PRIME HOLDINGS

www.smprime.com

SPECIAL EDITION

PRIMER

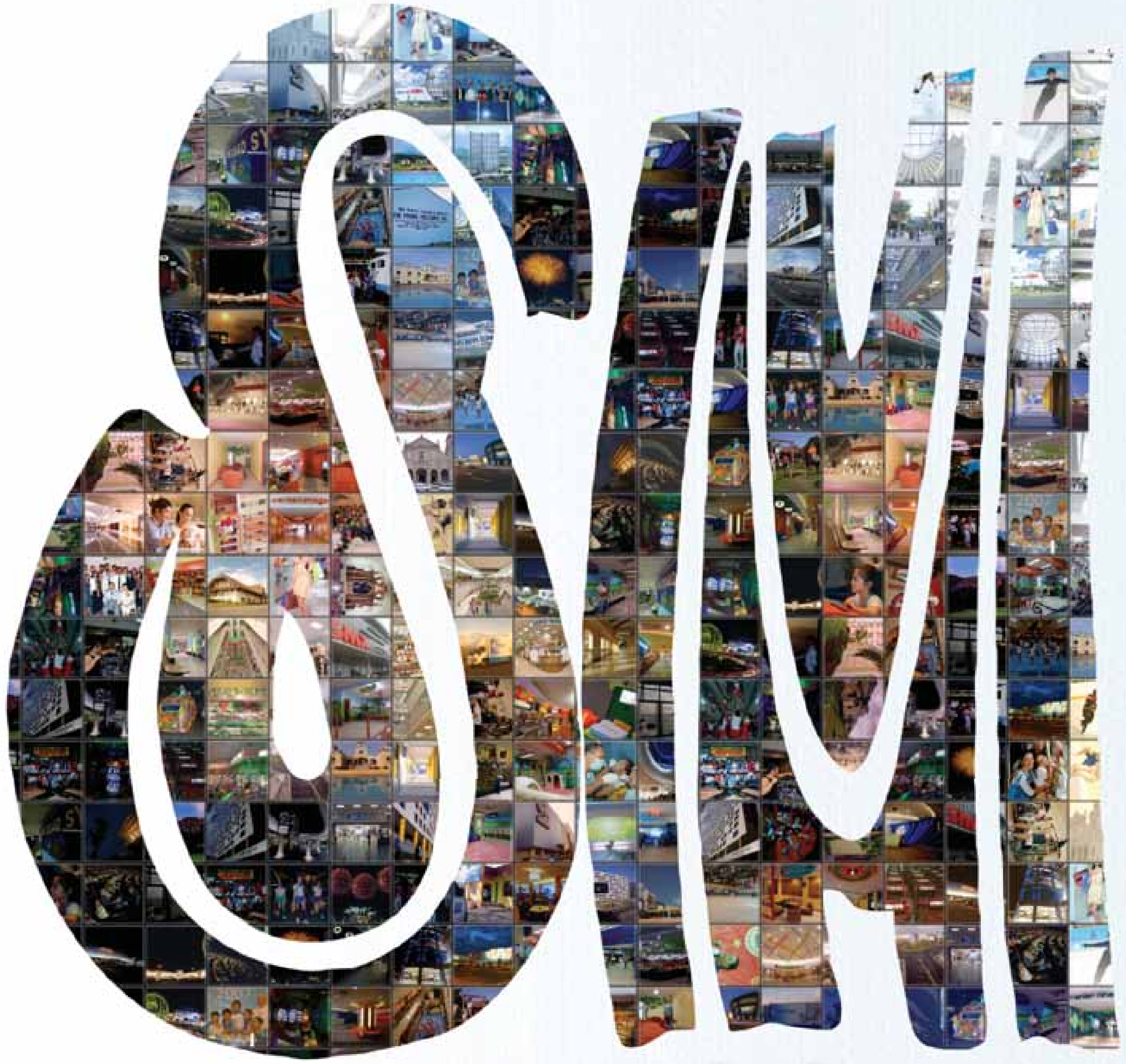
ANNUAL REPORT 2008









Your World,
Our World

Our Vision

SM Prime envisions itself to be a leader in world-class mall development, committed to deliver the daily needs of millions by offering a total mall experience and creating a richer, better quality of life.

Our Mission

SM Prime commits to the following mission:

To constantly provide customers with a fresh and world-class mall experience through innovative and state-of-the-art facilities and services;

To undertake wide-ranging corporate social responsibility initiatives that provide greater service for customers with special needs, and ensure environmental sustainability through various programs on energy, water and air conservation;

To be an employer of choice, offering comprehensive opportunities for career growth and enhancement;

To deliver sustainable long-term growth and increasing shareholder value; and

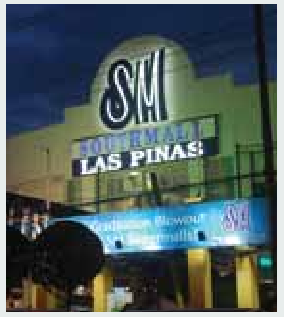
To uphold its role as a catalyst for economic development.

SM CITY NORTH EDSA
EDSA cor. North Ave., Quezon City
Year/Month Opened:1985 November
GFA: 424,691 sqm

SM CITY STA. MESA
Magsaysay Ave. cor. Araneta Ave.
Sta. Mesa, Manila
Year/Month Opened: 1990 September
GFA: 133,327 sqm

SM MEGAMALL
EDSA cor. Julia Vargas Ave.
Ortigas Center, Mandaluyong City
Year/Month Opened: 1991 June
GFA: 346,788.56 sqm

SM CITY CEBU
North Reclamation Area, Cebu City
Year/Month Opened: 1993 November
GFA: 268,611sqm



SM SOUTHMALL
Alabang-Zapote Road, Las Piñas City
Year/Month Opened: 1995 April
GFA: 205,120 sqm

SM CITY BACOOR
Tirona Highway cor. Aguinaldo Highway
Bacoor, Cavite
Year/Month Opened: 1997 July
GFA: 116,892 sqm

SM CITY FAIRVIEW
Quirino Highway cor. Regalado Ave.
Greater Lagro, Fairview, Quezon City
Year/Month Opened: 1997 October
GFA: 182,794.62 sqm

SM CITY ILOILO
Benigno Aquino Ave., Diversion Road
Manduriao, Iloilo City
Year/Month Opened: 1999 June
GFA: 101,735 sqm

SM CITY MANILA
Concepcion Ave. cor. Arroceros and
San Marcelino Sts., Manila
Year/Month Opened: 2000 April
GFA: 166,554 sqm

SM CITY PAMPANGA
Brgy. San Jose
City of San Fernando, Pampanga
Year/Month Opened: 2000 November
GFA: 129,102 sqm

SM CITY SUCAT
Sucat Road, Parañaque City
Year/Month Opened: 2001 July
GFA: 98,106 sqm

SM CITY DAVAO
Quimpo Blvd. cor. Tulip Drive, Ecoland
Matina, Davao City
Year/Month Opened: 2001 November
GFA: 75,439.81 sqm

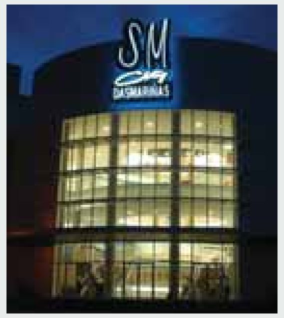
SM CITY CAGAYAN DE ORO
Masterson Ave. cor. Coranvia
Carmen, Cagayan de Oro
Year/Month Opened: 2002 November
GFA: 56,010.55 sqm

SM CITY BICUTAN
Doña Soledad Ave. cor.
West Service Road, Parañaque City
Year/Month Opened: 2002 November
GFA: 112,737 sqm

SM CITY LUCENA
Dalahican Road cor. Maharlika Highway
Lucena City
Year/Month Opened: 2003 October
GFA: 78,654.61 sqm

SM CITY BAGUIO
Luneta Hill, Upper Session Road
Baguio City
Year/Month Opened: 2003 November
GFA: 105,330.76 sqm

SM CITY MARILAO
McArthur Highway, Brgy. Lias
Marilao, Bulacan
Year/Month Opened: 2003 November
GFA: 88,654 sqm



SM CITY DASMARIÑAS
Barrio Pala-pala, Dasmariñas, Cavite
Year/Month Opened: 2004 May
GFA: 79,792 sqm

SM CITY BATANGAS
Pallocan West, Batangas City
Year/Month Opened: 2004 November
GFA: 76,818.98 sqm

SM CITY SAN LAZARO
Cor. Felix Huertas St. & A.H. Lacson Ext.
Sta. Cruz, Manila
Year/Month Opened: 2005 July
GFA: 178,516 sqm

SM SUPERCENTER VALENZUELA
McArthur Highway, Brgy. Karuhatan
Valenzuela City
Year/Month Opened: 2005 October
GFA: 70,615.76 sqm

SM SUPERCENTER MOLINO
Brgy. Molino, Bacoor, Cavite City
Year/Month Opened: 2005 November
GFA: 48,710.29 sqm

SM CITY STA. ROSA
Barrio Tagapo, Sta. Rosa, Laguna
Year/Month Opened: 2006 February
GFA: 79,324.94 sqm

SM CITY CLARK
M.A. Roxas Highway, Clark Special
Economic Zone, Angeles City, Pampanga
Year/Month Opened: 2006 May
GFA: 98,824 sqm

SM MALL OF ASIA
SM Central Business Park
J.W. Diokno Blvd., Pasay City
Year/Month Opened: 2006 May
GFA: 406,961sqm

SM SUPERCENTER PASIG
Frontera Verde, Ortigas
Pasig City
Year/Month Opened: 2006 August
GFA: 29,017.12 sqm

SM CITY LIPA
Ayala Highway, Lipa City, Batangas
Year/Month Opened: 2006 September
GFA: 79,832.19 sqm

SM CITY BACOLOD
Rizal St., Bacolod City, Negros Occidental
Year/Month Opened: 2007 March
GFA: 61,413.13 sqm

SM CITY TAYTAY
Manila East Road, Brgy. Dolores
Taytay, Rizal
Year/Month Opened: 2007 November
GFA: 91,920 sqm

SM SUPERCENTER MUNTINLUPA
Manila South Road, Brgy. Tunasan
Muntinlupa City
Year/Month Opened: 2007 November
GFA: 53,986 sqm

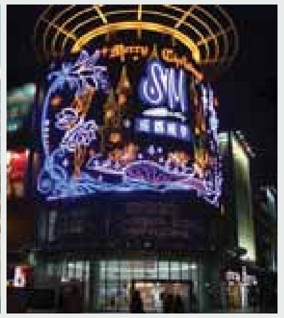
SM CITY MARIKINA
Marcos Highway, Brgy. Calumpang
Marikina City
Year/Month Opened: 2008 September
GFA: 122,067.16 sqm

SM CITY ROSALES
Brgy. Carmen East, Rosales, Pangasinan
Year/Month Opened: 2008 November
GFA: 60,989.35sqm

SM CITY BALIWAG
Brgy. Pagala, Baliwag, Bulacan
Year/Month Opened: 2008 December
GFA: 61,554.48 sqm

SM CITY XIAMEN
Xiamen City, Fujian Province, China
Year/Month Opened: 2001 December
GFA: 128,203 sqm

SM CITY JINJIANG
Quanzhou City, Fujian Province, China
Year/Month Opened: 2005 November
GFA: 169,584 sqm



SM CITY CHENGDU
Chengdu City, Sichuan Province, China
Year/Month Opened: 2006 October
GFA: 169,407 sqm

Vision. Leadership. Innovation. Focus. Hard Work. Integrity. Prudence.

SM World

PRIMER

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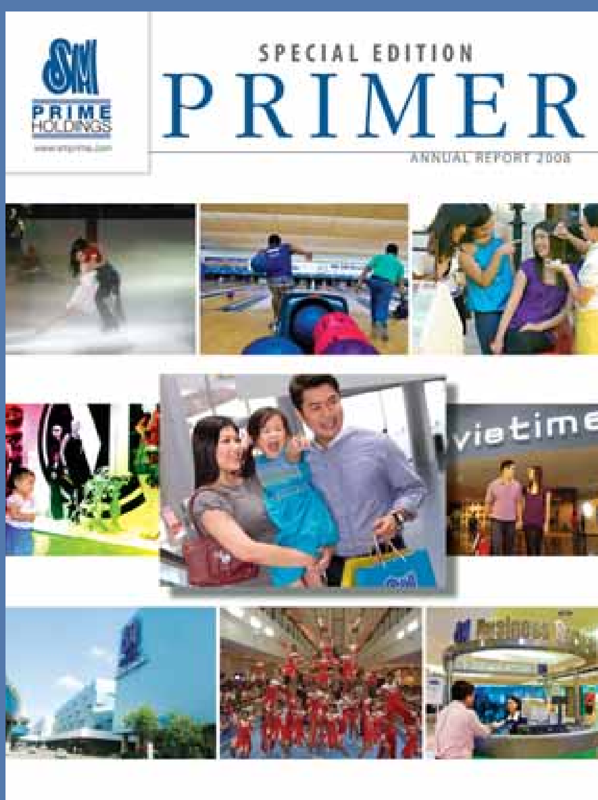
ABOUT THE COVER



Every single day, SM touches the lives of millions of people who go to SM Supermalls and buy nearly everything they need and spend time with family and friends. Indeed, over the last five decades, SM has created a world all its own, one that breathes life and growth into empty spaces, builds thriving communities where there once was none, and cares for people and places with its warm smiles and friendly faces. SM knows that your world is our world—it's the SM World.

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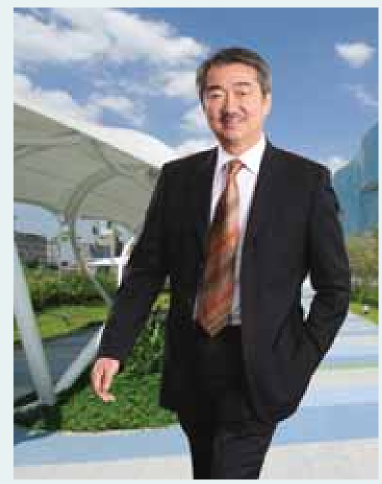

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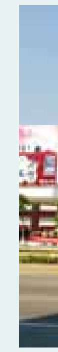

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MESSAGE TO STOCKHOLDERS

I am pleased to report that amid growing anxiety about the global economic situation in 2008, SM Prime continued to experience a period of growth and stability.

FOR THE FULL YEAR OF 2008, SM Prime delivered a seven percent increase in net profit to Php6.4 billion, from a 12 percent growth in revenues worth Php17.8 billion. Growth was derived from expansion and higher sales in existing malls—a product of focus and constant innovation by SM Prime's management and employees.

SM Prime further fortified its market share with the opening of three new malls in Marikina, Rosales, and Baliwag; and the expansion of two existing malls namely SM Megamall and SM North EDSA, which is now our biggest in the country. We now have 33 malls nationwide with 4.2 million square meters of gross floor area in the Philippines. And with four of these malls listed among the world's largest, SM Prime takes pride in having placed the Philippines on the international map of malls.

SM Prime's vast footprint gives it greater latitude to reach out to more Filipinos who have grown to trust and enjoy its distinct style and ability to deliver a total mall experience. The constant improvements and innovations we infuse into our projects enhance the quality of mall experience of the millions who visit our malls.

To address the challenges of the current global economic crisis, our long-term plan is to remain attuned to the markets and the economic cycles governing them, so that risks are calculated accordingly. The formula we have developed and continue to refine over time has long shown itself to be one of continued profitability, healthy returns and high occupancy levels. The enduring structures we have built, and our growing customer base, attest to our vision and business acumen.

Adapted to China, this formula, with minor local adjustments, has produced profitable results in SM City Xiamen and SM City Jinjiang. Meanwhile, the trend in our Chengdu mall indicates a similar path to near term profitability. We are confident that we are meeting a demand in the markets of China as we have done in the Philippines. The prospects there look bright.

The immediate challenge we face is to be able to harness opportunities that are likely to emerge from the global crisis. To stay the course, we will continue to rely on SM's time-honored values of drive and commitment combined with innovative mall designs, and excellent service. We will complement this with SM Cares, an umbrella of advocacies to address vital internal and external issues such as special needs of customers, as well as environmentally-related issues.

We have also taken SM Prime's business a step further by making it work even more closely with its sister companies in retail, banking, and property development. We aim to derive greater benefits from the synergy, which can bring even greater value to our stockholders.

Taking stock of where we are today, we draw inspiration and confidence in our continuous efforts and success at making SM malls stable and profitable. We had envisaged this in 1986 when we built our first mall in North EDSA, now the Philippines' largest mall; and we acknowledge with thanks the support received from our customers, our tenants, the board, and our stockholders, to make real that original vision.

HENRY SY, SR.
Chairman

"To stay the course, we will continue to rely on SM's time-honored values of drive and commitment combined with innovative mall designs, and excellent service."

HENRY SY, SR., *Chairman*

HANS T. SY, *President*

OUR 2008 PERFORMANCE

I am pleased to report that your Company, SM Prime, managed to grow steadily in 2008 amidst the challenging economic environment that have adversely affected many countries, including the Philippines. Its revenues and earnings were sustained by high occupancy rates of our malls that averaged 95%, and the continued patronage of our loyal customers which still numbered over 2.5 million daily. There was also a resurgence of consumer confidence and spending during the second half of the year, as a result of the drop in gasoline prices, easing inflation, and the weak Peso—a boost to remittances of overseas Filipino workers.

FOR THE YEAR ENDED 2008, SM Prime's net income grew 7% to Php6.4 billion from Php6.0 billion the previous year. Gross operating revenues, on the other hand, grew 12% to Php17.8 billion from Php16.0 billion. EBITDA amounted to Php12.3 billion, for a 9% increase and an EBITDA margin of 69%. Income from operations was Php9.6 billion, 9% higher than the Php8.8 billion in 2007. Operating expenses, meanwhile, increased 15% to Php8.2 billion from Php7.1 billion.

Rental fees, which are SM Prime's main source of revenues, grew 15% to Php15.4 billion. Growth was driven by expansion into new and existing malls, and same mall sales growth of 5%. This year's results also reflect the contribution from the three SM malls in China, which were acquired in late 2007. These malls are in the Southern cities of Xiamen and Jinjiang, and in the Central city of Chengdu.

As planned, SM Prime unveiled three new malls and expanded two existing malls in 2008. The new malls are SM City Marikina in Metro Manila, SM City Rosales in Pangasinan, and SM City Baliwag in Bulacan. In addition, we added 90,000 sqm. to SM City North EDSA with The Annex, and 15,000 sqm to SM Megamall with The Atrium. Combined, the new malls and the expansions added 9% or approximately 353,000 square meters (sqm) to SM Prime's gross floor area (GFA). The expansion of SM North EDSA also transformed our very first mall into our largest mall with a GFA of 425,000 sqm.

