347,248,200	765,940,052
Deferred tax assets (Notes 3 and 17)	40,081,403	32,072,923
Other noncurrent assets	1,262,083,145	1,296,210,048
Total Noncurrent Assets	61,322,978,554	59,034,511,037
	₱67,434,430,760	₱70,791,992,570
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 12, 19, 21 and 22)	₱590,920,000	₱8,027,991,500
Accounts payable and other current liabilities (Notes 12, 13, 19, 21 and 22)	2,746,373,228	1,997,704,808
Income tax payable	763,157,403	585,054,670
Current portion of long-term debt (Notes 14, 19, 21 and 22)	840,625,000	825,000,000
Total Current Liabilities	4,941,075,631	11,435,750,978
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19, 21 and 22)	15,764,546,055	17,019,897,331
Derivative liability (Note 22)	1,768,518,516	1,042,500,665
Deferred tax liabilities (Note 17)	836,818,110	722,857,915
Tenants' deposits and others (Notes 20, 21 and 22)	4,331,546,418	3,944,282,568
Total Noncurrent Liabilities	22,701,429,099	22,729,538,479
Equity Attributable to Equity Holders of the Parent (Note 21)		
Capital stock (Notes 15 and 23)	12,435,294,157	9,935,294,157
Additional paid-in capital	3,099,777,406	3,099,777,406
Unrealized gain on available-for-sale investments (Notes 11 and 22)	40,736,047	153,086,204
Retained earnings (Note 15):		
Appropriated	7,000,000,000	7,000,000,000
Unappropriated	16,383,297,235	15,585,749,586
Treasury stock (Notes 15 and 23)	(101,474,705)	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent	38,857,630,140	35,672,432,648
Minority Interests	934,295,890	954,270,465
Total Stockholders' Equity	39,791,926,030	36,626,703,113
	₱67,434,430,760	₱70,791,992,570

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2007	2006	2005
REVENUE			
Rent (Notes 3, 19 and 20)	₱12,806,767,515	₱10,972,042,723	₱9,027,377,053
Cinema ticket sales	1,843,187,522	1,597,030,599	1,308,131,615
Interest income from short-term investments (Notes 6 and 19)	401,440,618	444,811,634	630,927,747
Dividend income (Note 11)	295,088,980	417,816,293	459,716,619
Amusement and others (Notes 6 and 22)	840,677,124	900,393,181	666,988,967
	16,187,161,759	14,332,094,430	12,093,142,001
COST AND EXPENSES			
Operating expenses (Notes 16, 18, 19 and 20)	(6,621,411,044)	(5,565,249,821)	(4,849,838,840)
Interest expense on short-term and long-term loans (Notes 12, 14 and 19)	(654,698,850)	(763,706,295)	(278,686,280)
INCOME BEFORE INCOME TAX	8,911,051,865	8,003,138,314	6,964,616,881
PROVISION FOR INCOME TAX (Note 17)			
Current	2,471,142,585	1,921,844,308	1,447,706,622
Deferred	154,101,781	331,388,557	267,189,732
	2,625,244,366	2,253,232,865	1,714,896,354
NET INCOME	₱6,285,807,499	₱5,749,905,449	₱5,249,720,527
Attributable to:			
Equity holders of the Parent (Note 23)	₱5,974,985,672	₱5,448,922,555	₱4,972,905,620
Minority interests	310,821,827	300,982,894	276,814,907
	₱6,285,807,499	₱5,749,905,449	₱5,249,720,527
Basic/Diluted Earnings Per Share (Note 23)	₱0.481	₱0.439	₱0.401

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to Equity Holders of the Parent		
	Capital Stock (Notes 15 and 23)	Additional Paid-In Capital	Unrealized Gain on Available-for-Sale Investments (Notes 11 and 22)
At January 1, 2007	₱9,935,294,157	₱3,099,777,406	₱153,086,204
Cumulative gain transferred to statement of income	–	–	(184,216,294)
Income for the year recognized directly in equity	–	–	71,866,137
Net income	–	–	–
Total income and expense for the year	–	–	(112,350,157)
Cash dividends - ₱0.27 a share in 2007	–	–	–
Stock dividends - 25.2% a share in 2007	2,500,000,000	–	–
Dividends of subsidiary	–	–	–
	2,500,000,000	–	–
At December 31, 2007	₱12,435,294,157	₱3,099,777,406	₱40,736,047
At January 1, 2006	₱9,935,294,157	₱3,099,777,406	₱–
Income for the year recognized directly in equity	–	–	153,086,204
Net income	–	–	–
Total income for the year	–	–	153,086,204
Cash dividends - ₱0.25 a share in 2006	–	–	–
Dividends of subsidiary	–	–	–
	–	–	–
At December 31, 2006	₱9,935,294,157	₱3,099,777,406	₱153,086,204
At January 1, 2005	₱9,935,294,157	₱3,099,777,406	₱–
Net income	–	–	–
Cash dividends - ₱0.23 a share in 2005	–	–	–
Dividends of subsidiary	–	–	–
At December 31, 2005	₱9,935,294,157	₱3,099,777,406	₱–

See accompanying Notes to Consolidated Financial Statements.