SM Prime now owns and manages 36 in the Philippines and China with a total GFA of 4.8 million sqm. I am also pleased to report that the three SM malls which were only opened in 2008 now enjoy an average occupancy rate of 96%.

We also further enhanced our corporate social responsibility, or CSR initiatives through our program called SM Cares. The program, which is implemented in all SM malls, consolidates and coordinates all our CSR activities that involve first, our customers with special needs such as persons with disabilities, nursing mothers, special children, and the elderly; and second, the environment where we carry out initiatives for energy, air and water conservation, and waste management.

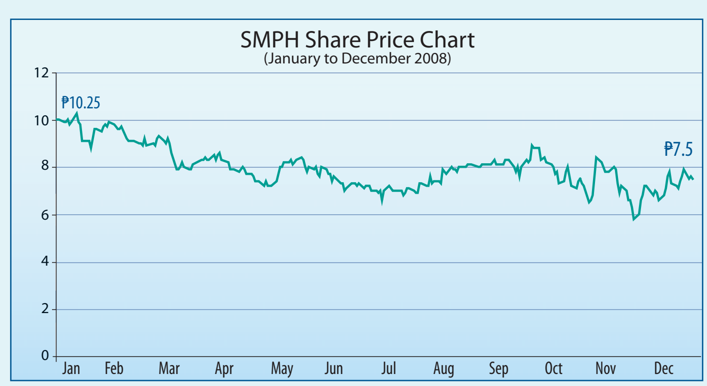
The pervasive presence of SM Malls in the Philippines gives us that unique position to make a difference, to touch lives, and to encourage millions to care for each other and the environment. It adds a whole new dimension to what we do at SM Prime, one that holds more meaning and a greater sense of fulfillment.

We remain positive about the long-term prospects of the Philippines. With this in mind, we are pursuing our expansion plans. In 2009, we will open new malls in Naga, Camarines Sur; Rosario, Cavite; and Pamplona, Las Pinas. We will also expand SM City Rosales at the back of a highly successful opening last year. In addition, we are adding a final touch to our expansion of SM City North EDSA with the 34,000 sqm. Sky Garden—a project that will transform our first and largest mall into a greener and even more pleasant environment. By the end of 2009, we expect SM Prime to have 36 malls in the country, with an estimated GFA of 4.5 million sqm.

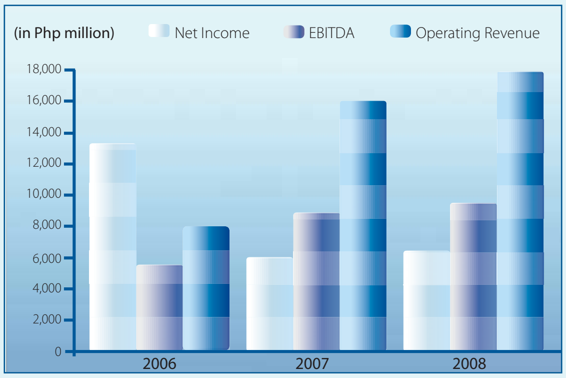
Likewise, in China, our three malls in the cities of Xiamen, Jinjiang and Chengdu have also shown improvements in terms of occupancy rate from an average of 80% in 2007 to 88% in 2008. In addition, we also have three existing sites in China which we will develop over the next five years. We are also now working on strengthening our organization overseas and further enhancing our operational efficiency in line with our planned expansion in China.

With much appreciation, I congratulate all our officers and employees for working hard and staying focused on our goals. And yet again, I sincerely thank you, our shareholders, and our stakeholders, from whom I draw inspiration and encouragement in managing your company.

HANS T. SY
President



(in Php million)	January to December 2008	2007	% chg
Operating Revenues	17,839	15,970	12%
Operating Expenses	8,208	7,139	15%
Income from Operations	9,631	8,830	9%
Income Before Tax and Minority Interest	9,480	8,870	7%
Provision for Income Tax	2,747	2,587	6%
Income Before Minority Interest	6,733	6,283	7%
Minority Interest	321	311	3%
Net Income	6,412	5,972	7%



TRENDS & EXPECTATIONS

"Given the challenges brought about by the global financial crisis, our main thrust right now is to protect and possibly, even increase our market share."

JEFFREY C. LIM
EXECUTIVE VICE PRESIDENT/CFO
SM PRIME HOLDINGS, INC.

How did SM Prime perform in 2008?
SM Prime achieved its goals and sustained its expansion in 2008 despite the worsening global economic environment in the second half of the year. We posted a net income of Php6.4 billion for a 7% increase. Rent, which is the largest contributor at 85% to total operating revenues, grew 15%. Same store sales increased by 5% year-on-year while new areas and expansions contributed 10%.

As planned, we opened three new malls in Marikina, Rosales (Pangasinan) and Baliwag (Bulacan). Marikina holds a special place in SM since our roots of selling shoes and its growth was shared with the city being the largest shoemaker in the country. We also expanded SM Megamall and SM City North EDSA. The latter is now the largest in our portfolio of malls with a total gross floor area of 425,000 square meters.

We also completed the acquisition of the three SM malls in China. This move is to gain a foothold in China's growth prospects and use this as a platform for long-term growth of SM Prime outside the Philippines.

How are the three new malls faring thus far?
The malls are doing better than expected. As a matter of fact, their average occupancy is now at 96% despite having opened SM Rosales and SM Baliwag towards the end of 2008. An annex building in SM Rosales is under construction to be anchored by the SM Department Store and is set for opening in May 2009.

What major factors do you consider when choosing a site for a new mall?
Location and accessibility are two of the major factors we consider when choosing a potential site for a new mall. We also study the demographics of the area including market and spending capacity, competitive environment, level of commercial and retail activities in the surrounding area and distance from other SM malls.

Given the current global situation, which may affect Philippine consumption spending, will you still pursue your expansion plans this year?
Yes. This is because we always view things from a long-term perspective. It takes between 18 to 24 months to develop our landbank into cash flow generating assets and although we remain positive about the prospects in the Philippines, we closely monitor the situation and calibrate our programs as the need arises. We should also be cognizant of opportunities in the market and be positioned to take advantage of a resurgence in the economy.

How many malls will open in 2009 and where will they be located?
For 2009, we have lined up three new malls. SM Naga with a gross floor area of 73,000 square meters will be the first to open in May 1; the second in Pamplona, Las Pinas with 40,000 square meters and the third in Rosario, Cavite with 50,000 square meters are scheduled to open in the second half of the year. We are also opening the Sky Garden at SM North EDSA with an additional GFA of 34,000 and SM Supercenter Rosales with an additional 17,000. All these will expand our gross floor area by 214,000 sqm. to 4.5 million sqm or an additional 5% increase from end 2008 GFA of 4.3 million sqm.

How much capex do you plan to spend in 2009 and what are your funding sources?
We plan to spend a total of Php12 billion in 2009, of which Php6.5 billion will be for our Philippine malls while the balance of Php5.5 billion will be for China. While we won't be opening a China mall this year, we are already laying the groundwork for three new malls to open from 2010 to 2012. The funds will come from internally generated funds and external borrowings.

SM City North EDSA is now your largest mall. What made you decide to expand it in such a grand scale, even surpassing Mall of Asia's GFA?
SM North EDSA is our first mall and is a testament to Mr. Henry Sy, Sr.'s vision and legacy. It was built in 1983 and launched in 1985, during a period of a major political turmoil, and its phenomenal success now makes us proud of where that vision has taken the whole of the SM group. Our expansion of SM North EDSA is reminiscent of its ambitious beginnings. Back in 1985, it was the largest and the only mall of its kind with a GFA of 120,000 sqm. It was launched at a very challenging period in the country's political history. In 2008, amidst serious global challenges, we opened The Annex at the SM North EDSA. This speaks of how we view the longer-term prospects of the country. We always strive hard to ensure we provide the needs of our millions of customers who grow in sophistication, while constantly looking for value products and services.

Some say that Metro Manila is already saturated with shopping malls. Do you agree with this observation?
There are still opportunities given the density of Metro Manila's population. We have introduced a different business format as our way of further establishing our presence and our name as a full service provider to our communities. We have adopted the supercenter concept which is like a community mall and carries the SM Hypermarket as its main anchor store. This format is smaller in size with about 20,000 to 40,000 sqm. of GFA and is niched in residential communities to address their daily household needs for food and non-food items.

We are also constantly expanding our existing malls in line with the growth of our markets. In addition, we continue to innovate and work on improving our tenant mix to suit the evolving tastes and preferences of our generations of customers. We always aim to provide an exciting shopping experience for the whole family so that they would keep patronizing our malls.

How are the SM Malls in China doing? Are there plans to further expand in that country?
The three malls in China look very promising and have shown significant improvements. Revenues in 2008 expanded by 33% to Php825 million, while net income turned positive to almost Php100 million from a loss in 2007.

There are no plans to aggressively expand and acquire more locations in China in 2009. Our focus this year is to further improve the operational efficiency and enhance the returns of the 3 operating malls. We will also start to develop our 3 exisiting landbank for openings in 2010-2012. We also have to strengthen our organization to better equip ourselves to the challenges as a result of the global financial crisis.

SM City Xiamen is now the strongest player in the city and enjoys full occupancy. We have started leasing activities of the Phase II expansion of our SM City Xiamen which we are targeting to open in the fourth quarter of 2009. This expansion will add about 110,000 sqm in GFA and will be a lifestyle center that will include new tenants, both local and international brands. Our second mall, SM City Jinjiang experienced a remarkable improvement with an occupancy of 94% by end 2008, coming from just 72% in 2007. While SM City Chengdu is a work-in-progress, it displays a similar trend as the first two malls with an occupancy of 72% as of end 2008. We are optimistic that the mall will see a sharp increase in tenants sales this year as we aggressively promote and create events to draw in the crowds.

The fourth mall in Suzhou, with a GFA of 73,000 sqm, is under construction and will open early 2010. Our next two other locations, in the cities of Chongqing and Zibo are scheduled to open in 2011 and 2012, respectively.

What are your plans to overcome the effects of the global financial crisis in your operations?
Given the challenges brought about by the global financial crisis, our main thrust right now is to protect and possibly, even increase our market share. We constantly look for ways to preserve, if not, improve our margins. Financial prudence has been a long standing policy and as we grow, we also benefit from economies of scale both from the standpoint of construction and maintenance. We likewise invest in information technology to efficiently support our front-end and back office operations.

SM has become the Philippines' retail and mall icon because of its one-stop shopping concept, diversity, and value-for-money proposition. We also offer accessibility and a family-oriented atmosphere. We will continue to build on these strengths and further broaden the base of customers that we cater to by upgrading the look, feel, and design of our malls. We will also continue to provide a practical but unique shopping experience to the whole family.

We also do our best to build long-term relationships with our customers. In 2008, we labeled our CSR initiatives under the SM CARES campaign. SM Cares brings into its fold SM Prime's programs for persons with disabilities, for women, for the elderly, and for the environment. Last year, we featured in our annual report the steps we have taken to serve our customers with special needs. This year, we feature the big steps we are already taking for the environment, specifically in terms of energy efficiency, water and air conservation.

VITAL STATISTICS

MALL TRIVIA

33
Malls Nationwide

4.3 million sqm.
Total Gross Floor Area

10,043
Mall Tenants

913
Food Tenants

572
Food Court Tenants

21,992
Food Court Seats

2,381
Kiosks and Carts

193
Movie Screens

123,254
Cinema Seats

124
Bowling Lanes

51,461
Parking Slots

2.5 million
Average Daily Pedestrian Count

2008 MALL EVENTS

2008 WORLD PYRO OLYMPICS

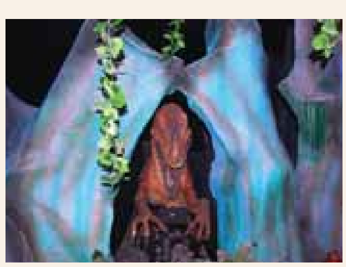
The skies of Pasay and Manila once again glittered as the Philippines hosted for the third time, the World Pyro Olympics. This premier international fireworks competition was held at the SM Mall of Asia on Saturdays in May 2008. Thousands of local and foreign tourists trooped to the Mall of Asia Complex to witness spectacular fireworks from the participating countries namely, Canada, China, France, Germany, Italy and Venezuela. Italy won the competition with its dazzling display of fireworks craftsmanship and artistry. On the final night of the competition, the Philippines's La Mancha Pyro Productions showcased an amazing and colorful pyromusical exhibition, just right after the "Fellowship of Fire," which showcased the highlights of the performances of all participating countries.

NATIONAL QUIZ BEE AT SM CITY NORTH EDSA

SM City North Edsa was the venue of the 29th National Quiz Bee Semifinals on August 16, 2008 when students came from the National Capital Region to compete for the much coveted honor of entering into the Quiz Bee finals. Through Haribon Foundation's initiative, this year's competition also aimed to promote the message that conservation of Philippine biodiversity is equally important as Math, Science, History and English. The contest fielded questions on biodiversity conservation and the ecosystem in various categories of the Quiz Bee, the longest running and one of the most respected national academic competitions.

SPORTSTACLE 2008: EMPOWERING THE YOUTH THROUGH SPORTS

Aside from being entertainment and leisure destinations, SM Supermalls have also become instrumental in promoting good health and fitness among the youth. This, as SM Megamall became the venue of "Sportstacle 2008," a fun-filled competition held on July 24-30, 2008 that showcased different sporting events participated in by high school students from over a dozen schools in Metro Manila and Luzon provinces. Presented by Sportshouse and Dunlop, the event included sports activities such as Tae Kwon Do demonstration, fitness demonstration, basketball clinic, cheer dance competition and badminton tournament.



DINOSAURS ALIVE

After touring Bangkok, Thailand and Jakarta, Indonesia, "Dinos Alive World Tour" was staged at the Mall of Asia Complex from November 28, 2008 to January 11, 2009. MAX Entertainment, the tour's organizers featured the world's largest "transportable" exhibition of robotic dinosaurs for the first time in the Philippines. The dinosaurs were brought to life through special sounds and lights effects and unique movements.
Visitors were treated to a fully air-conditioned, climate-controlled environment and a set-up of 12,000 square meters (equivalent to 120 basketball courts) housing over 30 interactive dinosaurs, including the Tyrannosaurus Rex, the star of the show standing at a height of two elephants stacked on top of each other, and the largest dinosaur (Apatosaurus) measuring nearly the size of the world's largest mammal, the blue whale.
"Dino's Alive Tour" was an "edu-tainment" walk-through theme park combining both an educational angle, as well as a fun-filled entertainment experience for the entire family.

CHRISTMAS AT THE SM MALL OF ASIA

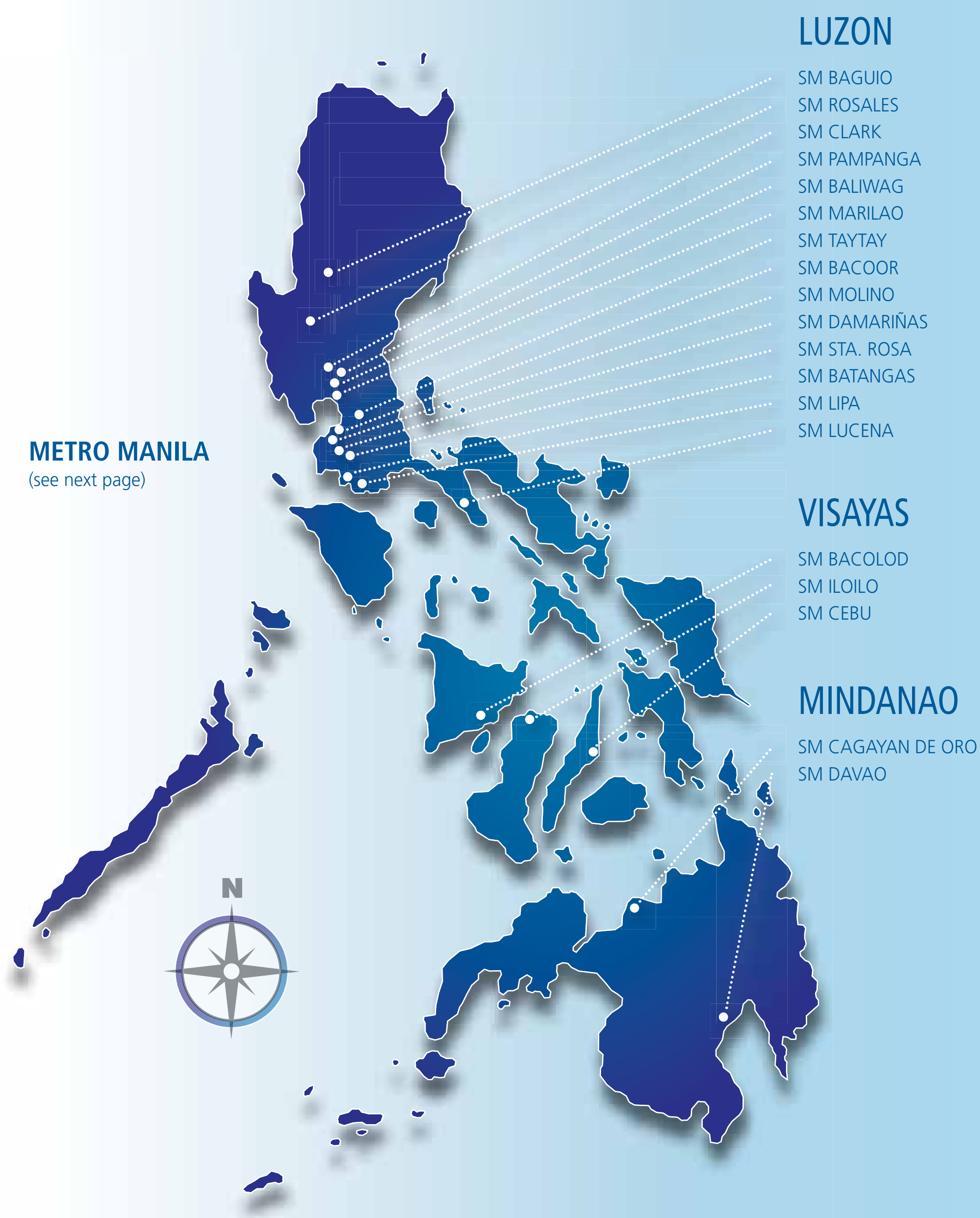
Shoppers were treated to a grand and glorious Christmas season as the SM Mall of Asia celebrated the "Christmas Wonderworld." At the center of all the activities is the giant Christmas Tree at the mall's atrium. The towering 42-foot tree was decorated with thousands of gold Christmas balls and stars. During the tree-lighting ceremony attended by SM Prime president Mr. Hans T. Sy, prima ballerina Liza Macuja performed together with Ballet Manila while the angelic voices of the Las Piñas Boys' Choir sang classic Christmas tunes.