	Retained Earnings					
	Appropriated (Note 15)	Unappropriated (Note 15)	Treasury Stock (Notes 15 and 23)	Total	Minority Interests	Total
	₱7,000,000,000	₱15,585,749,586	(₱101,474,705)	₱35,672,432,648	₱954,270,465	₱36,626,703,113
	–	–	–	(184,216,294)	–	(184,216,294)
	–	–	–	71,866,137	–	71,866,137
	–	5,974,985,672	–	5,974,985,672	310,821,827	6,285,807,499
	–	5,974,985,672	–	5,862,635,515	310,821,827	6,173,457,342
	–	(2,677,438,023)	–	(2,677,438,023)	–	(2,677,438,023)
	–	(2,500,000,000)	–	–	–	–
	–	–	–	–	(330,796,402)	(330,796,402)
	–	(5,177,438,023)	–	(2,677,438,023)	(330,796,402)	(3,008,234,425)
	₱7,000,000,000	₱16,383,297,235	(₱101,474,705)	₱38,857,630,140	₱934,295,890	₱39,791,926,030
	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,169	₱877,894,152	₱33,427,427,321
	–	–	–	153,086,204	–	153,086,204
	–	5,448,922,555	–	5,448,922,555	300,982,894	5,749,905,449
	–	5,448,922,555	–	5,602,008,759	300,982,894	5,902,991,653
	–	(2,479,109,280)	–	(2,479,109,280)	–	(2,479,109,280)
	–	–	–	–	(224,606,581)	(224,606,581)
	–	(2,479,109,280)	–	(2,479,109,280)	(224,606,581)	(2,703,715,861)
	₱7,000,000,000	₱15,585,749,586	(₱101,474,705)	₱35,672,432,648	₱954,270,465	₱36,626,703,113
	₱7,000,000,000	₱9,953,560,549	(₱101,474,705)	₱29,887,157,407	₱827,821,782	₱30,714,979,189
	–	4,972,905,620	–	4,972,905,620	276,814,907	5,249,720,527
	–	(2,310,529,858)	–	(2,310,529,858)	–	(2,310,529,858)
	–	–	–	–	(226,742,537)	(226,742,537)
	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,169	₱877,894,152	₱33,427,427,321

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interest	₱8,911,051,865	₱8,003,138,314	₱6,964,616,881
Adjustments for:			
Depreciation (Notes 9 and 16)	2,260,923,374	1,787,114,368	1,457,685,076
Interest and dividend income (Notes 6, 11 and 19)	(696,529,598)	(862,627,927)	(1,090,644,366)
Interest expense (Notes 12, 14 and 19)	654,698,850	763,706,295	278,686,280
Unrealized marked-to-market loss on derivatives - net (Note 22)	567,691,997	276,560,613	–
Unrealized foreign exchange loss (gain) - net	(514,312,972)	(668,499,763)	11,024,503
Realized marked-to-market loss on derivatives (Note 22)	138,638,574	–	–
Unrealized marked-to-market loss (gain) on investments held for trading (Note 6)	1,894,445	(8,264,785)	(25,073,031)
Operating income before working capital changes	11,324,056,535	9,291,127,115	7,596,295,343
Decrease (increase) in:			
Receivables	(461,239,973)	(434,214,375)	(219,089,383)
Prepaid expenses and other current assets	166,794,333	(492,067,412)	(296,497,995)
Increase (decrease) in:			
Accounts payable and other current liabilities	722,921,860	(46,810,032)	267,715,495
Tenants' deposits and others	347,572,186	805,310,107	393,856,337
Cash generated from operations	12,100,104,941	9,123,345,403	7,742,279,797
Income taxes paid	(2,293,039,852)	(1,840,635,298)	(1,468,432,180)
Net cash provided by operating activities	9,807,065,089	7,282,710,105	6,273,847,617
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 9)	(2,104,663,127)	(838,177,239)	(1,881,420,309)
Shopping mall complex under construction (Note 10)	(4,809,975,042)	(5,953,210,516)	(8,276,985,529)
Available-for-sale investments	2,500,000,000	(100,000,000)	300,000,000
Investments held for trading	114,372,281	1,347,832,047	2,736,919,494
Other noncurrent assets	73,818,567	(364,831,456)	(258,957,684)
Interest and dividend received	1,075,287,467	681,231,811	1,093,709,716
Net cash used in investing activities	(3,151,159,854)	(5,227,155,353)	(6,286,734,312)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 12 and 14)	12,162,137,525	14,673,147,307	6,608,671,497
Proceeds from termination of interest rate swap (Note 22)	438,379,132	–	–
Payments of:			
Loans (Notes 12 and 14)	(19,672,543,426)	(7,528,727,523)	(4,535,375,000)
Dividends	(3,008,234,425)	(2,703,715,861)	(2,537,272,395)
Interest	(1,809,511,042)	(2,109,147,630)	(1,418,069,187)
Net cash provided by (used in) financing activities	(11,889,772,236)	2,331,556,293	(1,882,045,085)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(232,500,000)	(347,969,784)	(239,134,503)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,466,367,001)	4,039,141,261	(2,134,066,283)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,581,307,508	3,542,166,247	5,676,232,530
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱2,114,940,507	₱7,581,307,508	₱3,542,166,247

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

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

The Parent Company is 52.79% directly and indirectly-owned by SM Investments Corporation (SMIC). SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

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

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 7, 2008.

2. Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

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

- PFRS 7, *Financial Instruments: Disclosures,* requires disclosures that enable users of financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed. The adoption of this standard resulted in additional disclosures such as aging analysis of rent receivables, contractual maturity analysis of financial liabilities and market sensitivity analysis (see Notes 7 and 21).

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2,* requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* states that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment,* requires that an entity must not reverse an impairment loss recognized in the interim period in respect of goodwill and AFS equity investments. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

The adoption of the above new PFRS and Philippine Interpretations from IFRIC did not have any effect on the financial performance or position of the Company. They did, however, give rise to additional disclosures.

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

- PFRS 8, *Operating Segments,* will replace PAS 14, *Segment Reporting,* and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Company will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

- PAS 23, *Amendment to Borrowing Costs,* issued in March 2007 and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of this amendment will have no impact on the consolidated financial statements since it is the Company's current policy to capitalize borrowing costs related to a qualifying asset.

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions,* will be effective on January 1, 2008. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement,* will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Company's consolidated financial statements as this is not relevant to its current operations.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes,* issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's consolidated financial statements as no such schemes currently exist.

- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company expects that this interpretation will have no impact on the financial position or performance of the Company.

Basis of Consolidation

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

Company	Percentage of Ownership	SM Malls/Properties Owned
First Asia Realty Development Corporation	54.37	SM Megamall
Premier Central, Inc.	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	100.00	SM City Dasmarinas
Premier Southern Corp. (PSC)	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	100.00	–
First Leisure Ventures Group Inc. (FLVGI)	50.00	San Miguel by the Bay

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

Judgments

In the process of applying the Company's accounting policy pertaining to leases, management has determined that it retains all the significant risks and rewards of ownership of the investment properties which are leased out and, accordingly, account for such leases as operating leases.

Rent income amounted to ₱12,807 million, ₱10,972 million and ₱9,027 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Use of Estimates

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

Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, average age of accounts and collection experience. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches. 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 ₱2,896 million and ₱2,765 million as of December 31, 2007 and 2006, respectively (see Note 7).

Estimated 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.

The net book value of investment properties amounted to ₱51,985 million and ₱47,075 million as of December 31, 2007 and 2006, respectively (see Note 9).

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 amount of an investment property exceeds its recoverable amount, the investment property is considered impaired and is written down to its recoverable amount.

The net book value of investment properties amounted to ₱51,985 million and ₱47,075 million as of December 31, 2007 and 2006, respectively (see Note 9).

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 following periods. This projection is based on the Company's past and future results of operations.

Deferred tax assets amounted to ₱40 million and ₱32 million as of December 31, 2007 and 2006, respectively (see Note 17).

Pension. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, 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.

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

The fair value of financial assets and liabilities are discussed in Note 22.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these claims (see Note 24).

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Financial Assets and Liabilities

Date of Recognition. The Company recognizes a financial asset or a financial liability 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.

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 designated at fair value through profit and 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 financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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

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

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets

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

Financial assets 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 recognized in the consolidated statements of income under "Amusement and others" account.

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

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

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

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

Classified as financial assets at FVPL are investments held for trading (see Note 6) and derivative financial instruments (see Note 22).

The carrying values of financial assets under this category amounted to ₱497 million and ₱1,060 million as of December 31, 2007 and 2006, respectively (see Note 22).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Loans and receivable are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's receivables (see Note 7).

The carrying values of financial assets under this category amounted to ₱2,896 million and ₱2,765 million as of December 31, 2007 and 2006, respectively (see Note 22).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. 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 the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Company has no investments classified as HTM as of December 31, 2007 and 2006.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest rate. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

Classified under this category are the Company's investments in redeemable preferred shares (see Note 11).

The carrying values of financial assets classified under this category amounted to ₱2,218 million and ₱5,270 million as of December 31, 2007 and 2006, respectively (see Note 22).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivatives transaction that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

Included in this category are the Company's derivative financial instruments with negative fair values (see Note 22).

The carrying values of financial liabilities at FVPL amounted to ₱1,769 million and ₱1,043 million as of December 31, 2007 and 2006, respectively (see Note 22).

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

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes loans payable, accounts payable and other current liabilities, long-term debt and tenants' deposits and others (see Notes 12, 13, 14 and 20).

The carrying values of financial liabilities under this category amounted to ₱24,274 million and ₱31,815 million as of December 31, 2007 and 2006, respectively (see Note 22).

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; or
- 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.

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

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

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 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 fair value through profit or loss.

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.

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 profit and loss.

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

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables 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.

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 Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

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

Investment properties are measured initially at cost, including transaction costs, less accumulated depreciation 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.

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

Buildings and improvements	35 years
Building equipment, furniture and others	3–15 years

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

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.

The transfer of shopping mall complex under construction to investment property is made when there is a change in use, evidenced by completion of construction of the shopping mall complex.

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

Impairment of Nonfinancial Assets
The carrying value of investment properties 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 is the greater of net selling price or value in use. The net selling price 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Treasury Stock
Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured. 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, Amusement and 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 an expense in accordance with the terms of the agreements.

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

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

Foreign Currency Transactions
The financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. 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.

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.

Leases where the Company retains substantially all the risks and benefits or ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

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, except for those that are stated under the standard.

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

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

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

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

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

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

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

Basic/Diluted Earnings Per Share (EPS)

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

Business Segment

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

Contingencies

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

Subsequent Events

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

5. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand and in banks (see Note 19)	₱443,180,491	₱308,776,352
Temporary investments (see Notes 14 and 19)	1,671,760,016	7,272,531,156
	₱2,114,940,507	₱7,581,307,508

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.

6. Investments Held for Trading

This account consists of investments in Philippine government bonds with fixed interest rates ranging from 6.71% to 8.00%. The investments are U.S. dollar-denominated and will mature on various dates starting November 22, 2008 until January 15, 2016.

Investments held for trading includes unrealized marked-to-market loss amounting to ₱2 million in 2007, unrealized marked-to-market gain amounting to ₱8 million in 2006 and unrealized marked-to-market gain amounting to ₱25 million in 2005, the amounts of which are presented as part of "Amusement and others" account in the consolidated statements of income.

7. Receivables

This account consists of:

	2007	2006
Rent (see Note 19)	₱2,193,353,690	₱2,013,845,438
Accrued interest and others (see Note 19)	702,988,656	750,959,207
	₱2,896,342,346	₱2,764,804,645

Rent receivables generally have terms of 30-90 days.

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

As of December 31, the aging analysis of rent receivables is as follows:

	2007	2006
Current	₱1,838,004,573	₱1,693,695,801
31–90 days	355,349,117	320,149,637
	₱2,193,353,690	₱2,013,845,438

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

8. Prepaid Expenses and Other Current Assets

This account primarily consists of input taxes amounting to ₱639 million and ₱863 million as of December 31, 2007 and 2006, respectively. The input value added tax is applied against output value added tax. The remaining balance is recoverable in future periods.