THE GRAND FESTIVAL OF LIGHTS

Another highlight of the festivities was the "Grand Festival of Lights" held at 7 p.m. on all Saturdays of December and on Christmas Day. The parade proved to be truly spectacular with its dazzling themed floats, dancers and performers. Lighted floats for Unilever-SM Hypermarket, the SM Department Store, Kultura Filipino, Watsons, Ace Hardware, Toy Kingdom, Leisure Center, Inc., Kidz Republic, Oishi, SM Mall of Asia's Sea Float and Toy Factory glowed as they paraded in San Miguel by the Bay.

MALL LOCATIONS

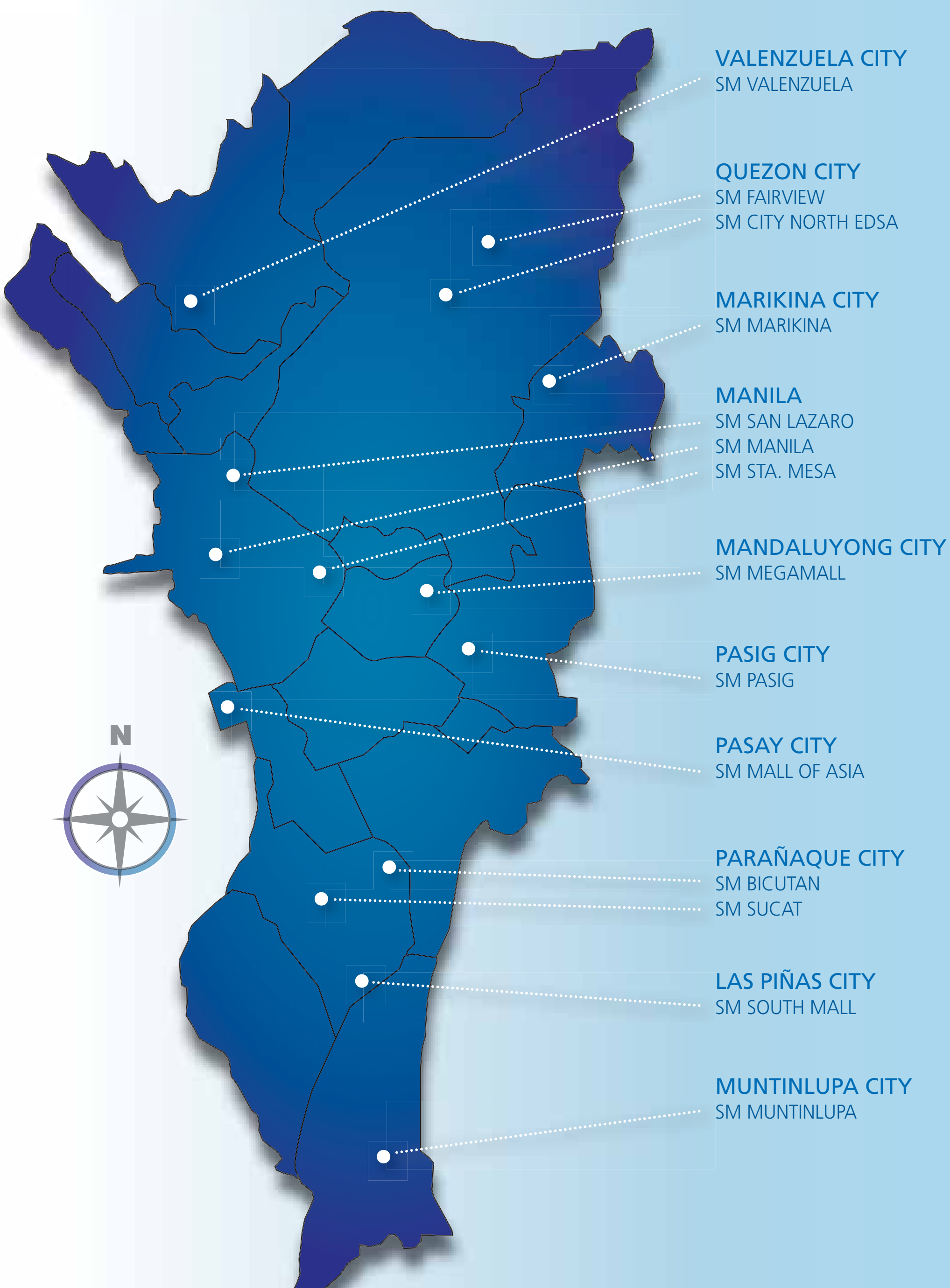
PHILIPPINE MAP



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** *75,439.81 sqm.*
CAGAYAN DE ORO *Masterson Avenue cor. Coranvia Carmen, Cagayan de Oro*	**November 2002** *56,010.55 sqm.*
LUCENA *Dalahican Road cor. Maharlika Highway, Lucena City*	**October 2003** *78,654.61 sqm.*
BAGUIO *Luneta Hill, Upper Session Road Baguio City*	**November 2003** *105,330.76 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** *76,818.98 sqm.*
MOLINO *Brgy. Molino, Bacoor , Cavite City*	**November 2005** *48710.29 sqm.*
STA. ROSA *Barrio Tagapo, Sta. Rosa, Laguna*	**February 2006** *79,324.94 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** *79,832.19 sqm.*
BACOLOD *Rizal St., Bacolod City, Negros Occidental*	**March 2007** *61,413.13 sqm.*
TAYTAY *Manila East Road, Brgy. Dolores Taytay, Rizal*	**November 2007** *91,920 sqm.*
ROSALES *Brgy. Carmen East, Rosales Pangasinan*	**November 2008** *60,989.35 sqm.*
BALIWAG *Brgy. Pagala, Baliwag, Bulacan*	**December 2008** *61,554.48 sqm.*

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** *424,691 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** *346,788.56 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** *182,794.62 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** *70,615.76 sqm.*
MALL OF ASIA *SM Central Business Park J.W. Diokno Blvd., Pasay City*	**May 2006** *406,961 sqm.*
PASIG *Frontera Verde Ortigas, Pasig City*	**August 2006** *29,017.12sqm.*
MUNTINLUPA *Manila South Road, Brgy. Tunasan Muntinlupa City*	**November 2007** *53,986 sqm.*
MARIKINA *Marcos Highway, Brgy. Calumpang Marikina City*	**September 2008** *122,067.16 sqm.*

SM PRIME Offers Total Mall Experience to More Filipinos

2008 marks another year of milestones for SM Prime Holdings, Inc. (SM Prime) as it unveiled three new malls and expanded two of its existing malls.

The three new malls opened in 2008 were SM City Marikina with a gross floor area (GFA) of 122,067 square meters (sqm); SM City Rosales, with a GFA of 60,989 sqm; and SM City Baliwag with a GFA of 61,554 sqm.

Meanwhile, SM Megamall had an additonal GFA of 15,109 sqm while SM City North EDSA added 92,830 sqm to its GFA.

As of end 2008, SM Prime's 33 malls nationwide, 14 of which are in Metro Manila, had a combined GFA of 4.3 million sqm, with an average daily pedestrian count of over 2.5 million. The total number of mall tenants has likewise grown to 9,960 from 9,144 in 2007.

For 2009, the company is scheduled to open three new malls and expand three existing ones. This is expected to add 242,000 sqm of GFA to SM Prime's chain of shopping centers nationwide. By the end of 2009, SM Prime is expected to have 36 malls all over the country with a total GFA of approximately 4.5 million sqm.

SM CITY MARIKINA: A Celebration of SM's Kinship with the Country's Shoe Capital

SM Prime Holdings, Inc. (SM Prime) opened its 31st mall in the country on September 5, 2008 in Marikina City, Metro Manila. SM City Marikina, which is along Marcos Highway, occupies 60,000 square meters (sqm) of land and has a gross floor area (GFA) of 122,067 sqm. Total leasable area is 54,717 sqm with main anchors SM Department Store and SM Supermarket occupying 18,423 sqm and 10,022 sqm, respectively.

Marikina is a key city for SM, as its shoemakers became vital partners of SM during its growth years in the sixties as a shoe store in Carriedo, Manila.

SM Prime President Mr. Hans Sy said, "We are celebrating the special kinship between SM and Marikina, the country's shoe capital, as we open one of our most beautifully designed malls. I am sure many of our original shoe suppliers will be nostalgic upon seeing SM City Marikina."

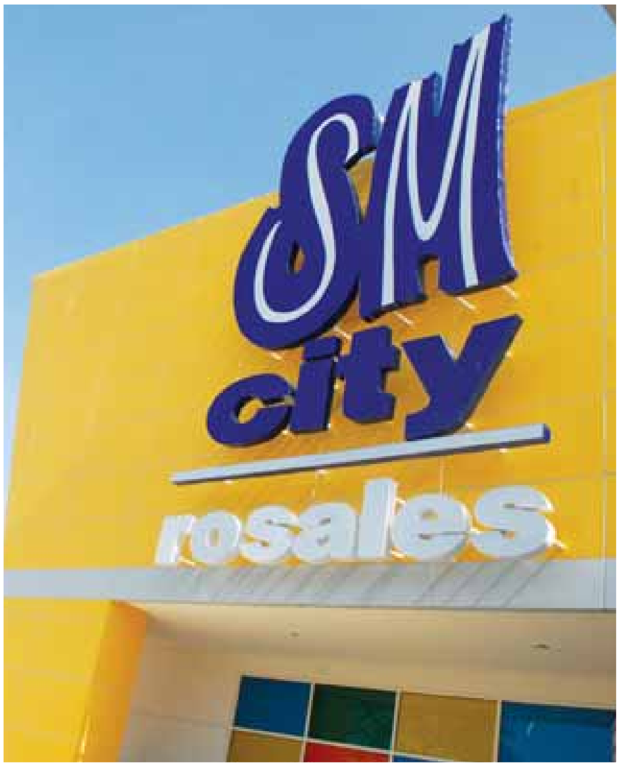
Australia-based EDGE Interior Design Pty. Ltd. designed the mall, which sits on Marikina's riverbank. It is a very bright mall with glass walls lining its façade, requiring less artificial lighting. The mall is also highly convenient for persons with disabilities (PWDs) and special needs, having been equipped with handicap lifts, ramps, and special drinking fountains. The mall's personnel are also trained to assist PWDs. SM City Marikina also has a breastfeeding station for nursing mothers.

SM City Marikina offers numerous stores and services for shopping, dining, entertainment, spa, health, and wellness. Among the facilities are a 1,000-sqm. food court, eight cinemas with a combined seating capacity of 3,348, and basement parking for over 1,100 vehicles.

Tenants include quick-service restaurants Jollibee, McDonald's, KFC, Pizza Hut, Max's, and Starbucks; clothing and fashion retailers Bayo, Kamiseta, Bench, Penshoppe, and Celine; footwear distributors Mendrez and Crocs; and beauty salons Ricky Reyes, Let's Face It, Forever Flawless, and David's Salon, among others. It also features a 2,600-sqm Cyberzone, offering information technology (IT) products and services.

Marikina City is consistently recognized as a competitive, business-friendly location. The Asian Institute of Management recently cited Marikina as one of the top-performing cities in its Philippine Cities Competitiveness Ranking Program. The city's achievements, as well as its vibrant population and strategic location, make it an ideal and appropriate location for an SM Prime mall.

SM Prime Enters Pangasinan Province with SM CITY ROSALES



On November 28, 2008, SM Prime entered the province of Pangasinan with the opening of SM City Rosales, a mall with a gross floor area (GFA) of 60,989 square meters (sqm) that stands on 121,685 sqm of land.

SM Prime President Mr. Hans Sy said, "Our expansion towards provincial markets continues with the opening of SM City Rosales. The commitment to deliver the SM quality of mall products and services closer to more Filipinos remains a steadfast goal for SM Prime. Rosales is a highly progressive municipality in Pangasinan with a large, productive agricultural base. It is also a take-off point to the major cities of Dagupan, Nueva Ecija, and Baguio, which make the area highly accessible. As such, Rosales is an ideal location for an SM mall."

SM City Rosales has a leasable area of 43,236 sqm and has as its major tenant SM Hypermarket which occupies 8,671 sqm of floor space. The mall's amenities include a 973-sqm food court and parking slots for over 1,000 vehicles. Other mall tenants include SM Appliance, Jollibee, McDonald's, KFC, National Bookstore, Watsons, Ace Hardware, and Timezone, among others.

It is estimated that the opening of SM City Rosales has provided employment to close to 1,500 people which includes direct and indirect employees.

Rosales is a two-time winner of the cleanest, greenest, and safest municipality award in the Province of Pangasinan. It was also recognized as the most outstanding local government unit in eco-tourism and environmental protection in 2006.

SM Prime Opens Second Mall in Bulacan Province with SM CITY BALIWAG

SM Prime Holdings, Inc. (SM Prime) increased its presence in the bustling province of Bulacan as it opened SM City Baliwag on December 12, 2008. The mall has a gross floor area (GFA) of 61,554 sqm on 93,000 square meters (sqm) of land. Its leasable area is 42,265 sqm., with SM Department Store and SM Hypermarket as its anchor tenants occupying 18,985 sqm and 9,507 sqm of floor space, respectively. SM City Baliwag is located approximately 40 kilometers from the EDSA-Balintawak interchange of the North Luzon Expressway.

SM Prime President Mr. Hans Sy said, "We welcome SM City Baliwag as the 33rd member of our family of SM Supermalls. Baliwag is one of the major transport hubs in the province of Bulacan, a take-off point to and from Pampanga, Nueva Ecija, and Metro Manila. It has a festive and traditional setting, which include Holy Week processions that tend to attract huge crowds. These attributes make Baliwag an ideal location for an SM mall."

Baliwag is a progressive urban municipality in the province of Bulacan. It is also known for its native delicacies, furniture, garments, embroidery, and a thriving pyrotechnics industry.

It is estimated that the opening of SM City Baliwag provided employment to close to 1,500 people which includes direct and indirect employees.

SM City Baliwag's tenants include a complete line of stores and services for shopping, dining, entertainment, health, and wellness. It has an 824-sqm food court, four cinemas with a combined seating capacity of 1,240, and parking for over 500 vehicles. Other mall tenants include Jollibee, KFC, Gerry's Grill, SM Appliance, Watsons, National Bookstore, Ace Hardware, and Worlds of Fun, among others.

SM MEGAMALL
Expands with an Upscale Concept at the Mega Atrium

SM Prime Holdings, Inc. (SM Prime) offered something unique with the opening of the Mega Atrium on November 26, 2008. It added another 15,109 square meters (sqm) of gross floor area (GFA) with an upscale concept to its third largest mall, the SM Megamall in Ortigas Complex. This increased SM Megamall's total GFA to 346,789 sqm. The Mega Atrium also features the Chapel of the Eucharistic Lord, a beautiful chapel at the top floor, enough to seat 1,000 churchgoers.

SM Prime President Mr. Hans Sy said, "We honor SM Megamall with this expansion, a proof of how we keep in step with the times, how we look after our markets, and how we value and maintain our treasured assets. The SM Megamall is at the center of our three largest and most profitable malls along EDSA. The Mega Atrium attests to our steadfast commitment to bring value and better service to our customers."

The Mega Atrium is located at the Bridgeway that cuts across Julia Vargas and connects SM Megamall's buildings A and B. By itself, the Mega Atrium has a gross leasable area of 8,120 sqm. and showcases trendy and upmarket stores which include shoes and apparel shops such as Gap, Promod, Liz Claiborne, Steve Madden, Franco Sarto, Aldo, 5CM, Lacoste Footwear, La Senza, and Zoo York; food outlets like Choi Garden, Secret Recipes, Haagen Dazs, Amici, C2 Classic Cuisine, Kebab Factory, Painted Red, Gumbo, and Toastbox; and coffee chains Starbucks, Blenz Coffee, Coffee Bean and Tea Leaf, and Bo's Coffee, among others.

A new face for the Philippines' largest mall.

SM CITY NORTH EDSA: FROM FIRST TO LARGEST

Five hundred meters before motorists reach the north end of EDSA, a large edifice comes into view. SM's first mall now transformed into the country's largest, SM North EDSA is a symbol of enduring growth and progress amid intermittent periods of adversity. Its grandeur and glory convey a message of focused determination and undivided loyalty to its customers — a classic story of success, any which way its history is seen and told.

SM North EDSA in 1985.

A view of SM North EDSA's Skygarden from The Annex.

IT HAS BEEN A GENERATION since that fateful opening day of SM City North EDSA in 1985. From a medium-sized mall with just 125,000 square meters (sqm) and with only an SM Department Store for its main tenant, SM City North EDSA now stands proud as the Philippines' largest mall with 424,691 sqm of gross floor area (GFA) housing over 700 tenants in four buildings all connected by the stylish Skygarden.

SM City North EDSA was also a precursor for many things to come from SM Prime, which now owns 33 world-class malls in the Philippines and another three in China, making it the Philippines' most dominant mall operator.

Yet as more malls mushroomed in the last two decades, SM North EDSA went through a series of expansions in lockstep with its growing market. In no time, even its own loyal customers are in awe of the mall's admirable standing of being in the league of the world's largest malls.

"Our latest expansion of SM North EDSA is reminiscent of its ambitious beginnings," explains Mr. Hans T. Sy, SM Prime president. "We opened The Annex in late 2008 amidst a crisis like no other. And now, SM North EDSA is once again the Philippines' largest mall."

A tinge of déjà vu, the present-day expansion of SM City North EDSA, with the opening of The Annex and the Skygarden, was done also at a time when global financial markets tumbled particularly affecting the economies of many developed countries.

The Annex now stands to the left of SM North EDSA's main building bringing an additional 90,000 sqm of GFA. A door at the second level leads to the Skygarden, which is a landscaped walkway lined with coffee shops, dining outlets, boutiques, a four-story waterfall, and uniquely, a 1,000-seater amphitheatre that can host small concerts and various events. While it primarily links all of SM North EDSA's buildings, the Skygarden elevates the mall experience to yet another level as it connects with earthly elements of open skies, flora, and fauna.

Soon to come is an IMAX theatre in the main building.

Prior to these recent projects, the mall had undergone a series of earlier expansions to include the first annex built in 1990, the car park building which also had space for retail shops in the mid 90s, and The Block in 2006.

The Annex and the Skygarden were designed by the renowned Miami-based, Arquitectonica, which also did the SM Mall of Asia and The Podium, among many others worldwide. The firm says, "With a new annex, renovated and remodelled interiors, an exciting new facade, and a lush, landscaped park, SM City North EDSA is set to break new ground in retail and entertainment."

Inside The Annex:
an architectural showcase.

The project included renovating the mall's façade with an undulating exterior, composed of perforated aluminum panels, an impressive departure from the traditional plain and concrete facade of older malls. This modern exterior, as part of a total redevelopment package, includes the main mall and The Block.

The Annex's interiors are visually stunning, with sunlight generously pouring in through many circular glass windows set into the ceiling of the six-level structure, blending with the bright orange-lined balconies, giving visitors a bright, airy, upbeat feeling. Its hallways are wide and curved, in a ribbon-like manner. Equally wide are the escalators and elevators found at opposite ends of the building. In level four, a glass wall looks out into the Skygarden and gives a panoramic view of the whole complex.