9. Investment Properties

This account consists of:

			2007	
	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	₱7,879,436,238	₱41,221,417,303	₱8,838,414,099	₱57,939,267,640
Additions	175,612,905	991,823,804	937,226,418	2,104,663,127
Completed projects transferred from shopping mall complex under construction (see Note 10)	356,475,020	4,146,650,066	563,532,182	5,066,657,268
Balance at end of year	8,411,524,163	46,359,891,173	10,339,172,699	65,110,588,035
Accumulated Depreciation				
Balance at beginning of year	–	6,943,622,038	3,920,774,413	10,864,396,451
Depreciation	–	1,581,672,006	679,251,368	2,260,923,374
Balance at end of year	–	8,525,294,044	4,600,025,781	13,125,319,825
Net Book Value	₱8,411,524,163	₱37,834,597,129	₱5,739,146,918	₱51,985,268,210

			2006	
	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	₱7,300,356,052	₱28,177,412,861	₱6,615,135,820	₱42,092,904,733
Additions	62,226,211	241,104,350	534,846,678	838,177,239
Completed projects transferred from shopping mall complex under construction (see Note 10)	516,853,975	12,802,900,092	1,688,431,601	15,008,185,668
Balance at end of year	7,879,436,238	41,221,417,303	8,838,414,099	57,939,267,640
Accumulated Depreciation				
Balance at beginning of year	–	5,855,253,184	3,222,028,899	9,077,282,083
Depreciation	–	1,088,368,854	698,745,514	1,787,114,368
Balance at end of year	–	6,943,622,038	3,920,774,413	10,864,396,451
Net Book Value	₱7,879,436,238	₱34,277,795,265	₱4,917,639,686	₱47,074,871,189

The fair value of investment properties as of December 31, 2006 as determined by an independent appraiser amounted to ₱175,311 million. 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.

10. Shopping Mall Complex Under Construction

The movements of this account follow:

	2007	2006
Balance at beginning of year	₱4,595,222,248	₱12,364,828,436
Additions	5,941,478,197	7,238,579,480
Completed projects transferred to investment properties (see Note 9)	(5,066,657,268)	(15,008,185,668)
Balance at end of year	₱5,470,043,177	₱4,595,222,248

In 2007, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Marikina and SM North EDSA Expansion.

In 2006, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Bacolod, SM City Cebu Expansion, SM City Marikina, SM City Taytay and SM Supercenter Muntinlupa.

Shopping mall under construction includes cost of land amounting to ₱2,210 million and ₱2,153 million as of December 31, 2007 and 2006, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱3,048 million and ₱3,812 million as of December 31, 2007 and 2006, 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, 2007 and 2006 are valued at ₱1,303 million and ₱1,979 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,131 million and ₱1,285 million in 2007 and 2006, respectively. Capitalization rates used were 9.01% in 2007 and 10.04% in 2006.

11. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by local entities with annual dividend rates of 6.5% to 8.25% in 2007 and 6.5% to 10.46% in 2006. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The shares are mandatorily redeemable in 2009 up to 2011. Preferred shares amounting to ₱1,500 million and ₱1,000 million, with an annual dividend rate of 10.46%, were early redeemed in July 2007 and August 2007, respectively.

AFS investments include unrealized gain amounting to ₱58 million and ₱219 million as of December 31, 2007 and 2006, respectively. The amount is deferred under equity, net of deferred tax liability amounting to ₱17 million and ₱66 million, respectively.

12. Loans Payable

Loans payable consist of unsecured Philippine peso-denominated and U.S. dollar-denominated loans obtained from banks amounting to ₱400 million and ₱191 million (US$4.6 million), respectively, as of December 31, 2007 and ₱2,240 million and ₱5,788 million (US$118 million), respectively, as of December 31, 2006. The loans bear interest ranging from 4.9% to 5.6% in 2007 and 5.3% to 6.8% in 2006.

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2007	2006
Trade	₱1,329,439,987	₱988,319,052
Accrued interest (see Notes 12, 14 and 19)	291,809,945	315,118,983
Accrued operating expenses and others (see Note 19)	1,125,123,296	694,266,773
	₱2,746,373,228	₱1,997,704,808

Trade payables are noninterest-bearing and are normally settled within a 30-day term.

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

14. Long-term Debt

This account consists of:

	2007	2006
Parent Company:		
U.S. dollar-denominated five-year syndicated loan	₱6,103,973,522	₱7,247,365,206
Philippine peso-denominated loans:		
Five-year floating rate notes	3,970,505,799	–
Five-year bilateral loan	2,980,917,334	2,975,283,692
Five-year syndicated loan	423,120,933	846,071,043
Five-year and seven-year fixed rate notes	–	2,972,542,654
Other bank loans	2,186,907,500	2,717,265,000
Subsidiaries:		
Philippine peso-denominated loans:		
Five-year syndicated loans	691,645,967	1,086,369,736
Five-year bilateral loan	248,100,000	–
	16,605,171,055	17,844,897,331
Less current portion	840,625,000	825,000,000
	₱15,764,546,055	₱17,019,897,331

Parent Company

U.S. Dollar-denominated Five-Year Syndicated Loan

The US$150 million unsecured loan was obtained on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on London Inter-Bank Offered Rate (LIBOR) plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1% (see Note 22).

Philippine Peso-denominated Five-Year Floating Rate Notes

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

Philippine Peso-denominated Five-Year Bilateral Loan

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

Philippine Peso-denominated Five-Year Syndicated Loan

This represents a five-year syndicated term loan obtained on November 21, 2003, originally amounting to ₱1,700 million, payable in equal quarterly installments of ₱106 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly. Starting April 2007, the fixed interest rate of 8% was reduced to 7.0625%.

Philippine Peso-denominated Five-Year and Seven-Year Fixed Rate Notes
This represents a five-year and seven-year fixed rate notes obtained on July 8, 2005 amounting to ₱3,500 million (₱2,000 million of which was obtained from SMIC) and ₱1,500 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively (see Notes 19 and 22).

In July 2007 and December 2006, the Company prepaid the ₱3,000 million and ₱2,000 million (held by SMIC with an original maturity date of July 8, 2010) notes, respectively. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱24 million.

Other Bank Loans
This account consists of the following:

- 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 22).

- 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.

- Two-year and five-year unsecured loans obtained on December 1, 2004 amounting to P466 million and P534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The P466 million loan matured on December 1, 2006. The Company prepaid the P534 million loan on June 1, 2007, with an original maturity date of December 1, 2009. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to P1 million.