The Annex can accommodate up to 230 tenants, with a mix of food and non-food retailers. Its major tenants include SaveMore Supermarket and Ace Hardware. Its main offerings include the Cyberzone, offering the latest in modern gadgetry, and an SM Bowling Center.

BIG NUMBERS

As the largest mall in the Philippines today, the numbers that SM North EDSA generates are formidable. Take for example cinema ticket sales, which as of end 2008 amounted to Php185 million suggesting an annual count of at least 1.4 million moviegoers. When it comes to an SM staple, like shoes, SM North EDSA sold about 1.4 million pairs, amounting to Php736 million. As for bags, it sold 344,000 pieces, which were worth roughly Php211 million. For rainy days, it sold 22,000 umbrellas.

To keep SM North EDSA running smoothly, it directly employs up to 120 officers and staff. To keep its premises clean and safe, it retains 520 janitors and 421 security guards, a veritable army battalion in size. Including its mall tenants and affiliates, however, it provides much-needed jobs for over 8,000 employees. "It's like running a country," Ms. Annie S. Garcia, president of SM Prime subsidiary Shopping Center Management Corporation, quips.

GENUINE CONCERN

Looking beyond SM North EDSA's physical transformation, one can see the more essential reason why the mall continues to grow and evolve.

Ms. Garcia continues, "We must have the capacity to understand the ever-changing needs of our market, of the people whom we serve. I distinctly remember the time when Mr. Henry Sy, Sr. himself told me that we should extend our mall hours at night so that shoppers could eat at the food court before going home because they may be too tired already to cook their dinner. For me, that meant Mr. Sy truly understands and cares for our customers. With that kind of genuine concern, then we must always change and evolve according to the needs of our customers."

With that kind of management philosophy, expect even greater dynamism from SM's first and largest, the SM City North EDSA.

The Skygarden in front of SM North EDSA's main building.

Out of the rubble: A Brief History of SM City North EDSA

The Philippines went through dramatic times in the early to mid 80s. The country's political and economic situation was anything but normal. People were on the streets seeking reforms, business and industry were virtually on a standstill, and the incumbent President was fast losing popular support.

Amidst the prevailing chaos and uncertainty, in a seldom noticed and swampy area at the northern part of the Epifanio Delos Santos Avenue, more commonly known as EDSA, which is Metro Manila's main thoroughfare, arose what later on would prove to be a watershed.

In November of 1985, going against common business sense, SM Prime Chairman Mr. Henry Sy, Sr., who is known for his vision and gumption for spotting opportunities in times of adversity, decided to put up the company's very first shopping mall. He christened it SM North EDSA, a name that would later on be indelibly stamped on the consciousness of millions of Filipinos.

It was not always smooth sailing though for the pioneering SM mall. "Initially, it was quite difficult to invite tenants to the mall because of the risks present at that time," says Ms. Teresita Sy-Coson, vice chairperson of SM Investments Corporation.

No stopping an idea which time has come

Fortunately, the initial difficulties proved to be temporary. Eventually joining SM Department Store and SM Supermarket were quick service restaurant Jollibee, beauty salon Ricky Reyes, and National Bookstore.

Perhaps it was the innovative concept behind the mall that attracted the crowds. SM North EDSA's 125,000 square meters (sqm), the largest during its time, already had one-stop shopping convenience as its purpose by blending shopping outlets with cinemas, food shops and restaurants, and a large parking facility, among others.

Chito Siongco, an entrepreneur now in his early forties, shares his initial encounter with SM North EDSA, "I was then a student at the nearby University of the Philippines (UP) in Diliman, Quezon City. When I first entered SM North EDSA, I was immediately impressed by what it had to offer. It was practically a one-stop shop. My friends and I would frequent the mall during our free time to eat, shop, or to simply relax and have fun after a gruelling day in school."

Thus, SM North EDSA introduced the "malling" concept to countless Filipinos, a pastime, which up to the present continues to gain tremendous popularity.

It is interesting to look into the continued popularity of SM North EDSA. Notwithstanding other malls that have been built in nearby areas, its foot traffic continues to grow.

Central to its success is the mall's strategic location. Quezon City is one of the largest and richest cities in the Philippines. The area where the mall stands is a point of convergence and is a catch basin for regional traffic. It has become a transportation hub, where public utility vehicles that ply the metro and outlying provinces pick up and unload hundreds of thousands of commuters every single day.

Ms. Annie S. Garcia, president of Shopping Center Management Corporation (SCMC), an SM Prime subsidiary that manages SM malls says, "The number of people who go into SM North EDSA is simply overwhelming. You would even feel a bit lost in that sea of humanity. You see people from all walks of life. You see residents of nearby exclusive and middle class villages, you see students from both public and private schools. The mall-goers in North EDSA are truly a microcosm of Philippine society."

Pauleen Gacula, currently a UP architecture student, echoes what students two decades ago said about SM North EDSA. "I go to 'SM North' because it is the most accessible mall from school and it offers a wide selection of goods and services. I can easily find and do anything. I can shop, dine, and relax."

SM Prime plays Big Brother

Over the years, SM Prime, through its malls, has played a big brother role to many of its tenants and suppliers. An enabler in the cities and municipalities it serves, SM malls emerge as a center of business activity, generating thousands of jobs, and millions of local government taxes.

SM City North Edsa, being SM Prime's first mall, has been instrumental in nurturing start-up businesses that have grown with SM's aggressive nationwide expansion over the last two decades. So what used to be virtually unknown are now well known brand names in SM and even other malls.

We talked to owners and managers of some of SM's most successful tenants such as Ideal Vision, Celine, Penshoppe and Kamiseta, and asked them why they have stuck it out with SM all these years. They shared with us their humble beginnings in SM City North EDSA, and how their symbiotic relationship with SM has enabled them to achieve much success.

Ideal Vision

Dr. Jessica Dee- PR Officer/Spokesperson

Dr. Jessica Dee

Celine

Mr. Chan Kok Bin- President

"My wife, Mrs. Victoria Chan started with the first Celine boutique in Escolta in 1978 specializing in fashion retail particularly lady's footwear, apparel and bags. In the past 31 years, it has grown into a group of companies with more than 10 brands and around 116 stores, 60 of which are located inside SM malls, covering each major city in the Philippines.

We opened Celine at SM City North Edsa on May 9, 1988. During that time, SM City North Edsa was the first and biggest shopping "city" of its kind in the country, housing hundreds of brands under one roof. The business model of a big department store and a big supermarket inside a shopping mall is so successful, that the concept drew a big crowd of shoppers.

Since we opened our first store in SM City North EDSA, our business has grown more than 20 times. It helped in promoting brand awareness as we became more visible with each opening of a new SM mall. Our organization has also evolved and undergone constant upgrades and improvement in order to keep up with all the expansions due to SM's rapid growth. We are constantly challenged to improve our merchandise and stores to keep up with the ever-changing retail landscape as SM malls become more diverse in design and market.

Based on our experience, there are a lot of benefits in putting up our stores in SM malls. SM malls are strategically located, so it really helped spread our presence in different parts of the country. Good marketing and promotion activities by SM malls draw a large crowd of shoppers into the mall. SM has a professional management team. Continuous improvements are also done in the malls, a big

"It was on January 16, 1986 when my aunt, Dr. Mary Chan and her husband, Atty. Benito Chan saw that the potential of the Filipino shopping trend was going towards the malls. So they took the challenge and a leap of faith despite the very unstable political climate in the country during that time. They took the chance and joined the bandwagon of SM. When the Sy family and SM invited us to be one of the tenants at SM North EDSA, we did not hesitate at all. We shared their vision and believed that there was strong potential for our business to grow in SM malls. So, we decided to open our first retail branch there.

At present, we have 31 stores in SM out of more than 60 stores throughout the country. Just last year, we were given the opportunity to be globally recognized as we opened a store at the Agana Mall in Guam.

SM has helped us a lot in growing our business. It has given us a lot of avenues to be able to serve the public better. Actually, our vision is to be globally recognized as one of the top eyecare providers and to bring in unparalleled quality of frames to fit every Filipino's lifestyle and fashion. Eyewear has been an integral part of everybody's lifestyle and fashion. As such, we have tried our very best to bring in frames which can suit people from all walks of life. From the highest luxurious brands to the mid-range to the lowest budgeted frames.

SM and the Sy family are the kindest providers for all of us, for the Filipino people as a whole. They have opened avenues for us at Ideal Vision as far as eyewear is concerned. For all the other tenants, they have given the opportunity for everybody to serve the Filipino people. The jingle that they have which says, "We've got it all for you," that is very, very true. SM made it possible for all the Filipinos to find everything under one roof.

We are very grateful and happy to be part of SM. Our business relationship with SM has been very fruitful. Because of SM, we have opened more and more branches, allowing our business to grow over the years. In turn, our company's growth, has given us the chance to also give back to the community as we joined DZMM in their public service and medical missions. We have also tied up with Rotary Clubs in the "Gift of Sight" project wherein every customer of Ideal Vision is a part of. Whenever they purchase something from our store, automatically they choose a frame from a selected box of frames and give this as their contribution to the deserving indigent patients.

As far as the performance of our stores is concerned, the only thing that we can do to beat the crisis is to look for more frames that suit the Filipinos' lifestyle and budget. If we cannot make use of the luxurious frames at this time, we can certainly reach out to the consumers by offering mid-range or the low budgeted frames. In that case, even if there is global recession, our business has remained the way it is. We have captured the highend, the mid-range and even the C, D customers.

2009 has started well for Ideal Vision because we have a range of frames that are "abot kaya ng masa" (affordable for the masses) so our business has not really gone that low. It might have been affected a little but on the other hand, it has also given us the opportunity to meet the needs of those who have only a limited budget for eyewear and to reach out to a wider range of customers."

factor that helps in attracting shoppers. As the tagline of SM goes, "We've got it all." Shoppers know this and they choose to go to SM malls for the variety of choices and convenience.

Our business relationship with SM could be described as mutually beneficial. We trust SM's business acumen and their feel on the pulse of the retail market, which is why we have always welcomed new business opportunities with SM.

Generally, our stores in SM are doing well. In fact, the provincial stores continue to grow, and we believe that there is a huge potential for growth. Our 2008 sales were even better than that of 2007.

We believe innovation and constant improvement are the key factors, not only in our systems and processes, but also in our merchandise and customer service. Most of our stores, especially those inside SM malls, have also undergone major renovations in order for us to create a total shopping experience for our customers.

We feel very optimistic that our sales this year will be even better than last year, that's why we are still bullish with our plans to open more stores including SM Naga, SM Baliwag and SM Rosales in the next few months. We are also looking forward to build a stronger partnership with SM in the marketing and promotion programs."

Mr. Chan Kok Bin

Penshoppe

Mr. Bernido Liu- President

"The beginnings of Penshoppe was very colorful. We launched Penshoppe in 1986 during the People Power 1 in EDSA. We started in department stores in Cebu. Then, the following year, in 1987, I put up Penshoppe at SM Department Store in North EDSA. It's been 23 years since we started and it's been a very good ride for us.

We decided to open our own store in SM because for one, we were already doing business with SM Department Store and during that time it was an opportunity given to us to venture into our own retail stores. That's why in 1991, we gladly accepted the invitation to join SM. And since then, there was no turning back.

I always tell the Sy family that we grow with them. Even in China, I also have three stores where they have three malls, so I grow with them. Wherever they go, they spread their wings outside Manila, we're mostly with them. We have over 110 stores with the SM group.

It's good to have a partnership with SM because of their track record and credibility. The way they manage their business is not something that we worry about. We don't have to think twice or worry about whether a mall is going to be successful or not. SM is a credible and dynamic company.

Our business relationship with SM has been very fruitful and productive. It's been mutually beneficial. SM has also grown exponentially because of brands like us. Through the years, I have also created other brands that are also present in SM. These are Oxygen, Memo and For Me. Recently, we have acquired Regatta and hopefully, it will also be present in SM malls.

"It's good to have a partnership with SM because of their track record and credibility. The way they manage their business is not something that we worry about. We don't have to think twice or worry about whether a mall is going to be successful or not. SM is a credible and dynamic company."

-Mr. Bernido Liu
President, Penshoppe

Mr. Gonzalo Roque

Mr. Bernido Liu

I always say that people make a business--the people in the company, our customers, our business partners, SM being one of them. We've also been very focused as a brand. If you noticed Penshoppe 23 years ago, it's the same Penshoppe today. We still sell to the young people. We never grew old with our original customers.

As for the current crisis, nobody is immune to the environment. I think we are all affected but we are still optimistic that all of this will come to pass. We will just have to ride out the crisis but of course, it takes a lot of support from each other. From us, retailers and I'm sure from the mall as well. We have to work together on some mutually beneficial arrangement that would help both parties ride out this crisis. This is just a cycle for me. It will come to pass.

We have to be a little bit more prudent. I think we will have to reassess our aggressiveness. We want to preserve as much cash especially in a very difficult environment. And for the industry, I think the fittest will survive. SM will definitely survive this crisis. SM has a very deep pocket so they will be able to ride this out very well.

We are only a small part of a bigger economic environment. We, as part of the private sector, cannot go against the global economy but we can make a difference in our own way and first is to continue to be optimistic."

Kamiseta

Mr. Gonzalo Roque III- President

"We had our first store back in 1992 in SM North EDSA. It started as a basic boutique, that turned into a lifestyle store. We are one of the first few in the Philippines to actually open its own branded store. From there, it just developed into what it is today.

SM North EDSA during that time, and even up to now, was already a world-class mall. Being retailers, we wanted a venue where we can really showcase our collections. And SM was the mall to be in. Up to now, it still is. Basically, our growth was in tandem with the growth of SM.

The main benefit that we get as retailers is that SM attracts the people, the consumers. Then, it's up to us retailers to show what we have, what we can offer. That's all we need. SM, since day one, always draws the crowds to come and enjoy their malls. That really helped us grow.

Professionally, SM is very strict with its policies. It gives fair business practices to everyone. Aside from bringing in the people, SM basically taught us to become real retailers; to become world-class retailers in world-class malls. This has enabled our company to go even outside the country, to become international.

Definitely, a large part of our growth happened because of our partnership with SM. As I said, having a relationship with a big company, taught us to become professional as well, to become real retailers. So when we ventured out (of the Philippines), it isn't such a big change for us. It's just like opening another store.

From 1992 to the present, we now have 60 stores nationwide. And from one country which is the Philippines, we're now in five countries including Indonesia, Bahrain, Dubai in UAE and Guam. Also, from a single brand, Kamiseta, we also have Milk and Company and M & Co.. These are the other brands that we have ever since we opened in SM North EDSA.

Our business relationship with SM has been very good and very professional. Actually, I treat SM as my partner. We have grown and because of SM we are able to reach whatever we plan to achieve in the future.

For the year 2008, we have achieved our growth targets. Every year, Kamiseta has been expanding. And 2008 was not an exception. I guess the consumers really see the quality and the fashion of Kamiseta products. I don't think anyone can get these products that we offer anywhere in the world at these prices. Even if you go to shops in the U.S or in Europe, you can see that our products are at par or even better than theirs. We make sure we have the best materials and the best cuts that fit the Filipino lifestyle.

For 2009, everybody is talking about the crisis but I really believe that in every crisis, there will be companies, brands and stores that will flourish and it's just a matter of offering the best products to the customers. We make sure that when a customer enters our shops she will have fun. So I guess that's our edge."

SM PRIME GAINS FOOTHOLD IN CHINA

In late 2007, SM Prime Holdings, Inc. (SM Prime) acquired three SM shopping malls in China through a share swap agreement. SM Prime issued a total of 912.9 million common shares worth Php8.1 billion. SM Prime tapped Citigroup Global Markets Limited and Macquarie Securities (Asia) Pte Ltd. as financial advisers for the acquisition, Savills Valuation and Professional Services Ltd. as property appraisers, PricewaterhouseCoopers Ltd. and Commerce and Finance Law Offices for China and tax regulatory issues, and Grant Thornton International as independent financial advisers.

The SM malls are located in Xiamen and Jinjiang in Southern China, and Chengdu in Central China. These malls will be SM Prime's springboard into the lucrative emerging cities of China.

In 2008, SM China's net income expanded by 3,800% to Php96 million, from revenues of Php825 million, which was up 33%. The strong performance stems from a mix of growth from a low base and the increasing popularity of SM in both Xiamen and JinJiang. While SM Chengdu is currently building its brand name and business, the trends show a similar path to profitability.

SM XIAMEN

SM's first mall in China opened in December 2001 in the City of Xiamen, a special economic zone created to attract foreign direct investors. It has a population of 2.5 million, with a total gross domestic product (GDP) of USD18.8 billion, translating into a per capita GDP of approximately USD7,700.

Earlier known as Amoy, Xiamen is located in the southern part of China's Fujian Province. The city is a traditional trading port and is a well-known tourist coastal city. In fact, Xiamen has been compared to San Francisco's bay area and the French Riviera. Its economy is vibrant. Just as a matter of interest, Xiamen is a sister city of Cebu, a relationship that fosters better cooperation, trade, and friendship between the two cities.

Drawing from these strengths, the mall was built with a gross floor area (GFA) of 128,203 square meters (sqm), about the same as that of SM City Sta. Mesa. The mall has six levels and occupies 7.3 hectares of land. It is 100% occupied and its tenants include globally popular chains such as Wal-Mart, McDonald's, and KFC, among others. It also houses SM-Laiya, a department store based in Taiwan. SM City Xiamen is fully occupied with a long waitlist of tenants. As such, a new wing is being constructed and planned for completion in October 2009.

SM JINJIANG

Next came SM Jinjiang, the birthplace of Mr. Henry Sy, Sr. The mall opened its doors to the public in November 2005 and also houses anchor tenants such as Wal-Mart, and SM-Laiya. SM Jinjiang's five levels of mall space now enjoy a 94% occupancy rate. It has a GFA of 169,584 sqm, similar to

SM JINJIANG

SM XIAMEN

SM CHENGDU

that of SM City Manila. The mall sits on 11.5 hectares of land.

The city of Jinjiang, with a local population of 1 million, is at the southeast coast of China's Fujian Province. It is well known for its sports footwear industry and has more than 3,000 shoemaking enterprises all over the city, including contract manufactures for many name brand multinationals. The city is often referred to as China's shoe capital. Its other industries include textile and clothing, ceramics, building materials, and toys, among others. Jinjiang is home to many immigrants and is ethnically diverse.

Interestingly, an exact replica of the Manila monument of Dr. Jose Rizal, the Philippines' national hero, can be found in Jinjiang, as Dr. Rizal's family traces its roots to China.

SM CHENGDU

SM Chengdu opened its doors for business in October 2006. The city of Chengdu is the capital of China's Sichuan Province. As such, it is a vital economic center and is a transportation and communications hub. The city hosts many major industries such as pharmaceuticals, food, machinery, and information technology (IT). It is considered as a base for China's IT industry. Many large, high-technology multinationals have set up factories and offices in the city's several industrial zones. It has a huge population of 11 million, like that of Metro Manila. Chengdu's total GDP reached USD45.5 billion, for an approximate per capita GDP of USD4.1 thousand. Chengdu is also the natural habitat of China's famous giant pandas, and is home to the world's only giant panda breeding station.

SM City Chengdu has a GFA of 169,407 sqm, also roughly the same as SM City Manila. Just like the other two SM China malls, SM City Chengdu's major tenants include Wal-Mart, McDonald's, KFC, Watsons, and SM-Laiya, among others. Its occupancy rate is 72%. The mall has five levels and occupies close to five hectares of land.

CORPORATE GOVERNANCE

SM Prime Holdings, Inc.'s corporate governance is anchored on its Manual on Corporate Governance, which supplements its Articles of Incorporation and By-Laws. The Board of Directors, officers and staff of SM Prime have committed themselves to the principles and best practices contained in the Manual, in recognition of the vital role that good corporate governance plays in sound strategic business management. SM Prime has fully complied with all the requirements of the Manual for the year 2008, including the requirements in relation to the board of directors, board committees, officers and stockholders' rights and interests.

Manual on Corporate Governance

The Manual establishes SM Prime's compliance system and plan of compliance. Compliance with the principles of good corporate governance starts with the Board of Directors. To this end, each director must act in a manner characterized by transparency, accountability and fairness.

The general responsibilities and specific duties of the Board, the Board Committees, Corporate Secretary, and the external and internal auditors are likewise set out in the Manual. The Manual also recognizes the rights of all shareholders and expresses SM Prime's policy of protecting the interests of minority stockholders. To effectively disseminate corporate governance principles and best practices across the organization, the company is required to conduct communication and training programs on corporate governance. Non-compliance with the Manual is subject to penalties ranging from reprimand to dismissal.

Code of Ethics

SM Prime adopted a Code of Ethics to lay down its policies in relation to its Board of Directors, management, employees, customers, shareholders and investors, business partners, and the community. The Board of Directors, employees, officers, consultants and other service providers are selected and remunerated on the basis of their qualifications and performance. The employees' individual and collective rights are respected, including ther right to a safe workplace and environment. Free and honest communication within the organization is encouraged.

SM Prime's foremost considerations are customer satisfaction and integrity in business dealings. The company also puts a premium on protecting shareholders' and investors' interests, including their rights to a fair return of investment and accurate and timely information. The company gives back to the community it operates in by supporting health, educational, livelihood and other charitable projects.

Any person who violates the Code shall be subject to disciplinary action, without prejudice to other legal action that may be taken against him.

Board of Directors

The Board of Directors oversees the management of SM Prime and guides the company in formulating a sound corporate strategy. To protect the interests of all investors and stakeholders, the Board is tasked to ensure that all of SM Prime's business transactions pass the company's standards on transparency, accountability and fairness. All of SM Prime's directors have attended a seminar on corporate governance as required by the company's Manual on Corporate Governance.

The Board is elected by SM Prime's stockholders who are entitled to vote at the annual meeting. The directors hold office for one (1) year and until their successors are elected and qualified in accordance with SM Prime's By-Laws.

The Board has constituted three committees to support it in its corporate governance functions: the Nomination Committee, the Compensation Committee, and the Audit and Corporate Governance Committee.

The Board of Directors holds its organizational meeting after the annual election of directors. Regular meetings of the Board are held quarterly. Special meetings may be called by the Chairman, President or Corporate Secretary at the request of any two directors. Under SM Prime's Manual on Corporate Governance, a director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year is a ground for temporary disqualification in the succeeding election.

(Please visit SM Prime's website at www.smprime.com to access the Compliance Officer's certification on the record of attendance of the members of the board for 2008, as well as the record of attendance of the Audit and Corporate Governance Committee for 2008.)

Independent Directors

SM Prime currently has seven (7) directors, with two independent directors in the persons of Mr. Jose L. Cuisia, Jr. and Mr. Gregorio U. Kilayko. Mr. Cuisia has been an independent director and Vice Chairman of the Board of Directors of SM Prime since 1994. He is currently the president and chief executive officer of the Philippine American Life Insurance

> **The Board has constituted three committees to support it in its corporate governance functions: the Nomination Committee, the Compensation Committee, and the Audit and Corporate Governance Committee.**

Company, and concurrently chairman of the Board of various Philamlife companies as well as director of several PHINMA-managed companies. He previously served as the governor of the Bangko Sentral ng Pilipinas and administrator of the Social Security System.

At the annual stockholders' meeting in April 2008, Mr. Kilayko was elected as SM Prime's independent director. He is the Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines, and previously served as governor and director of the Philippine Stock Exchange. He is currently also an independent director of Highlands Prime, Inc.

SM Prime adopts the definition of independence in the Securities Regulation Code. The company considers as an independent director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the company. SM Prime also complies with the requirements for the nomination and election of independent directors found in Rule 38 of the Securities Regulation Code.

Shareholder Rights

Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with law and SM Prime's by-laws. They may engage in cumulative voting in the election of directors. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Shareholders have an opportunity to ask questions and raise issues in the annual stockholders' meeting. The minutes of the meeting record the questions from the shareholders and the corresponding answers from directors and officers. Minority shareholders have the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.

Shareholders have the right to inspect corporate books and records, including minutes of board meetings and stock registries, in accordance with law. They shall be furnished with annual reports, including financial statements, and all relevant information about SM Prime's directors and officers. Minority shareholders are given access to information relating to matters for which the management is accountable.

SM Prime also offers its shareholders an equitable share of the company's profits. In an effort to further enhance value for shareholders through stable dividend growth, the Board of Directors has approved a dividend pay-out ratio of a minimun of 50% of prior year's net income as early as April 2005.

Recent Initiatives

SM Prime implemented several initiatives to strengthen its corporate governance practices in 2008. As discussed, Mr. Gregorio U. Kilayko was elected as SM Prime's second independent director in April.

SM Prime also adopted policies on acceptance of gifts, insider trading and placement of advertisements. The company issued guidelines on the acceptance of gifts by all directors, officers and employees from the company's business partners. The policy prohibits all directors, officers and employees from soliciting gifts in any form from any business partner and from accepting gifts in any form, except for corporate give-aways, tokens or promotional items of nominal value.

SM Prime likewise implemented a policy on insider trading, which prohibits directors, officers and employees of SM who know material and confidential information (i.e., facts in the business operations that have not been disclosed to the public) from buying or selling shares of stock of the listed SM companies (i.e., shares of SM Investments Corporation, SM Prime Holdings, Inc., SM Development Corporation, Highlands Prime, Inc., Banco de Oro, China Banking Corporation and other SM subsidiaries that may be listed in the future).

SM Prime further issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or executive is one of the nominees vying for the award/s.

SM Prime executives also attended a seminar/workshop on Enterprise Risk Management (ERM) in November 2008. The seminar was conducted by KPMG Manabat Sanagustin & Co. It included a presentation on ERM concepts, methods and tools to provide the group with the knowledge and skills necessary to undertake risk assessment. The group also underwent a workshop to identify, analyze and prioritize the company's strategic risks vis-a-vis its business objectives.

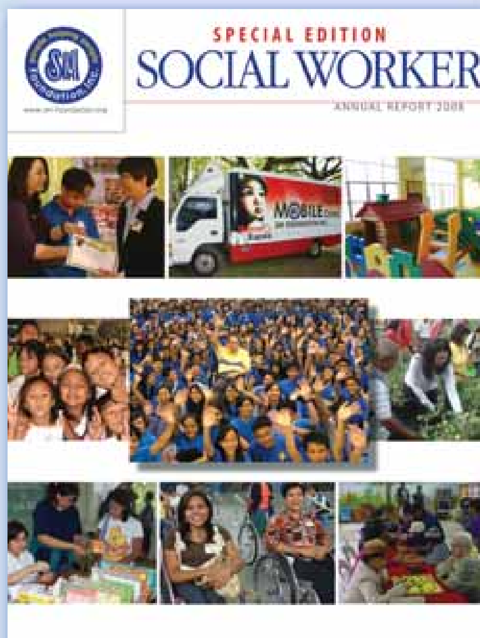
SM Prime also enhanced its website and annual reports in line with its thrust of transparency of information and prompt and complete disclosure of all material facts relating to its business.

CORPORATE SOCIAL RESPONSIBILITY

A MESSAGE FROM SM FOUNDATION'S EXECUTIVE DIRECTOR

I have much to report about SM Foundation's activities in 2008. The group accomplished a lot, perhaps the most to date, helped in part by the additional funds worth Php50 million, donated by SM on the occasion of its 50th Anniversary celebration.

Our College Scholarship Program graduated 100 students, with 32 having received Latin honors with their degrees: six magna cum laude, 22 cum laude and four with special honors. We currently support 602 scholars nationwide, all bright youngsters from disadvantaged families and taking up four to five-year college degrees in business, engineering, education, information and technology, among others. We plan to increase this number to one thousand within the next three years.



SM Foundation also built and donated two schoolhouses to select public schools which need assistance in providing more facilities. To date, 18 schoolhouses have been built which SM Foundation also maintains on an annual basis. Allow me to thank SM Prime Holdings, Inc. and Deutsche Bank-AG for partnering with us in putting up the two, two-storey, four-classroom school buildings at the Llano Elementary School in Caloocan and another in Bacoor National High School Annex in Bacoor, Cavite.

For the health and medical advocacy, SM Foundation conducted a total of 81 medical missions in 2008 with the aid of volunteer doctors, dentists, and nurses. Our two SM Foundation Mobile Clinics accompany all the medical missions. These are equipped with diagnostic and laboratory services including X-ray and electrocardiograph machines.

Since its inception in 2002, SM Foundation has conducted 401 medical missions for 281,851 beneficiaries all over the Philippines.

Also under the health advocacy, SM Foundation has, to date, converted 44 public hospital wards, health clinics, and activity centers into Felicidad Sy Wellness Centers and Hospice Care Units for children, the elderly, and the terminally ill. The centers are also kept and maintained annually by SM Foundation. Of the total number of centers, eight were done in 2008.

These renovations or makeovers involve re-designing and retrofitting run-down facilities, converting them into a positive and energetic environment that is highly conducive for healing in hospital wards; for socializing and recreation in centers for the elderly; and for caring and sympathy for the terminally ill.

In addition to above-mentioned projects, our new advocacy in livelihood training for farmers has gained momentum. A program that we pilot tested with our partner Harbest Agribusiness Corporation in 2007, produced a total of 814 graduates of which 623 farmers graduated in 2008. These farmers come from Bacolod, Quezon, Davao, Laguna and Pangasinan. The program, which we call Kabalikat sa Kabuhayan Farmers Training Program, is a three-month certification course that teaches farmers to effectively plant crops and vegetables suitable to their soil type and weather conditions and to produce the highest yields.

Post harvest, which is the end of the three-month course, their crops are sold in Harvest Festivals that are organized by SM Foundation and are held in SM Malls, where some SM suppliers are also among buyers of the farmers' produce.

In addition, SM Foundation also held Trade Fairs which are open to all small-scale entrepreneurs, cooperatives, people's organizations and non-government organizations who have been in business for at least a year and a capitalization of not more than Php3 million.

In 2008, SM Foundation conducted nine trade fairs nationwide showcasing goods produced in various cities and provinces. These were held in SM malls in Clark, Bacoor, Baguio, Iloilo, San Lazaro, Marilao, Cagayan De Oro, Taytay and Batangas. A total of 363 exhibitors participated in the trade fairs.

Put together, SMFI has spent a total of Php85 million for the various advocacies. In addition to this, another Php50 million was added in celebration of SM's 50th Anniversary.

At this point, I would like to reiterate SM Foundation's commitment to be of service to the communities who are in need of our assistance. It is not only our corporate social responsibility, but also our human duty to help others.

My sincerest gratitude goes to the SM Group of Companies and our partner institutions, DOH, DSWD, DepEd, Philippine National Red Cross, NGOs, volunteers and staff for increasing our network of PEOPLE HELPING PEOPLE.

Debbie Sy
Executive Director

Congratulations! Class 2008 Graduates of the SM Scholarship Program

SM Founder and Chairman Henry Sy, Sr. and wife, Felicidad T. Sy led SM Foundation officers and guests in honoring the 12th batch of 100 graduates of the SM College Scholarship Program. They personally gifted each graduate with a wristwatch and a certificate of graduation and rewarded 32 honor graduates with additional special gifts.

SM Foundation which has 600 scholars at any given time, now counts 972 scholar-graduates.

Magna Cum Laude

BESINA, JOHN PETER D.
Asia Pacific College
BSCSIT-SSE

DELA CRUZ, IVY CARISSA B.
FEU East Asia College
BS in Computer Engineering

JAVIER, CARLITA U.
San Sebastian College Recoletos de Cavite
BS in Accountancy

MANALO, JENNIELYN A.
FEU East Asia College
BS in Computer Engineering

MAQUIÑANA, ALBERT J.
FEU East Asia College
BS in Computer Engineering

STA. CRUZ, ALLAN S.
Asia Pacific College
BSCSIT-SSE

Cum Laude

AMBIDA, JULIE ROSE O.
FEU East Asia College
BS in Information Technology

AYSON, IVAN LESTER C.
University of San Carlos
BS in Accountancy

COLITOY, LORELYN JOY DC.
Univ. of the Philippines Diliman
BSE Major in English

CORAN, ROBY ANN R.
St. Louis University Baguio
BS in Accountancy

DELLICA, LEMUEL L.
University of Cebu Main
BS in Accountancy

FORTUNA, MIRASOL D.
Far Eastern University
BS in Accountancy

GALIDO, ANGELINE L.
Univ. of South Eastern Phils. Davao
Bachelor in Elementary Education

GALOPE, ANJOY LANDO S.
FEU East Asia College
BS in Computer Engineering

GAMULO, JAN CALVIN N.
University of Cebu Main
BS in Information Technology

GENILZA, JOSILDA G.
University of San Agustin Iloilo
BS in Accountancy

MACALINTAL, JR., DANILO T.
University of the East - Caloocan
BS in Accountancy

MACATANGAY, SHERYL M.
University of Batangas
BS in Computer Science

MAGALGALIT, DYNNA ROSS D.
Far Eastern University
BS in Accountancy

MALICDEM, JOEYLYN P.
FEU East Asia College
BS in Information Technology

MENDIOLA, NATALIE ROSE A.
Southern Luzon State Univ. Lucena
BS in Accountancy

OCUMEN, MARIA CECILIA G.
FEU East Asia College
BS in Computer Engineering

PANGADER, ABDUL NAJIB P.
Xavier University - Cagayan
BS in Accountancy

PARCO, JESSY JOY D.
Far Eastern University
BSC Financial Accounting

ROSATASE, CANDY O.
Meycauayan College Bulacan
BS in Accountancy

SAPAEN, SHEILA JULE W.
St. Louis University Baguio
BS in Accountancy

SEPE, SHELDON A.
FEU East Asia College
BS in Computer Engineering

VIÑAS, GERALD S.
Philippine Normal University
BSE Major in Biology

Special Awards

LOPEZ, NIÑO ANGELICO I.
Asia Pacific College
BSCSIT SSE

PARAYDAY, MA. CORAZON PAZ S.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

SORIANO, ANA ABIGAIL H.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

NACIONAL, JOAN TERESA O.
San Sebastian College Recoletos de Cavite
BS in Computer Science

ABENIO, ROSELLA S.
Xavier University - Cagayan
BSC Management Accounting

AGUILON, JAYSON C.
Manuel S Enverga Univ Found - Lucena
BSE Major in Math

ALONZO, MA. FERLINA H.
University of Cebu Main
BS in Information Technology

ANASARIAS, NOEL A.
Central Philippine Univ. - Iloilo
BSECE

ANTONIO, ROANNE M.
University of Cebu Main
BS in Information Technology

ARPON, ALVIN B.
FEU East Asia College
BSECE

ARQUIZA, RUBY G.
University of Cebu Main
BS in Accountancy

ATONDUCAN, LIZA E.
University of San Agustin Iloilo
BS in Information Technology

BACALAN, ROGEN Y.
University of Cebu Main
BS in Accountancy

BACERO, GILLETTE D.
FEU East Asia College
BS in Information Technology

BABASON, MA. CRISTINA C.
Asia Pacific College
BSECE

BALDERAS, WENDELL C.
Ateneo de Davao University
BS in Information Technology

BALOLOY, CHRISTINE CAROL R.
Manuel S Enverga Univ Found - Lucena
BSE Major in Math

BARING, JOFIL I.
University of Cebu Main
BS in Information Technology

BATOON, ROBIN E.
Adamson University
BS in Accountancy

BELARMINO, LADY-LYN C.
Meycauayan College Bulacan
BS in Accountancy

BERNARDO, AIME RUTH B.
Philippine Normal University
BSE Major in English

BIEN, VERONICA PAULA I.
Pamantasan ng Lungsod ng Maynila
BS in Computer Science

BOFITIADO, LAARNIE E.
University of Mindanao
BS in Accountancy

BONDESTO, CHRISTINE R.
University of Mindanao
BS in Accountancy

DELA CRUZ, VANESSA C.
University of Mindanao
BS in Accountancy

BONGANCISO, CHEKIE B.
Cebu Institute of Technology
BS Chemical Engineering

BUENAVISTA, JOSE REY T.
University of Cebu Main
BS in Accountancy

CANGLOSAN, AMY STEPHANIE S.
St. Louis University Baguio
Bachelor in Elementary Education

CALANZA, MADILYN U.
Asia Pacific College
BS in Computer Engineering

CAMARINES, FRANCES MARIE D.
Philippine Normal University
BSE Major in Physics

CARATO, DYESEBEL C.
Univ. of the Philippines Visayas
BS in Accountancy

CRISTOBAL, MARY ANN L.
Philippine Normal University
BSE Major in Biology

DALAZA, EDUARD ARON S.
Ateneo de Davao University
BSC Management Accounting

DE LEON, LORIELYN C.
FEU East Asia College
BS in Computer Engineering

DE VERA, KATHERINE D.
St. Louis University Baguio
BS in Accountancy

DUKHA, MA. TERESA P.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

EDRALIN, HAROLD B.
Xavier University - Cagayan
BS in Accountancy

ESCABUSA, GRETCHEL DANE P.
Xavier University - Cagayan
BSC Management Accounting

ESCASINAS, CRISTEL T.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

ESCULTURA, JENNILYN L.
Asia Pacific College
BS in Computer Engineering

FORTUNA, EDITHA G.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

GERONIMO, RODARYL G.
FEU East Asia College
BSECE

GOLEZ, JANICE T.
West Visayas State University
BS in Information Management

GUANCO, AILLAH D.
Univ. of the Philippines - Visayas
BS in Accountancy

JIMENEZ, JAYSON M.
FEU East Asia College
BSECE

LANSANGAN, MICHAEL S.
University of the Assumption
BS in Accountancy

LOPEZ, GEMMALYN A.
Far Eastern University
BSC Financial Accounting

MACARAIG, ANGELA KAREN S.
University of the East Manila
BS in Accountancy

MANANSALA, LANNIE M.
University of the Assumption
BS in Accountancy

MANDAL, BRIAN BERT B.
Univ. of San Jose Recoletos Cebu
BS in Information Management

MARCELO, MARC JAY FEE L.
FEU East Asia College
BS in Computer Science

MERCADO, PAMELA JOI C.
Asia Pacific College
BSCSIT SSE

MOISES, BRYAN CARLO B.
FEU East Asia College
BS in Computer Engineering

MORALES, RAY ANNALYN V.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

MORANTE, MA. ROSARIO B.
Pamantasan ng Lungsod ng Maynila
BS in Accountancy

NATANAUAN, GRETCHEN P.
Asia Pacific College
BS in Computer Engineering

PEÑAVERDE, ROSANNE P.
Manuel S Enverga Univ Found Lucena
BSECE

PURUGGANAN, MARLA C.
Asia Pacific College
BSECE

REAZON, ROSE DIANE M.
FEU East Asia College
BS in Information Technology

RIVERA, DEBBIE ERICA M.
Univ. of the Philippines Baguio
BS in Computer Science

RIVO, PINK PEARL L.
FEU East Asia College
BSECE

ROSEDILLO, JOY RAM KRISNA I.
Manuel S Enverga Univ Found Lucena
BS in Accountancy

ROBLES, ROBBIE GRACE G.
Central Philippine University Iloilo
BS in Information Technology

SANTOS, APRIL JOY S.
University of the East Manila
BS in Management Accounting

SIMORA, MICHELL AURELI A.
West Visayas State University
BSE Major in Chemistry

SUAREZ, MELANIE A.
University of Batangas
Bachelor in Elementary Education

TALAVERA, AGNESS D.
FEU East Asia College
BS in Computer Engineering

TALENS, ANGELITO N.
Univ. of the Philippines Diliman
BSECE

TUMBAY, ROBERTO M.
Far Eastern University
BS in Accountancy

UY, MILA L.
FEU East Asia College
BSECE

VALDEZ, MONA LIZA T.
Holy Angel University
BS in Computer Science

JUANILLO, ALTHEA JANE P.
Univ. of San Jose Recoletos Cebu
BS in Accountancy

Special Feature

BIG MALLS WITH A BIG HEART: SM Does Care with SM Cares

BIG MALLS

Thirty-three SM Supermalls nationwide, with a total footprint almost the size of nearly 10,000 basketball courts. They are 94% occupied by over 10,000 tenants with many more in line waiting to get in. Every single day, they touch the lives of over 2.5 million people who come to either shop, dine, watch a movie, come for a relaxing spa treatment, or simply spend time with family and friends.