Subsidiaries

Philippine Peso-denominated Five-Year Syndicated Loans
In 2004, CPDC and PSC obtained a five-year term loan, which originally amounted to ₱1,600 million, to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100 million starting in 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%.

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

As of December 31, 2007 and 2006, investments held for trading and temporary investments totaling ₱1,388 million and ₱1,761 million, respectively, were pledged to secure the loans in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP). In accordance with the loan agreement, the Parent Company has the option to substitute the pledged investments held for trading and temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 19).

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, 2007 and 2006, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱162 million and ₱194 million as of December 31, 2007 and 2006, respectively. Amortization of debt issuance costs amounted to ₱78 million and ₱68 million in 2007 and 2006, respectively.

Repayment Schedule

Repayments of long-term debt are scheduled as follows:

Year	Amount
2008	₱840,625,000
2009	6,554,500,000
2010	62,500,000
2011	4,062,500,000
2012	4,046,875,000
2016	1,200,000,000
	₱16,767,000,000

15. Stockholders' Equity

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2007 and 2006 are 12,435,294,157 shares and 9,935,294,157 shares, respectively.

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱2,876 million and ₱2,942 million as of December 31, 2007 and 2006, respectively, representing the cost of shares held in treasury (₱101 million in 2007 and 2006) and accumulated equity in net earnings of the subsidiaries totaling ₱2,775 million and ₱2,841 million as of December 31, 2007 and 2006, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

16. Operating Expenses

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

	2007	2006	2005
Depreciation (see Note 9)	₱2,260,923,374	₱1,787,114,368	₱1,457,685,076
Administrative (see Notes 18, 19 and 20)	1,712,653,932	1,587,912,907	1,638,621,352
Film rentals	965,464,907	846,217,683	687,859,433
Business taxes and licenses	775,740,702	608,818,441	498,370,891
Others (see Note 19)	906,628,129	735,186,422	567,302,088
	₱6,621,411,044	₱5,565,249,821	₱4,849,838,840

17. Income Tax

The components of deferred tax assets and liabilities follow:

	2007	2006
Deferred tax assets -		
Accrued expenses, unrealized foreign exchange loss and others	₱40,081,403	₱32,072,923
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	₱836,818,110	₱722,857,915

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

	2007	2006	2005
Statutory tax rates	35.0%	35.0%	32.5%
Income tax effects of:			
Interest income subjected to final tax			
and dividend income exempt from income tax	(2.7)	(3.8)	(5.1)
Change in enacted tax rates			
and others	(2.8)	(3.1)	(2.8)
Effective tax rates	29.5%	28.1%	24.6%

18. Pension Cost

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

Net Pension Cost

	2007	2006	2005
Current service cost	₱2,518,520	₱582,378	₱388,003
Interest cost on benefit obligation	1,544,607	640,148	453,107
Expected return on plan assets	(593,527)	(398,371)	(262,914)
Net actuarial loss (gain) recognized	368,777	7,799	(17,516)
Net pension cost	₱3,838,377	₱831,954	₱560,680
Actual return on plan assets	₱619,837	₱290,949	₱312,990

Net Pension Liability

	2007	2006	2005
Defined benefit obligation	₱24,632,241	₱18,632,172	₱5,334,567
Fair value of plan assets	(7,706,515)	(4,946,058)	(3,319,755)
Unfunded obligation	16,925,726	13,686,114	2,014,812
Unrecognized net actuarial losses	(14,509,600)	(12,926,517)	(751,815)
Net pension liability	₱2,416,126	₱759,597	₱1,262,997

The above amounts of net pension liability were not recognized in the books due to immateriality.

The changes in the present value of the defined benefit obligation follow:

	2007	2006	2005
Defined benefit obligation, January 1	₱18,632,172	₱5,334,567	₱3,236,475
Interest cost on benefit obligation	1,544,607	640,148	453,107
Current service cost	2,518,520	582,378	388,003
Benefits paid	(41,228)	–	(359,017)
Actuarial losses on obligation	1,978,170	12,075,079	1,615,999
Defined benefit obligation, December 31	₱24,632,241	₱18,632,172	₱5,334,567

The changes in the fair value of plan assets follow:

	2007	2006	2005
Fair value of plan assets, January 1	₱4,946,058	₱3,319,755	₱2,190,948
Expected return on plan assets	593,527	398,371	262,914
Benefits paid	(41,228)	–	(359,017)
Contributions	2,181,848	1,335,354	1,174,834
Actuarial gains (losses)	26,310	(107,422)	50,076
Fair value of plan assets, December 31	₱7,706,515	₱4,946,058	₱3,319,755

The Company expects to contribute ₱2 million to its defined benefit pension plan in 2008.

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:

	2007	2006	2005
Discount rate	8.3%	8.3%	12.0%
Expected rate of return on plan assets	6.0%	12.0%	12.0%
Future salary increases	10.0%	10.0%	10.0%

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

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

	2007	2006	2005
Defined benefit obligation	₱24,549,785	₱18,632,172	₱5,334,567
Plan assets	7,624,059	4,946,058	3,319,755
Deficit	16,925,726	13,686,114	2,014,812
Experience adjustments on plan liabilities	1,895,714	12,075,079	1,615,999
Experience adjustments on plan assets	56,146	107,422	(50,076)

19. Related Party Disclosures

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

a. The Company has existing lease agreements with the SM Retail Group and SM Banking Group. Total rent revenue amounted to ₱4,146 million, ₱3,513 million and ₱2,904 million in 2007, 2006 and 2005, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱947 million and ₱835 million as of December 31, 2007 and 2006, respectively.

b. The Company leases the land where two of its malls are located from SMIC and Shoemart, Inc. for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and Shoemart, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱164 million, ₱105 million and ₱46 million in 2007, 2006 and 2005, respectively. Rent payable to SMIC and Shoemart, Inc., included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱16 million as of December 31, 2007 and 2006, respectively.