A feat such as this is unparalleled in the Philippines. It makes one wonder about the kind of impact that SM Supermalls have on communities, and even the whole country. Wherever they are, the malls have become landmarks and social hubs. They move massive amounts of merchandise, create thousands of jobs. More importantly, they help carve the Filipino lifestyle and build on the success of those who partner up with them.

BIG HEART

With such intense level of activity and massive scale of operations, SM Supermalls is in the best position to make a difference; to reveal another face; one that cares for all its visitors, most especially the special ones, and one that cares for its host, Mother Earth.

It cares with much grit and passion; that is, through SM CARES (Concerned And Responsible Eco-Shoppers).

BORN OUT OF COMMUNITY SERVICE

"We sincerely want to serve the communities where our malls are. And from that sincerity SM CARES was born," Ms. Garcia enthusiastically explains.

"We live and grow with the communities where we are. So we talk to the barangay officers, to the local government officials, to NGOs. We try our best to run our business in accordance to what is acceptable to the community. We want the communities to be proud of the fact that SM is with them," she explains further.

Even before the inception of SM CARES in 2008, SM Prime already implemented various corporate social responsibility (CSR) initiatives, although on an ad-hoc basis. It has been partnering with SM Foundation for outreach programs held in SM Malls such as Donate Your Extras, Donate a Book, Make a Child Happy and Health Missions.

Then came the need to bring the service to SM's special customers. In last year's annual report, SM Prime laid out its programs for persons with disabilities (PWDs) following an incident that made management realize that this issue covers a wide range of conditions such as autism, Down Syndrome, and attention deficit hyperactivity disorder (ADHD), each having their own special requirements. They have likewise included providing for the needs of the elderly and nursing mothers. As such, committees were formed to generate the best ideas and ways to improve the skills of the mall officers and staff, and to retrofit the malls to make them friendly to all types of customers.

"Before SM CARES, there were different committees working on different CSR initiatives," Ms. Garcia continues. *"We didn't have one unifying name for all that we've been doing because as far as we were concerned, we just wanted to serve our stakeholders and the public, so we just did what we thought were the right things to do.*

"Later on, however, we felt the need to go beyond what is required, step into higher gear in serving the Filipino people who have accepted us warmly and wholeheartedly. We also got into more and more activities, which were fast turning into one big program. "On one occasion, Mr. Hans T. Sy told us to put all our CSR activities under one program and call it SM CARES, because truly, we do care. This is what will make our business different. It's what will set us apart, when the public sees our sincerity," Ms. Garcia adds.

SCMC President Ms. Annie Garcia receives the Apolinario Mabini Award from Philippine President Gloria Macapagal Arroyo.

With SM CARES in place, SM Prime's numerous CSR initiatives became more easily identifiable and appreciated. Under it are two programs that address both social and environmental concerns.

CARING FOR MOTHER EARTH

As a mature business with a large footprint, SM Supermalls knows full well that its operations can have a considerable effect on the environment. Under SM CARES, the company has therefore taken an aggressive stance in protecting the environment through four major initiatives: Solid Waste Management, Water Conservation, Energy Efficiency, and Air Quality Efficiency.

In **Solid Waste Management**, SM Supermalls holds Trash to Cash, a recycling market every first Friday and Saturday of the month in all SM Prime malls in the country. Here, the public can convert their recyclable trash into cash. To date, Trash to Cash has generated over Php10 million in recyclable items and is estimated to have saved nearly 11,000 seven-year-old trees.

Mall tenants are also educated on the benefits of waste segregation. As a result, solid waste in the malls' garbage depots has been reduced by as much as 20% a month and two tons of garbage per mall is diverted away from landfills every week.

Likewise, mall visitors are encouraged to contribute to waste management. Convenient, highly visible, and color-coded trash bins are placed all over the malls for garbage segregation. This resulted in a 30% average reduction in waste. There are also the pioneering cell phone and battery collection bins that aim to facilitate the responsible recovery of hazardous waste that may emanate from discarded mobile phones.

Recently, SM Cares also launched its Green Bag project. (See related story.) This is the alternative to using non-biodegradable plastic shopping bags. The use of these green bags helps reduce shoppers' plastic waste by as much as 30%.

Pushing the recycle, reuse, and reduce envelope even further, SM CARES is pilot-testing the use of biodegradable plastic shopping bags. The bags' cornstarch based composition and biodegradability are currently being tested by the DENR.

Water Conservation also ranks high as a program in SM CARES. Since its inception a few years back, SM Supermalls now saves about 2.4 billion liters of precious water every year through tertiary treatment plants that recycle water for use in the cooling towers of the malls' air-conditioning systems, toilet flushing, and landscape irrigation. Add to that, the use of waterless urinals in men's toilets save another 315 million liters of water annually.

"We implemented CSR initiatives for the environment not just to comply with the law," Ms. Garcia says. "We went beyond the basic requirements. For example, we are not required to recycle water but

we do, because not only does it make good business sense, but it also benefits the community."

To achieve **Energy Efficiency,** SM malls control their air-conditioning systems through the Focus Enterprise Building Management System. This computerized process closely monitors the building temperature to optimally balance supply versus demand for cool air. As such, mall areas that are full of people are made cooler while those less congested are left a bit warmer. The system saves almost 50 million kilowatt hours of electricity per year. All tertiary treatment plants mentioned earlier utilize a device known as a sequential batch reactor that saves up to 500,000 kilowatt hours annually.

To reduce the use of light bulbs during the day, the new SM malls are designed to have glass walls and ceilings to light up the mall with sunlight. Lighting has also been replaced from fluorescent to energy efficient bulbs and has saved the malls a considerable amount of kwh annually.

SM CARES also avidly supports Earth Hour, an annual global movement that encourages households and establishments to shut down all power sources for an hour, thereby heightening awareness for energy conservation.

And to achieve **Air Quality Efficiency,** SM strictly enforces the no-smoking policy inside the malls, and requires all public utility vehicles entering and parking in its mall terminals and depots to present certificates of having passed smoke emission testing. They also encourage the use of bicycles by providing safe parking spaces for them.

CARING FOR ITS CUSTOMERS

Due to its ability to attract an average daily foot traffic of roughly 2.5 million people, SM welcomes all kinds of visitors to its malls. These include even toddlers, the elderly, nursing mothers, and Persons with Disabilities (PWDs).

As such, SM CARES ensures that safety, security and proper service are given to customers with specific needs. Support for this program has been extensive and cuts across all the malls in the country employing added financial and human resources to ensure its success.

For PWDs, SM CARES provides ramps, lifts, golf carts, wheelchairs, and reserved parking, among others, in all SM malls. These special facilities make SM malls highly accessible to PWDs, providing them a barrier-free environment where they can fully enjoy their shopping and leisure experience. In addition, all mall managers, staff, and even employees of mall tenants undergo seminars and lectures to deepen their understanding of the special needs of PWDs, and those with special conditions such as autism and Down Syndrome.

This major undertaking for PWDs has garnered major awards for SM Supermalls from government agencies and NGOs. In 2008, the Philippine Foundation for the Rehabilitation of the Disabled recognized seven SM malls as handicapped-friendly establishments

SM SUPERMALLS GREENBAG

Gives Shopping A New Dimension

Launching the Supermalls Greenbag are Unilever Philippines Chairman Fernando Fernandez, Ms. Annie Garcia, Mr. Manuel Baldemor, Mr. Hans T. Sy and Mr. Herbert T. Sy.

during awarding ceremonies at Malacañan Palace. In addition, Ms. Garcia has been invited to give talks on SM Prime's PWD programs by international agencies such as the United Nations.

Another SM CARES trailblazer is one that addresses the needs of nursing mothers. All SM malls now provide breastfeeding stations so that nursing mothers can attend to their babies with dignity in the privacy of a comfortable, and well-designed room.

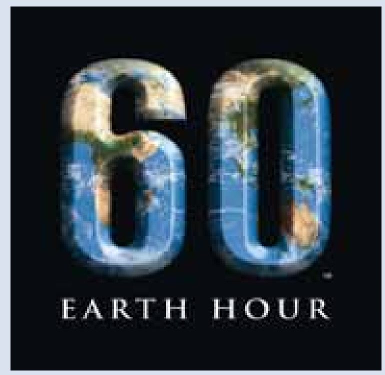
"Every day that we open our malls' doors, we open them to a vast number of people, to many different kinds of people. So we realized that we should not look at them as just one single mass of humanity but to see and understand their individual needs. We may not be able to meet each and every requirement, but at the very least, we must try."

INTO THE FUTURE AND BEYOND ITS OWN MALLS

Given the many facets of the program, SM CARES is expected to continue evolving. And because of its dominant position in the Philippine shopping mall industry, SM Prime has the unique capability of spearheading initiatives similar to that of SM CARES. Because of the millions who visit its malls, it has the opportunity to educate countless Filipinos on the importance of social responsibility, be it for the environment or for the individual.

"We have shared our SM CARES program with other organizations and associations by giving out presentations and delivering speeches. We do this because we think it is a good, solid program that should not be limited to SM. We enjoin others, even competitors, to implement similar initiatives. This should be beyond competition," Ms. Annie Garcia concludes.

Earth Hour 2008 at SM SUPERMALLS



SM Supermalls dimmed their lights on March 29, 2008 from 8:00 pm to 9:00 pm, as SM Prime Holdings, Inc. participated in Earth Hour, an international event that enjoined households and businesses to turn off their lights and non-essential electrical appliances for one hour to promote electricity conservation and hopefully, lower carbon emissions. Thousands of individuals and businesses around the world participated in this event which was promoted by World Wildlife Fund Australia. SM Prime President Hans T. Sy said, "Earth Hour was an important breakthrough for us as all SM malls participated in the exercise. It helped create awareness among our employees as well as the customers who visit our malls that a global effort to protect the environment is possible if everyone believed and supported the cause."

Pioneering efforts to promote eco-shopping in the Philippine retail industry, SM Supermalls recently unveiled the new SM Supermalls Greenbag. Launched under the company's Corporate Social Responsibility (CSR) campaign called SM CARES, the SM Supermalls Greenbag enables shoppers to participate in the global cause to reduce the use of plastic shopping bags.

The SM Supermalls Greenbag which is available in all SM malls is made from 100-percent polypropylene (PP) material. It is recyclable, non-toxic, allergy free and non-reactive to human skin. The Greenbag's size is equivalent to two regular SM Supermarket shopping bags and has an estimated life span of two years. It is very light, handy and can be folded into a small pack.

The SM Supermalls Greenbag comes in four exclusive designs by world-renowned artist Manuel Baldemor, turning this utility item into a prized art piece.

Born in Paete, Laguna, Mr. Baldemor was raised near the Sierra Madre Mountains and Laguna de Bay, where he developed a passion for nature early on in life. An environmental advocate himself, his Greenbag designs were inspired by the four elements—energy, earth, water, and fire. As such, the designs are aptly titled, "Spiritual light and supreme energy;" "Graces from the air;" "Graces from the land;" and "Graces from the sea."

"I believe in SM's advocacy in preserving and protecting the environment," Baldemor said. "The involvement of big institutions like SM may just be the beginning of a truly earnest effort to recognize the urgency of addressing our environmental concerns."

Meanwhile, Ms. Annie Garcia, president of Shopping Center Management Corporation said through its Greenbag, the management hopes to encourage and spread the good practice of recycling among its shoppers. "Today, we give shopping a new dimension. It is now eco-shopping with a purpose," Garcia said.

The Greenbag is recyclable, non-toxic, allergy free and non-reactive to human skin.

FACES: BOARD OF DIRECTORS

HENRY SY, SR.
Chairman

JOSE L. CUISIA, JR.
Vice Chairman and
Independent Director

HANS T. SY
Director and President

HERBERT T. SY
Director

SENEN T. MENDIOLA
Director

GREGORIO U. KILAYKO
Independent Director

HENRY T. SY, JR.
Director

TERESITA T. SY
Adviser to the Board of Directors

HENRY SY, SR. has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman Emeritus of Banco de Oro Unibank, Inc., Honorary Chairman of China Banking Corporation, Chairman of SM Land, Inc. (formerly Shoemart Inc.), SM Investments Corp., Highlands Prime, Inc. and SM Development Corp. 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.

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

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

HANS T. SY, President, has served as Director since 1994 and 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, Director and Vice Chairman of China Banking Corporation, Director of Highlands Prime, Inc., SM Land, Inc (formerly Shoemart, 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.,

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

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

HERBERT T. SY has served as Director since 1994. He 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 SM Land, Inc (formerly Shoemart, Inc.) and China Banking Corporation. He is actively involved in the SM Group's supermarket and hypermarket businesses.

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

BOARD COMMITTEES

Audit and Corporate Governance Committee

Jose L. Cuisia, Jr.	Chairman (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)
Senen T. Mendiola	Member
Jose T. Sio	Member
Corazon I. Morando	Member
Serafin U. Salvador	Member

Compensation Committee

Hans T. Sy	Chairman
Gregorio U. Kilayko	Member (Independent Director)
Jose T. Sio	Member

Nomination Committee

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

FACES:
EXECUTIVE OFFICERS

HANS T. SY
President

EMMANUEL C. PARAS
Corporate Secretary / Assistant Compliance Officer

CHRISTOPHER S. BAUTISTA
Vice President
Internal Audit

JEFFREY C. LIM
Executive Vice President and Chief Finance Officer

ELIZABETH T. SY
Senior Vice President
Marketing

CORAZON I. MORANDO
Senior Vice President, Corporate and
Legal Affairs/ Assistant Corporate Secretary

RONALD G. TUMAO
Vice President
Market Research and Planning

DIANA R. DIONISIO
Vice President
Finance

KELSEY HARTIGAN GO
Vice President
Information Technology

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

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

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

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 33 malls in the Philippines and 3 malls in China, posts 12% increase in gross revenues for the year 2008 to ₱17.84 billion from ₱15.97 billion in 2007. Rental revenues remain the largest portion, with a growth of 15% amounting to ₱15.36 billion from last year's ₱13.40 billion. This is largely due to rentals from new SM Supermalls opened in 2007, namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. In addition, three malls were also expanded in 2007, namely, SM City Pampanga, SM City Cebu and Mall of Asia. Towards the end of 2008, three malls were opened -- SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. The new malls and expansions added 705,000 square meters to total gross floor area. Currently, the new malls have an average occupancy level of 93%. Same store rental growth is at 5%.

In terms of gross revenues, the three malls in China contributed ₱0.83 billion in 2008 and ₱0.62 billion in 2007, or 5% and 4% of total consolidated operating revenues, respectively. Likewise, in terms rental revenues, the China operations contributed ₱0.81 billion in 2008 and ₱0.60 billion in 2007, or 5% and 4%, respectively, of SM Prime's consolidated rental revenue. Rental revenue of these three malls in China increased 35% in 2008 compared to the same period in 2007. Average occupancy rate for the three malls is at 88% in 2008 compared to 81% in 2007.

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

Amusement and other income also decreased by 13% from ₱724 million to ₱632 million. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center.

Operating expenses increased by 15% in 2008 from ₱7.14 billion to ₱8.21 billion mainly due to the new malls. Likewise, income from operations posted a 9% growth from ₱8.83 billion in 2007 to ₱9.63 billion in 2008. In terms of operating expenses, the three malls in China contributed ₱0.56 billion in 2008 and ₱0.52 billion in 2007, or 7% of SM Prime's consolidated operating expenses.

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

Net income for the year 2008 increased 7% at ₱6.41 billion from same period last year of ₱5.97 billion. Meanwhile, the net income of the three malls in China also grew to ₱96 million in 2008 compared to a net loss of ₱3 million in 2007. On a stand-alone basis, net income of the Philippine operations grew 6% at ₱6.32 billion for the year 2008 from ₱5.97 billion in the same period 2007.

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

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

Total available-for-sale investments increased from ₱2.22 billion to ₱2.55 billion mainly due to foreign exchange restatement of the $50 million BDO preferred shares. This investment will mature in October 2009.

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

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

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

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

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

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

EBITDA margin which measures the ratio of EBITDA to gross revenues and, (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

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

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

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

EBITDA increased 9% to ₱12.30 billion in 2008 from ₱11.33 billion in 2007. Debt to EBITDA increased to 2.48:1 from 1.83:1 as of December 31, 2008 and 2007, respectively. Likewise, EBITDA to interest expense slightly increased from 14.28:1 to 14.33:1 for the years ended December 31, 2007 and 2008, respectively. This is due to additional loans in 2008.

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

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

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

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

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

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

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

Last November 13, 2007, the Board of SM Prime approved the acquisition of the three SM malls in China. The SM malls in China are similar to the SM malls in the Philippines, and are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu. The move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer. On May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. Pursuant to the subscription agreements entered into among SM Prime, Grand China and Oriental Land, the 912,897,212 were exchanged for 1,000 shares (100%) of Affluent Capital Enterprises Limited, holding company of the malls in Xiamen and Chengdu, and 1 share (100%) of Mega Make Enterprises Limited, holding company of the mall in Jinjiang, at a total swap price of ₱10,826 million. The listing of the shares was completed on June 18, 2008.

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

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, 2008 and 2007, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2008, 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. The management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and, (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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 their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors.

HENRY SY, SR.
Chairman

HANS T. SY
President

JEFFREY C. LIM
Executive Vice President

REPORT OF THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Organization and Role of the Committee

The Audit and Corporate Governance Committee Charter requires that the Committee should have at least three and no more than six members of the Board, three of whom shall have a good understanding of finance and financial competency in such area, and one of whom shall be an independent director. The chairman of the Committee is an independent director, Mr. Jose L. Cuisia, Jr., in compliance with the requirements of the Manual on Corporate Governance. Another independent director, Mr. Gregorio U. Kilayko, is also a member of the Committee. Both Mr. Cuisia and Mr. Kilayko meet the criteria for independence under the Securities Regulation Code. The Corporate Secretary, Atty. Emmanuel C. Paras, acts as the Committee secretary.

The Committee directly coordinates with the internal and external auditors to perform its duties and responsibilities under the Manual on Corporate Governance, particularly: (i) review and approval of the company's financial reports for compliance with applicable financial reporting standards and regulatory requirements; (ii) oversight of the financial management functions, specifically on risk management and internal control functions; and (iii) evaluation and approval of the plans of the internal and external auditors.

The Committee meets at least four times a year, and may convene additional meetings as may be necessary.

The Committee Charter

Under its Charter, the purpose of the Audit and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the internal control system, the audit process and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee is also tasked to oversee special investigations as may be necessary, review the Charter annually, and evaluate the Committees' as well as its individual members' performance regularly.

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. In summary, the Charter enumerates six items which fall under the responsibilities of the Committee, namely:

- financial statements;
- internal control;
- internal audit;
- external audit;
- compliance; and
- reporting to the Board of Directors and shareholders.

Internal Audit Charter

The company's Internal Audit Group has a charter that defines the group's functions and responsibilities. Under its Charter, the primary purpose of Internal Audit is to provide an independent and objective evaluation of the company's risk management, organizational and procedural controls. The Charter requires Internal Audit to:

- develop and implement an annual audit plan using an appropriate risk-based methodology, as approved by the Audit and Corporate Governance Committee;

- assist in the investigation of significant suspected fraudulent activities within the company and notify the Audit and Corporate Governance Committee and management of the findings;

- report regularly to the Audit and Corporate Governance Committtee on the results of its audit activities as well as on best practices and developments in internal auditing.

To maintain its independence, the Internal Auditor reports functionally to the Board of Directors, through the Audit and Corporate Governance Committee and senior management, and administratively to the President. The Internal Auditor is authorized to have unrestricted access to all functions, records, property and personnel in the conduct of his duties, and free access to communicate with the Audit and Corporate Governance Committee and senior management.

Principal Activities for 2008

The Committee met four times in 2008 (on February 7, on May 6, on August 7 and on November 11) and discussed the following matters:

- The Committee reviewed and discussed with management and SyCip, Gorres, Velayo and Company (SGV & Co.), the company's external auditor, the financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2007, 1st quarter ended March 31, 2008, 2nd quarter ended June 30, 2008, and 3rd quarter ended September 30, 2008, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations.

- The Committee discussed with SGV & Co. its audit plan including of its scope of work, preliminary audit strategy and audit time table.

- The Committee discussed with SGV & Co. significant accounting and audit issues, changes in accounting policies applicable to the SM group, summary of passed audit adjustments, on-going audit procedures, and the required communications from the external auditor to the Committee.

- The Committee discussed with the Internal Audit Group its audit plan (including its organizational structure, audit coverage and the challenges it faces), and results of its internal audit work.

- The Committee monitored and assessed the company's compliance with laws and regulations.

- The Committee reviewed the peformance and independence of the external auditor. Except for the audit of financial statements and assistance in the preparation of annual income tax returns, SGV & Co. did not render any other professional services in 2008.

Based on its review and discussions, the Committee hereby recommends:

- the approval of the financial statements of SM Prime Holdings, Inc. for the year ended December 31, 2008; and

- the re-appointment of SGV & Co. as external auditors.

19 February 2009

JOSE L. CUISIA, JR.
Chairman

GREGORIO U. KILAYKO
Member

SENEN T. MENDIOLA
Member

JOSE T. SIO
Member

ATTY. CORAZON I. MORANDO
Member

SERAFIN U. SALVADOR
Member

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, 2008 and 2007, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2008, 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. The management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and, (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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 their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors.

HENRY SY, SR.	HANS T. SY	JEFFREY C. LIM
Chairman	*President*	*Executive Vice President*

INDEPENDENT AUDITORS' REPORT

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

SGV & Co
ERNST & YOUNG

We have audited the accompanying financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

RAMON D. DIZON
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-1
Tax Identification No. 102-085-577
PTR No. 1566425, January 5, 2009, Makati City

February 19, 2009

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007 (As restated - Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 16, 21, 23 and 24)	**₱10,737,196,836**	₱2,504,180,947
Investments held for trading (Notes 8, 16, 21, 23 and 24)	**143,857,296**	149,688,504
Receivables (Notes 9, 21, 23 and 24)	**3,345,742,058**	2,984,719,048
Available-for-sale investments (Notes 13, 21, 23 and 24)	**2,452,705,199**	–
Prepaid expenses and other current assets (Note 10)	**1,156,139,389**	1,014,397,545
Total Current Assets	**17,835,640,778**	6,652,986,044
Noncurrent Assets		
Investment properties - net (Note 11)	**66,692,576,399**	59,426,888,566
Shopping mall complex under construction (Note 12)	**8,481,332,742**	6,393,481,283
Available-for-sale investments (Notes 13, 21, 23 and 24)	**99,994,541**	2,218,254,419
Derivative assets (Notes 23 and 24)	**34,130,728**	347,248,200
Deferred tax assets (Note 19)	**209,171,802**	143,590,230
Other noncurrent assets	**2,152,342,598**	1,266,475,751
Total Noncurrent Assets	**77,669,548,810**	69,795,938,449
	₱95,505,189,588	₱76,448,924,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 21, 23 and 24)	**₱2,830,000,000**	₱1,231,957,791
Accounts payable and other current liabilities (Notes 14, 15, 21, 23 and 24)	**4,141,819,171**	3,112,543,834
Current portion of long-term debt (Notes 16, 21, 23 and 24)	**7,784,521,000**	1,405,645,000
Derivative liability (Notes 23 and 24)	**901,634,262**	–
Income tax payable	**763,691,021**	862,564,166
Total Current Liabilities	**16,421,665,454**	6,612,710,791
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 21, 23 and 24)	**19,940,459,631**	18,052,877,055
Deferred tax liabilities (Note 19)	**1,087,254,617**	880,296,636
Tenants' deposits (Notes 22, 23 and 24)	**4,865,774,815**	4,328,461,010
Derivative liability (Notes 23 and 24)	**–**	1,768,518,516
Other noncurrent liabilities (Notes 21 and 24)	**5,330,503,515**	1,353,567,855
Total Noncurrent Liabilities	**31,223,992,578**	26,383,721,072
Equity Attributable to Equity Holders of the Parent (Note 23)		
Capital stock (Notes 5, 17 and 25)	**13,348,191,367**	13,348,191,367
Additional paid-in capital - net (Notes 5 and 17)	**5,493,656,403**	5,493,656,403
Unrealized gain on available-for-sale investments (Notes 13 and 24)	**48,346,550**	40,736,047
Cumulative translation adjustment	**821,103,222**	(49,360,101)
Retained earnings (Note 17):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**20,218,718,131**	16,786,447,729
Treasury stock (Notes 17 and 25)	**(101,474,705)**	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent	**46,828,540,968**	42,518,196,740
Minority Interests	**1,030,990,588**	934,295,890
Total Stockholders' Equity	**47,859,531,556**	43,452,492,630
	₱95,505,189,588	₱76,448,924,493

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
REVENUE			
Rent (Notes 21 and 22)	**₱15,357,821,624**	₱13,402,488,334	₱11,396,823,711
Cinema ticket sales	**1,849,312,511**	1,843,187,522	1,597,030,599
Interest income from short-term investments (Notes 7, 8 and 21)	**225,499,217**	404,134,173	446,910,793
Dividend income (Note 13)	**162,709,466**	295,088,980	417,816,293
Amusement and others (Notes 8 and 24)	**951,528,269**	857,885,337	1,628,609,253
	18,546,871,087	16,802,784,346	15,487,190,649
COST AND EXPENSES			
Operating expenses (Notes 18, 20, 21 and 22)	**(8,208,089,081)**	(7,139,186,145)	(6,045,188,391)
Interest expense on short-term and long-term loans (Notes 14, 16 and 21)	**(858,356,033)**	(793,545,467)	(832,663,168)
INCOME BEFORE INCOME TAX	**9,480,425,973**	8,870,052,734	8,609,339,090
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Current	**2,592,012,734**	2,678,694,046	1,921,844,308
Deferred	**155,126,540**	(91,857,158)	531,847,186
	2,747,139,274	2,586,836,888	2,453,691,494
NET INCOME	**₱6,733,286,699**	₱6,283,215,846	₱6,155,647,596
Attributable to:			
Equity holders of the Parent (Note 25)	**₱6,412,215,308**	₱5,972,394,019	₱5,854,664,702
Minority interests	**321,071,391**	310,821,827	300,982,894
	₱6,733,286,699	₱6,283,215,846	₱6,155,647,596
Basic/Diluted Earnings Per Share (Note 25)	**₱0.481**	₱0.448	₱0.439

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Equity Attributable to			
	Capital Stock (Notes 5, 17 and 25)	**Additional Paid-in Capital - Net** (Notes 5 and 17)	**Unrealized Gain on Available-for-Sale Investments** (Notes 13 and 24)	**Cumulative Translation Adjustment**
At January 1, 2008, as restated	**₱13,348,191,367**	**₱5,493,656,403**	**₱40,736,047**	**(₱49,360,101)**
Income for the year recognized directly in equity	**–**	**–**	**7,610,503**	**–**
Translation adjustments during the year	**–**	**–**	**–**	**870,463,323**
Net income	**–**	**–**	**–**	**–**
Total income and expense for the year	**–**	**–**	**7,610,503**	**870,463,323**
Cash dividends - ₱0.24 a share in 2008	**–**	**–**	**–**	**–**
Dividends of subsidiary	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
At December 31, 2008	**₱13,348,191,367**	**₱5,493,656,403**	**₱48,346,550**	**₱821,103,222**
At January 1, 2007, as restated	₱10,848,191,367	₱5,493,656,403	₱153,086,204	(₱54,092,320)
Cumulative gain transferred to statement of income	–	–	(184,216,294)	–
Income for the year recognized directly in equity	–	–	71,866,137	–
Translation adjustments during the year	–	–	–	4,732,219
Net income	–	–	–	–
Total income and expense for the year	–	–	(112,350,157)	4,732,219
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, as restated	₱13,348,191,367	₱5,493,656,403	₱40,736,047	(₱49,360,101)
At January 1, 2006, as previously reported	₱9,935,294,155	₱3,099,777,406	₱–	₱–
Issuance of common stock	912,897,212	–	–	–
Paid-in subscriptions in excess of par value	–	7,211,887,975	–	–
Equity adjustment from business combinations	–	(4,818,008,978)	–	–
At January 1, 2006, as restated	10,848,191,367	5,493,656,403	–	–
Income for the year recognized directly in equity	–	–	153,086,204	–
Translation adjustments during the year	–	–	–	(54,092,320)
Net income	–	–	–	–
Total income and expense for the year	–	–	153,086,204	(54,092,320)
Cash dividends - ₱0.25 a share in 2006	–	–	–	–
Dividends of subsidiary	–	–	–	–
	–	–	–	–
At December 31, 2006, as restated	₱10,848,191,367	₱5,493,656,403	₱153,086,204	(₱54,092,320)

See accompanying Notes to Consolidated Financial Statements.

Equity Holders of the Parent

	Retained Earnings					
	Appropriated (Note 17)	**Unappropriated** (Note 7)	**Treasury Stock** (Notes 17 and 25)	**Total**	**Minority Interests**	**Total**
	₱7,000,000,000	**₱16,786,447,729**	**(₱101,474,70)**	**₱42,518,196,740**	**₱934,295,890**	**₱43,452,492,630**
	–	**–**	**–**	**7,610,503**	**–**	**7,610,503**
	–	**–**	**–**	**870,463,323**	**–**	**870,463,323**
	–	**6,412,215,308**	**–**	**6,412,215,308**	**321,071,391**	**6,733,286,699**
	–	**6,412,215,308**	**–**	**7,290,289,134**	**321,071,391**	**7,611,360,525**
	–	**(2,979,944,906)**	**–**	**(2,979,944,906)**	**–**	**(2,979,944,906)**
	–	**–**	**–**	**–**	**(224,376,693)**	**(224,376,693)**
	–	**(2,979,944,906)**	**–**	**(2,979,944,906)**	**(224,376,693)**	**(3,204,321,599)**
	₱7,000,000,000	**₱20,218,718,131**	**(₱101,474,705)**	**₱46,828,540,968**	**₱1,030,990,588**	**₱47,859,531,556**
	₱7,000,000,000	₱15,991,491,733	(₱101,474,705)	₱39,330,858,682	₱954,270,465	₱40,285,129,147
	–	–	–	(184,216,294)	–	(184,216,294)
	–	–	–	71,866,137	–	71,866,137
	–	–	–	4,732,219	–	4,732,219
	–	5,972,394,019	–	5,972,394,019	310,821,827	6,283,215,846
	–	5,972,394,019	–	5,864,776,081	310,821,827	6,175,597,908
	–	(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	₱16,786,447,729	(₱101,474,705)	₱42,518,196,740	₱934,295,890	₱43,452,492,630
	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,167	₱877,894,152	₱33,427,427,319
	–	–	–	912,897,212	–	912,897,212
	–	–	–	7,211,887,975	–	7,211,887,975
	–	–	–	(4,818,008,978)	–	(4,818,008,978)
	7,000,000,000	12,615,936,311	(101,474,705)	35,856,309,376	877,894,152	36,734,203,528
	–	–	–	153,086,204	–	153,086,204
	–	–	–	(54,092,320)	–	(54,092,320)
	–	5,854,664,702	–	5,854,664,702	300,982,894	6,155,647,596
	–	5,854,664,702	–	5,953,658,586	300,982,894	6,254,641,480
	–	(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	₱15,991,491,733	(₱101,474,705)	₱39,330,858,682	₱954,270,465	₱40,285,129,147

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interest	**₱9,480,425,973**	₱8,870,052,734	₱8,609,339,090
Adjustments for:			
Depreciation and amortization (Notes 11 and 18)	**2,666,307,523**	2,499,137,968	1,972,808,845
Interest expense on short-term and long-term loans (Notes 14, 16 and 21)	**858,356,033**	793,545,467	832,663,168
Unrealized marked-to-market loss (gain) on derivatives - net (Note 24)	**(608,707,480)**	567,691,997	276,560,613
Unrealized foreign exchange loss (gain) - net	**417,893,121**	(514,303,435)	(668,499,763)
Interest income from short-term investments and dividend income (Notes 8, 13 and 21)	**(388,208,683)**	(699,223,153)	(864,727,086)
Realized marked-to-market loss on derivatives (Note 24)	**54,940,698**	138,638,574	–
Unrealized marked-to-market loss (gain) on investments held for trading (Note 8)	**(2,719,321)**	1,894,445	(8,264,785)
Operating income before working capital changes	**12,478,287,864**	11,657,434,597	10,149,880,082
Decrease (increase) in:			
Receivables	**(352,682,570)**	499,360,286	(418,145,088)
Prepaid expenses and other current assets	**(126,914,174)**	195,675,399	(14,136,816)
Increase (decrease) in:			
Accounts payable and other current liabilities	**975,885,887**	(383,889,774)	(1,234,665,345)
Tenants' deposits	**499,861,525**	285,100,301	878,417,616
Cash generated from operations	**13,474,438,532**	12,253,680,809	9,361,350,449
Income taxes paid	**(2,667,843,679)**	(2,401,184,550)	(1,840,635,298)
Net cash provided by operating activities	**10,806,594,853**	9,852,496,259	7,520,715,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Shopping mall complex under construction (Note 12)	**(7,050,623,575)**	(5,246,410,035)	(6,275,498,424)
Investment properties (Note 11)	**(1,965,944,741)**	(3,129,350,639)	(2,863,763,673)
Other noncurrent assets	**(860,897,895)**	70,369,776	(363,869,590)
Investments held for trading	**5,497,479**	114,372,281	1,347,832,047
Available-for-sale investments	**–**	2,500,000,000	(100,000,000)
Increase in other noncurrent liabilities	**3,688,913,847**	477,685,553	459,770,909
Interest and dividend received	**431,754,596**	1,077,981,022	682,508,841
Net cash used in investing activities	**(5,751,300,289)**	(4,135,352,042)	(7,113,019,890)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14 and 16)	**14,638,264,359**	13,537,701,316	16,254,559,307
Proceeds from termination of interest rate swap (Note 24)	**–**	438,379,132	–
Proceeds from subscriptions to capital stock	**–**	–	402,007,921
Payments of:			
Loans (Notes 14 and 16)	**(6,476,852,777)**	(19,841,117,926)	(7,563,373,267)
Dividends	**(3,204,321,599)**	(3,008,234,425)	(2,703,715,861)
Interest	**(1,934,055,414)**	(1,967,703,014)	(2,189,362,276)
Net cash provided by (used in) financing activities	**3,023,034,569**	(10,840,974,917)	4,200,115,824
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**154,686,756**	(232,500,000)	(347,969,784)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,233,015,889**	(5,356,330,700)	4,259,841,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,504,180,947**	7,860,511,647	3,600,670,346
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱10,737,196,836**	₱2,504,180,947	₱7,860,511,647

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

On May 20, 2008, the SEC approved the Parent Company's acquisition of the 100% ownership of SM Shopping Center (Chengdu) Co. Ltd. (SM Chengdu), Xiamen SM City Co. Ltd. and Xiamen SM Mall Management Co. Ltd. (together, SM Xiamen) and SM International Square Jinjiang City Fujian (SM Jinjiang) [collectively, the SM China Companies] through share swap agreements with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) (see Notes 5, 11 and 17).

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

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

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

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

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 19, 2009.