c. The Company pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱473 million, ₱403 million and ₱324 million in 2007, 2006 and 2005, respectively. Accrued management fees, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱61 million and ₱18 million as of December 31, 2007 and 2006, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group. Cash and cash equivalents and investments held for trading totalled ₱2,115 million and ₱7,581 million as of December 31, 2007 and 2006, respectively. Pledged investments held for trading of ₱1,388 million and ₱1,761 million as of December 31, 2007 and 2006, respectively, are deposited with Banco de Oro (BDO) (see Note 14). Interest income amounted to ₱386 million, ₱376 million and ₱427 million in 2007, 2006 and 2005, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱16 million and ₱96 million as of December 31, 2007 and 2006, respectively.

e. As of December 31, 2007 and 2006, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱367 million and ₱1,922 million, respectively. Interest expense amounted to ₱115 million, ₱393 million and ₱326 million in 2007, 2006 and 2005, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱3 million and ₱12 million as of December 31, 2007 and 2006, respectively.

f. As of December 31, 2007 and 2006, a portion of AFS financial assets amounting to ₱2,116 million and ₱2,405 million pertains to mandatorily redeemable preferred shares of BDO (see Note 11). Interest income amounted to P138 million, ₱160 million and ₱176 million in 2007, 2006 and 2005, respectively. Interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱95 million and P282 million as of December 31, 2007 and 2006, respectively.

g. The total compensation paid to key management personnel of the Company amounted to ₱16 million, ₱13 million and ₱10 million in 2007, 2006 and 2005, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

20. Lease Agreements

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

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

21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of bank loans, AFS financial assets, investments held for trading and cash and cash equivalents. 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 and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance.

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 the Company's financial instruments with a floating interest rate and fixed interest rate. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 6, 11, 12 and 14.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2007 and 2006, after taking into account the effect of interest rate swaps, approximately 51% and 61% respectively, of the Company's long-term borrowings are at a fixed rate of interest.

Interest Rate Risk Table

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

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2007	100	(₱21,421,186)
	50	(10,620,593)
	(100)	21,421,186
	(50)	10,620,593
2006	100	(28,998,203)
	50	(14,499,101)
	(100)	28,998,203
	(50)	14,499,101

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

	2007		
	1-<2 Years	2-<3 Years	3-<4 Years
Fixed rate:			
Philippine peso-denominated five-year syndicated loan	₱825,000,000	₱300,000,000	₱–
Interest rate	6.75% - 7.06%	6.75%	
Other bank loans	–	–	–
Interest rate			
Floating rate:			
U.S. dollar-denominated five-year syndicated loan	$ –	$150,000,000	$ –
Interest rate		LIBOR+margin%	
Philippine peso-denominated five-year floating rate loan	₱–	₱–	₱–
Interest rate			
Philippine peso-denominated five-year bilateral loan	₱15,625,000	₱62,500,000	₱62,500,000
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%
Other bank loans	–	–	–
Interest rate			

	2006			
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years
Fixed rate:				
Philippine peso-denominated five-year and seven-year fixed rate notes	₱–	₱–	₱–	₱1,500,000,000
Interest rate				10.54%
Philippine peso-denominated five-year syndicated loan	825,000,000	825,000,000	300,000,000	–
Interest rate	8.00-9.66%	8.00-9.66%	9.66%	
Other bank loans	–	–	534,000,000	–
Interest rate			12.54%	
Floating rate:				
US dollar-denominated five-year syndicated loan	$–	$–	$150,000,000	$–
Interest rate			LIBOR+margin%	
Philippine peso-denominated five-year bilateral loan	₱–	₱–	₱–	₱–
Interest rate				
Other bank loans	–	–	–	–
Interest rate				

4-<5 Years	5-<6 Years	>6 Years	Total	Debt Issuance	Carrying Value
₱–	₱–	₱–	₱1,125,000,000	(₱10,233,100)	₱1,114,766,900
–	–	1,200,000,000	1,200,000,000	(9,342,500)	1,190,657,500
		9.75%			
$ –	$ –	$ –	6,192,000,000	(88,026,478)	6,103,973,522
₱–	₱4,000,000,000	₱–	4,000,000,000	(29,494,201)	3,970,505,799
	PDST-F+margin%				
₱3,062,500,000	₱46,875,000	₱–	3,250,000,000	(20,982,666)	3,229,017,334
PDST-F+margin%	PDST-F+margin%				
₱1,000,000,000	–	–	1,000,000,000	(3,750,000)	996,250,000
PDST-F+margin%					
			₱16,767,000,000	(₱161,828,945)	₱16,605,171,055

5-<6 Years	6-<7 Years>	7 Years	Total	Debt Issuance	Carrying Value
₱–	P1,500,000,000	₱–	₱3,000,000,000	(₱27,457,346)	₱2,972,542,654
11.56%					
–	–	–	1,950,000,000	(17,559,221)	1,932,440,779
–	–	1,200,000,000	1,734,000,000	(11,985,000)	1,722,015,000
		9.75%			
$–	$–	$–	7,354,500,000	(107,134,794)	7,247,365,206
₱3,000,000,000	₱–	₱–	3,000,000,000	(24,716,308)	2,975,283,692
Mart 1+margin%					
1,000,000,000	–	–	1,000,000,000	(4,750,000)	995,250,000
Mart 1+margin%					
			₱18,038,500,000	(₱193,602,669)	₱17,844,897,331

Foreign Currency Risk
The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱3,687 million (US$89 million) and ₱3,665 million (US$89 million) as of December 31, 2007, respectively, and ₱9,723 million (US$198 million) and ₱9,710 million (US$198 million) as of December 31, 2006, respectively.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱41.28 to US$1.00 and ₱49.03 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2007 and 2006, respectively.

To manage foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, the Company enters into foreign currency swaps aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

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

	Increase (Decrease) in ₱ to US$ rate	Effect on Income before Income Tax
2007	₱1.50	(₱14,474,864)
	1.00	(9,649,909)
	(1.50)	14,474,864
	(1.00)	9,649,909
2006	1.50	(12,993,537)
	1.00	(8,662,358)
	(1.50)	12,993,537
	(1.00)	8,662,358

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

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

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

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

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.

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

	2007			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱590,920,000	₱–	₱–	₱590,920,000
Accounts payable and other current liabilities	2,746,373,228	–	–	2,746,373,228
Long-term debt (including current portion)	840,625,000	14,726,375,000	1,200,000,000	16,767,000,000
Derivative liability	–	1,768,518,516	–	1,768,518,516
Tenants' deposits and others	–	4,331,546,418	–	4,331,546,418
	₱4,177,918,228	₱20,826,439,934	₱1,200,000,000	₱26,204,358,162

	2006			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱8,027,991,500	₱–	₱–	₱8,027,991,500
Accounts payable and other current liabilities	1,997,704,808	–	–	1,997,704,808
Long-term debt (including current portion)	825,000,000	14,513,500,000	2,700,000,000	18,038,500,000
Derivative liability	–	1,042,500,665	–	1,042,500,665
Tenants' deposits and others	–	3,944,282,568	–	3,944,282,568
	₱10,850,696,308	₱19,500,283,233	₱2,700,000,000	₱33,050,979,541

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, pay-off existing debts, return capital to shareholders or issue new shares.

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

As of December 31, 2007 and 2006, the Company's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital are as follows:

Interest-bearing Debt to Total Capital

	2007	2006
Loans payable	₱590,920,000	₱8,027,991,500
Current portion of long-term debt	840,625,000	825,000,000
Long-term debt - net of current portion	15,764,546,055	17,019,897,331
Total interest-bearing debt (a)	17,196,091,055	25,872,888,831
Total equity attributable to equity holders of the Parent	38,857,630,140	35,672,432,648
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	₱56,053,721,195	₱61,545,321,479
Gearing ratio (a/b)	31%	42%

Net Interest-bearing Debt to Total Capital

	2007	2006
Loans payable	₱590,920,000	₱8,027,991,500
Current portion of long-term debt	840,625,000	825,000,000
Long-term debt - net of current portion	15,764,546,055	17,019,897,331
Less cash and cash equivalents, investments held for trading and AFS investments	(4,482,883,430)	(13,145,596,283)
Total net interest-bearing debt (a)	12,713,207,625	12,727,292,548
Total equity attributable to equity holders of the Parent	38,857,630,140	35,672,432,648
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	₱51,570,837,765	₱48,399,725,196
Gearing ratio (a/b)	25%	26%

22. Financial Instruments

Carrying Values

The table below presents the carrying values of the Company's financial instruments by category as of December 31:

	2007	2006
Financial Assets		
Financial assets at FVPL	₱496,936,704	₱1,060,034,250
Loans and receivables	2,896,342,346	2,764,804,645
AFS investments	2,218,254,419	5,270,194,577
Financial Liabilities		
Financial liabilities at FVPL	1,768,518,516	1,042,500,665
Other financial liabilities	24,274,010,701	31,814,876,207

Fair Values

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

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	₱2,114,940,507	₱2,114,940,507	₱7,581,307,508	₱7,581,307,508
Investments held for trading	149,688,504	149,688,504	294,094,198	294,094,198
Receivables	2,896,342,346	2,896,342,346	2,764,804,645	2,764,804,645
Derivative assets	347,248,200	347,248,200	765,940,052	765,940,052
AFS investments	2,218,254,419	2,218,254,419	5,270,194,577	5,270,194,577

(forward)

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Loans payable	590,920,000	590,920,000	8,027,991,500	8,027,991,500
Accounts payable and other current liabilities	2,746,373,228	2,746,373,228	1,997,704,808	1,997,704,808
Long-term debt (including current portion)	16,605,171,055	17,184,441,058	17,844,897,331	19,184,148,588
Derivative liability	1,768,518,516	1,768,518,516	1,042,500,665	1,042,500,665
Tenants' deposits and others	4,331,546,418	4,199,373,457	3,944,282,568	3,894,978,926

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

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

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

AFS Investments. The fair value of investments in mandatorily redeemable preferred shares where there is no active market is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 6.19% to 7.95% as of December 31, 2007 and 6.97% to 7.98% as of December 31, 2006.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.18% to 7.36% as of December 31, 2007 and 5.94% to 7.35% as of December 31, 2006.
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 5.20% as of December 31, 2007 and 6.99% as of December 31, 2006.

Tenants' Deposits and Others. 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 6.67% to 6.76% as of December 31, 2007 and 6.60% to 6.69% as of December 31, 2006.

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

Derivative Financial Instruments

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

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

	2007	
	<1 year	>1-<2 years
Cross-Currency Swaps		
Floating-Fixed:		
Notional amount	$70,000,000	$70,000,000
Receive-floating rate	6 months	6 months
	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	12.58-12.75%	12.58-12.75%
Weighted swap rate	₱56.31	₱56.31
Interest Rate Swap		
Floating-Fixed:		
Notional amount	$80,000,000	$80,000,000
Receive-floating rate	6 months	6 months
	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	5.34%	5.34%

	2006					
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years
Cross-Currency Swaps						
Floating-Fixed:						
Notional amount	$70,000,000	$70,000,000	$70,000,000			
Receive-floating rate	6 months	6 months	6 months			
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%			
Pay-fixed rate	12.58-12.75%	12.58-12.75%	12.58-12.75%			
Weighted swap rate	₱56.31	₱56.31	₱56.31			
Interest Rate Swap						
Floating-Fixed:						
Notional amount	$80,000,000	$80,000,000	$80,000,000			
Receive-floating rate	6 months	6 months	6 months			
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%			
Pay-fixed rate	5.34%	5.34%	5.34%			
Fixed - Floating:						
Notional amount	P3,750,000,000	P3,750,000,000	P3,750,000,000	P3,750,000,000	P1,500,000,000	P1,500,000,000
Receive-fixed rate	10.54-11.56%	10.54-11.56%	10.54-11.56%	10.54-11.56%	11.56%	11.56%
Pay-floating rate	3 months	3 months	3 months	3 months	3 months	3 months
	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %	Mart 1+margin %

Cross Currency Swaps. In 2004, the Parent Company entered into 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 interest of the U.S. dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of December 31, 2007 and 2006, the cross currency swaps have negative fair values of ₱1,496 million and ₱1,042 million, respectively.

Interest Rate Swaps. Also in 2004, the Parent Company entered into US$ interest rate swap agreements with an aggregate notional amount of US$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2007 and 2006, the floating to fixed interest rate swaps have positive fair values of ₱20 million and ₱149 million, respectively.

In 2005, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱3,750 million. Under these agreements, the Parent Company effectively swaps these fixed rate Philippine peso-denominated five-year and seven-year syndicated fixed rate notes into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to July 2012. As of December 31, 2006, the fixed to floating interest rate swaps have positive fair values of ₱577 million. As discussed in Note 14, in June 2007, as a result of the prepayment of the underlying obligation, the related interest rate swap was also terminated with net proceeds amounting to ₱438 million and realized loss of ₱139 million.

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

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

In these trades, the Parent Company will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the USD/PHP exchange rate 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, 2007 and 2006, the positive fair value of the currency option is ₱55 million and ₱40 million, respectively.

Non-deliverable Forwards. In 2007, the Parent Company entered into forward contracts to sell P and buy US$ with different counterparties at an aggregate notional amount of US$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160 million. The average forward rates range from ₱41.05 to ₱46.53, which matures in various dates in 2008. Also in 2007, the Parent Company entered into forward contracts to sell US$ and buy ₱ with different counterparties at an aggregate notional amount of US$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US$160 million. The average forward rates range from ₱41.31 to P46.68, which matures in various dates in 2008. As of December 31, 2007, the net fair value of the above forward contracts is immaterial. The Parent Company recognized derivative asset and derivative liability amounting to ₱272 million from these forward contracts.

The net unrealized marked-to-market loss on derivative transactions, shown as part of "Amusement and others" account in the consolidated statements of income, amounted to ₱568 million and ₱277 million for the years ended December 31, 2007 and 2006, respectively.

Fair Value Changes on Derivatives

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

	2007	2006
Balance at beginning of year	(₱276,560,613)	₱–
Net changes in fair value during the year	(567,691,997)	(276,560,613)
Fair value of settled contracts	(577,017,706)	
Balance at end of year	(₱1,421,270,316)	(₱276,560,613)

23. Basic/Diluted EPS Computation

Basic EPS is computed as follows:

	2007	2006	2005
Net income attributable to equity holders of the Parent (a)	₱5,974,985,672	₱5,448,922,555	₱4,972,905,620
Common shares issued at beginning of year	9,935,294,157	9,935,294,157	9,935,294,157
Effect of stock dividends in 2007 (see Note 15)	2,500,000,000	2,500,000,000	2,500,000,000
Common shares issued at end of year	12,435,294,157	12,435,294,157	12,435,294,157
Less weighted average number of treasury shares acquired during the year	18,857,000	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	12,416,437,157	12,416,437,157	12,416,437,157
Earnings per share (a/b)	₱0.481	₱0.439	₱0.401

24. Other Matters

a. On November 13, 2007, the BOD approved the Parent Company's acquisition of 100% of the outstanding common shares of Affluent Capital Enterprises (Affluent) and MegaMake Enterprise Limited (MegaMake), holding companies of the three SM Malls in China, in exchange for the Parent Company's common shares with a valuation based on the 30-day volume weighted average price of the Parent Company.

As of February 7, 2008, the Parent Company has yet to execute the relevant documents with Grand China International Limited and Oriental Land Development Limited for the exchange of Affluent and MegaMake shares of stock valued at ₱10,827 million equivalent to 913 million shares of the Parent Company's common stock to be issued upon the approval by the SEC and the PSE.

b. 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 Bureau of Internal Revenue's (the Respondent) motion for reconsideration was denied on December 18, 2006. The Respondent has filed an appeal on January 19, 2007, which is still pending resolution as of February 7, 2008. In the opinion of management and its legal counsel, the eventual resolution of these cases will not have any material adverse effect on the consolidated financial statements.

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PRIMER

ANNUAL REPORT 2007

CORPORATE INFORMATION

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

Legal Counsel
SyCip Salazar Hernandez and Gatmaitan Law Offices
Gonzales Batiller Bilog and Associates
Pacis & Reyes
Puno and Puno Law Offices
Fondevilla Jasarino Young & Librojo Law Offices
Tarriela Tagao Ona & Associates
Tan Acut & Lopez
Salvador Guevarra & Associates
Fortun Narvasa Salazar

External Auditor
SyCip Gorres Velayo & Co.

Bankers
Banco de Oro Universal Bank
Bank of the Philippine Islands
China Banking Corporation
Citibank, N.A.
Hongkong and Shanghai Banking Corporation
JP Morgan Chase Bank, N. A.
Metropolitan Bank & Trust Company
Standard Chartered Bank
Deutsche Bank AG Manila Branch
First Metro Investment Corporation

Stockholder Inquiries
SM Prime Holdings, Inc. common stock is listed and traded in the Philippine Stock Exchange under the symbol 'SMPH'.

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Stock Transfer Service, Inc.
8th Floor, Phinma Plaza
39 Plaza Drive, Rockwell Center
Makati City 1200 Philippines
Tel. (632) 898.7555
Fax (632) 898.7597

With 30 **Spectacular Malls** to date, SM promises a total shopping, dining and entertainment experience for everyone.

Service Matters that's why SM is committed to provide a better experience and a personal touch to each and every customer.

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Inspired by **Selfless Motivation,** SM Foundation continues to bring hope, health, and opportunities to its multitude of beneficiaries.

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50 years of Serving Millions...
of fulfilling dreams...
of creating smiles...
and making beautiful moments happen.

SM is ready to serve millions and millions more in the years to come.