2. Basis of Preparation

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

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 Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which the Company has adopted during the year:

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions*, 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 adoption of this interpretation has no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, 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. No member of the Company is an operator and, therefore, this interpretation has no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, 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's defined benefit plan has been in deficit, therefore the adoption of this interpretation has no impact on its financial position or performance.

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

- PFRS 2, *Share-based Payment (Revised)*, will become effective for financial years beginning on or after January 1, 2009. It restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In case the award does not vest as result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, it must be accounted for as a cancellation. The revised standard will have no impact on the Company's financial statements.

- PFRS 3, *Business Combinations (Revised)*, and PAS 27, *Consolidated and Separate Financial Statements (Revised)*, will become effective for financial years beginning on or after July 1, 2009. The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The revised PAS 27 requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary, as well as the loss of control of a subsidiary. The changes introduced by the revised standards must be applied prospectively and will affect future acquisitions and transactions with minority interests. The changes in the standards will have no impact on the Company's consolidated financial statements.

- PFRS 8, *Operating Segments*, will replace PAS 14, *Segment Reporting*, and will become effective for financial years beginning on or after January 1, 2009. It adopts a management approach in 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 is currently assessing the impact of this revised standard.

- PAS 1, *Presentation of Financial Statements (Revised),* will become effective for financial years beginning on or after January 1, 2009. It separates owner and non-owner changes in equity. The statements of changes in stockholders' equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Company is currently assessing the impact of this revised standard.

- PAS 23, *Borrowing Costs (Revised),* will become 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.

- PAS 32, *Financial Instrument: Presentation*, and PAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)*, will become effective for financial years beginning on or after January 1, 2009. The amendment to PAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to PAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company expects that the amendments will have no impact on its financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)*, will become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will not have any impact on the consolidated financial statements as the Company has not entered into any such hedges.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, will become effective for financial years beginning on or after July 1, 2008. It 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 its consolidated financial statements as no such schemes currently exist.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retroactively. It clarifies when and how revenue and related expenses from the sale of real estate should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of PAS 11, *Construction Contracts,* or PAS 18, *Revenue*. The interpretation will not have an impact on the consolidated financial statements because the Company does not have such activity.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in Foreign Operations*, will become effective for financial years beginning on or after October 1, 2008. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Company the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The interpretation will have no impact on the consolidated financial statements.

Improvements to Existing Accounting Standards

The Company did not early adopt the following improvements to existing accounting standards that have been approved but are not yet effective. The Company is currently assessing the impact of the following improvements to existing standards but anticipates that the changes will have no material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*, removes the reference to "total interest income" as a component of finance costs.

- PAS 1, *Presentation of Financial Statements*, provides that assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, are not automatically classified as current in the balance sheets.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifies that only the implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.

- PAS 10, *Events after the Balance Sheet Date*, clarifies that dividends declared after the end of reporting period are not obligations.

- PAS 16, *Property, Plant and Equipment*, replaces the term "net selling price" with "fair value less costs to sell". It further clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.

- PAS 18, *Revenue*, replaces the term "direct costs" with "transaction costs" as defined in PAS 39, *Financial Instruments: Recognition and Measurement*.

- PAS 19, *Employee Benefits*, revises the definition of past service costs, return on plan assets and short-term and long-term employee benefits. Amendments to plans that result in reduction in benefits related to future services are accounted for as curtailment. It deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Various terms were revised to be consistent with other PFRS.

- PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the two types of items that are considered components of borrowing costs into one – the interest expense calculated using the effective interest method calculated in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*.

- PAS 27, *Consolidated and Separate Financial Statements,* states that when a parent entity accounts for a subsidiary in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- PAS 28, *Investment in Associates,* establishes that if an associate is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*, revises the reference to the exception to measure assets and liabilities at historical costs, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Various terms were revised to be consistent with other PFRS.

- PAS 31, *Interest in Joint Ventures,* provides that if a joint venture is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, only the requirement of PAS 31 to disclose the commitments of the venturer and the joint venture as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 34, *Interim Financial Reporting*, requires that earnings per share be disclosed in interim financial reports if an entity is within the scope of PAS 33, *Earnings per Share*.

- PAS 36, *Impairment of Assets*, provides that if discounted cash flows are used to estimate "fair value less costs to sell," additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use."

- PAS 38, *Intangible Assets*, requires that expenditure on advertising and promotional activities is recognized as an expense when the Company has either the right to access the goods or has received the services.

- PAS 39, *Financial Instruments: Recognition and Measurement,* changes in circumstances relating to derivatives are not reclassification and therefore maybe either removed from, or included in, the "fair value through profit or loss" (FVPL) classification after initial recognition. It removes the reference to a segment when determining whether an instrument qualifies as a hedge. It further requires the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.

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

- PAS 41, *Agriculture*, removes the reference to the use of pre-tax discount rate to determine fair value. It likewise removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Furthermore, it replaces the term "point-of-sale costs" with "costs to sell".

Basis of Consolidation

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

Company	Country of Incorporation	Percentage of Ownership	SM Malls/ Properties Owned
First Asia Realty Development Corporation	Philippines	54.37	SM Megamall
Premier Central, Inc.	- do-	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	- do-	100.00	SM City Dasmariñas
Premier Southern Corp. (PSC)	- do-	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do-	100.00	–
First Leisure Ventures Group Inc. (FLVGI)	- do-	50.00	San Miguel by the Bay
Affluent Capital Enterprises Limited (Affluent)	British Virgin Islands	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make)	- do-	100.00	SM City Jinjiang
SM Land (China) Limited (SM Land)	Hong Kong	100.00	–

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.

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

Rent income amounted to ₱15,358 million, ₱13,402 million and ₱11,397 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

Rent expense amounted to ₱368 million, ₱321 million and ₱221 million for the years ended December 31, 2008, 2007 and 2006, 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 ₱3,346 million and ₱2,985 million as of December 31, 2008 and 2007, respectively (see Note 9).

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

The Company's AFS investments amounted to ₱2,553 million and ₱2,218 million as of December 31, 2008 and 2007, respectively.

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 ₱66,693 million and ₱59,427 million as of December 31, 2008 and 2007, respectively (see Note 11).

Impairment of Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that investment properties and shopping mall complex under construction 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. The recoverable amount of shopping mall complex under construction is the higher of its fair value less estimated costs to complete and sell and its value in use. When the carrying amounts of an investment property and shopping mall complex under construction exceed their recoverable amounts, the investment property and shopping mall complex under construction are considered impaired and are written down to their recoverable amounts.

The aggregate net book value of investment properties and shopping mall complex under construction amounted to ₱75,174 million and ₱65,820 million as of December 31, 2008 and 2007, respectively (see Notes 11 and 12).

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

Deferred tax assets amounted to ₱209 million and ₱144 million as of December 31, 2008 and 2007, respectively (see Note 19).

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

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

The fair value of financial assets and liabilities are discussed in Note 24.

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

4. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Financial 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 FVPL, includes transaction cost.

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

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

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

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value 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 included in the consolidated statements of income under the "Amusement and others" account. Interest income on investments held for trading is included in the consolidated statements of income under the "Interest income from short-term investments" 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 and derivative financial instruments. The carrying values of financial assets under this category amounted to ₱178 million and ₱497 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

Classified under this category are the Company's cash and cash equivalents and receivables. The carrying values of financial assets under this category amounted to ₱14,083 million and ₱5,489 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

The Company has no investments classified as HTM as of December 31, 2008 and 2007.

AFS Investments. AFS investments 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 investments 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 investments in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the consolidated statements of income. 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 balance sheet date and as noncurrent assets if maturity date is more than a year from balance sheet date.

Classified under this category are the Company's investments in redeemable preferred shares. The carrying values of financial assets classified under this category amounted to ₱2,553 million and ₱2,218 million as of December 31, 2008 and 2007, respectively (see Note 24).

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. The carrying values of financial liabilities at FVPL amounted to ₱902 million and ₱1,769 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

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

This category includes loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities. The carrying values of financial liabilities under this category amounted to ₱44,388 million and ₱29,072 million as of December 31, 2008 and 2007, respectively (see Note 24).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; 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, interest rate swaps and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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 FVPL.

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

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.

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

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

AFS Investments. If an AFS investment 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.

Business Combinations
Business combinations involving companies under common control are accounted for similar to pooling of interest method.

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

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

Investment properties, except land, are measured initially at cost, including transaction costs, less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is stated at cost less any impairment in value. 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 and amortization is calculated on a straight-line basis over the following estimated useful lives of the assets:

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

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

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

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

Treasury Stock
Own equity instruments which are 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 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 balance sheet date, plus any actuarial gains not recognized minus past service cost not yet recognized minus the fair value of plan assets at balance sheet date out of which the obligations are to be settled directly.

Foreign Currency Transactions
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.

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

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

Company as Lessee. Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

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

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

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

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

Taxes

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

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

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

<u>Contingencies</u>
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.

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

5. Business Combinations

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

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

On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. Pursuant to the agreements entered into among SMPH, Grand China and Oriental Land, the 912,897,212 shares of SMPH were exchanged for 1,000 shares (100% ownership) of Affluent and 1 share (100% ownership) of Mega Make at a total swap price of ₱10,827 million. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE. As a result of the acquisition, Affluent and Mega Make became wholly-owned subsidiaries of SMPH (see Notes 11 and 17).

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

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

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

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

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

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

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

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

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

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

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

Cash inflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	₱7,511,421
Cash paid	(11,360)
Net cash inflow	₱7,500,061

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

The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities at the beginning of the earliest period presented of the acquired companies amounting to ₱4,818 million is considered as "equity adjustment from business combinations", included under "Additional paid-in capital - net" account in the stockholders' equity section of the consolidated balance sheets (see Note 17).

The combined assets and liabilities of SMPH, SM China Companies and SM Land as of December 31, 2007 are presented below:

	SMPH (As previously reported)	SM China Companies and SM Land	Eliminating Entries	Combined (As restated)
Assets				
Cash and cash equivalents	₱2,114,940,507	₱389,240,440	₱–	₱2,504,180,947
Investments held for trading	149,688,504	–	–	149,688,504
Receivables	2,896,342,346	223,843,835	(135,467,133)	2,984,719,048
Prepaid expenses and other current assets	950,480,849	63,916,696	–	1,014,397,545
Investment properties - net	51,985,265,210	7,028,564,871	413,058,485	59,426,888,566
Shopping mall complex under construction	5,470,043,177	923,438,106	–	6,393,481,283
AFS investments	2,218,254,419	–	–	2,218,254,419
Derivative assets	347,248,200	–	–	347,248,200
Deferred tax assets	40,081,403	103,508,827	–	143,590,230
Other noncurrent assets	1,262,083,145	4,392,606	–	1,266,475,751
	₱67,434,427,760	₱8,736,905,381	₱277,591,352	₱76,448,924,493

Forward

	SMPH (As previously reported)	SM China Companies and SM Land	Eliminating Entries	Combined (As restated)
Liabilities				
Loans payable	₱590,920,000	₱641,037,791	₱–	₱1,231,957,791
Accounts payable and other current liabilities	2,746,373,228	690,230,696	(324,060,090)	3,112,543,834
Current portion of long-term debt	840,625,000	565,020,000	–	1,405,645,000
Income tax payable	763,157,403	99,406,763	–	862,564,166
Long-term debt - net of current portion	15,764,546,055	2,288,331,000	–	18,052,877,055
Derivative liability	1,768,518,516	–	–	1,768,518,516
Deferred tax liabilities	836,818,110	43,478,526	–	880,296,636
Tenants' deposits	4,220,538,574	107,922,436	–	4,328,461,010
Other noncurrent liabilities	111,007,844	598,661,960	643,898,051	1,353,567,855
	₱27,642,504,730	₱5,034,089,172	₱319,837,961	₱32,996,431,863

As discussed in Note 11, included under "Investment properties - net" account are the 223,474 square meters of real estate properties with a carrying value of ₱413 million as of December 31, 2007 and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007.

The combined revenue and net income for the years ended December 31, 2007 and 2006 are presented below:

	2007			
	SMPH (As previously reported)	SM China Companies and SM Land	Eliminating Entries	Combined (As restated)
Revenue	₱16,187,161,759	₱615,622,587	₱–	₱16,802,784,346
Net income	6,285,807,499	(2,591,653)	–	6,283,215,846

	2006			
	SMPH (As previously reported)	SM China Companies and SM Land	Eliminating Entries	Combined (As restated)
Revenue	₱14,332,094,423	₱1,155,096,226	₱–	₱15,487,190,649
Net income	5,749,905,449	405,742,147	–	6,155,647,596

6. Segment Information

Geographical Segment

The geographical segment is determined as the primary segment reporting format as the Company's risks and rates of return are affected predominantly by differences in economic and political environments in which they operate. Currently, the Company owns thirty three shopping malls in the Philippines and three shopping malls in China. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Geographical Segment Data

	2008			
	Philippines	**China**	**Eliminations**	**Consolidated**
	(In Thousands)			
Revenue	**₱17,723,164**	**₱823,707**	**₱–**	**₱18,546,871**
Segment results:				
Income before income tax	**₱9,396,548**	**₱83,878**	**₱–**	**₱9,480,426**
Provision for (benefit from) income tax	**2,759,266**	**(12,127)**	**–**	**2,747,139**
Net income	**₱6,637,282**	**₱96,005**	**₱–**	**₱6,733,287**

Forward

	2008			
	Philippines	**China**	**Eliminations**	**Consolidated**
	(In Thousands)			
Net income attributable to:				
Equity holders of the Parent	**₱6,316,211**	**₱96,005**	**₱–**	**₱6,412,216**
Minority interests	**321,071**	**–**	**–**	**321,071**
Segment assets (excluding deferred tax assets)	**₱84,537,422**	**₱12,210,040**	**(₱1,451,444)**	**₱95,296,018**
Segment liabilities (excluding deferred tax liabilities)	**₱40,315,230**	**₱7,147,306**	**(₱904,133)**	**₱46,558,403**
Net cash flows provided by (used in):				
Operating activities	**₱10,576,204**	**₱230,391**	**₱–**	**₱10,806,595**
Investing activities	**(5,762,763)**	**11,463**	**–**	**(5,751,300)**
Financing activities	**3,218,590**	**(195,555)**	**–**	**3,023,035**
Other information:				
Depreciation and amortization	**₱2,362,785**	**₱303,522**	**₱–**	**₱2,666,307**
Capital expenditures	**7,973,086**	**1,043,482**	**–**	**9,016,568**

	2007			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenue	₱16,187,162	₱615,622	₱–	₱16,802,784
Segment results:				
Income (loss) before income tax	₱8,911,052	(₱40,999)	₱–	₱8,870,053
Provision for (benefit from) income tax	2,625,244	(38,407)	–	2,586,837
Net income (loss)	₱6,285,808	(₱2,592)	₱–	₱6,283,216
Net income attributable to:				
Equity holders of the Parent	₱5,974,986	(₱2,592)	₱–	₱5,972,394
Minority interests	310,822	–	–	310,822
Segment assets (excluding deferred tax assets)	₱67,394,350	₱9,046,452	(₱135,468)	₱76,305,334
Segment liabilities (excluding deferred tax liabilities)	₱26,805,687	₱4,990,611	₱319,837	₱32,116,135
Net cash flows provided by (used in):				
Operating activities	₱9,696,057	₱156,439	₱–	₱9,852,496
Investing activities	(3,040,152)	(1,095,200)	–	(4,135,352)
Financing activities	(11,889,772)	1,408,797	–	(10,840,975)
Other information:				
Depreciation and amortization	₱2,260,923	₱238,215	₱–	₱2,499,138
Capital expenditures	6,914,638	1,461,123	–	8,375,761

	2006			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Revenue	₱14,332,094	₱1,155,096	₱–	₱15,487,190
Segment results:				
Income before income tax	₱8,003,138	₱606,201	₱–	₱8,609,339
Provision for income tax	2,253,233	200,458	–	2,453,691
Net income	₱5,749,905	₱405,743	₱–	₱6,155,648
Net income attributable to:				
Equity holders of the Parent	₱5,448,922	405,743	₱–	₱5,854,665
Minority interests	300,983	–	–	300,983
Segment assets (excluding deferred tax assets)	₱70,759,920	₱8,484,686	₱–	₱79,244,606

Forward

	2006			
	Philippines	China	Eliminations	Consolidated
	(In Thousands)			
Segment liabilities (excluding deferred tax liabilities)	₱33,442,431	₱4,199,143	₱–	₱37,641,574
Net cash flows provided by (used in):				
Operating activities	₱7,282,710	₱238,005	₱–	₱7,520,715
Investing activities	(5,227,155)	(1,885,865)	–	(7,113,020)
Financing activities	2,331,556	1,868,560	–	4,200,116
Other information:				
Depreciation and amortization	₱1,787,115	₱185,694	₱–	₱1,972,809
Capital expenditures	6,791,388	2,347,874	–	9,139,262

7. Cash and Cash Equivalents

This account consists of:

	2008	2007 (As restated - see Note 5)
Cash on hand and in banks (see Note 21)	**₱956,578,714**	₱832,420,931
Temporary investments (see Notes 16 and 21)	**9,780,618,122**	1,671,760,016
	₱10,737,196,836	₱2,504,180,947

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.

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds with fixed interest rates ranging from 8.38% to 12.29%. The investments are U.S. dollar-denominated with various maturities ranging from 2009-2012.

Investments held for trading include unrealized marked-to-market gain amounting to ₱3 million in 2008, unrealized marked-to-market loss amounting to ₱2 million in 2007 and unrealized marked-to-market gain amounting to ₱8 million in 2006, the amounts of which are included under "Amusement and others" account in the consolidated statements of income.

9. Receivables

This account consists of:

	2008	2007 (As restated - see Note 5)
Rent (see Note 21)	**₱2,667,539,796**	₱2,215,865,215
Accrued interest and others (see Note 21)	**678,202,262**	768,853,833
	₱3,345,742,058	₱2,984,719,048

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:

	2008	2007 (As restated - see Note 5)
Neither past due nor impaired:		
1–30 days	**₱2,347,967,391**	₱1,847,169,229
31–60 days	**87,654,050**	183,543,094
61–90 days	**69,055,194**	15,297,427
Past due but not impaired -		
Over 90 days	**162,863,161**	169,855,465
	₱2,667,539,796	₱2,215,865,215

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2008	2007 (As restated - see Note 5)
Input taxes	**₱384,427,769**	₱639,305,345
Prepaid taxes	**317,282,193**	248,466,563
Advances to contractors and others	**454,429,427**	126,625,637
	₱1,156,139,389	₱1,014,397,545

11. Investment Properties

This account consists of:

	2008			
	Land and Land Use Rights	**Buildings and Improvements**	**Building Equipment, Furniture and Others**	**Total**
Cost				
Balance at beginning of year	**₱10,262,851,392**	**₱51,633,767,935**	**₱11,332,328,841**	**₱73,228,948,168**
Additions	**650,022,849**	**711,049,319**	**604,872,573**	**1,965,944,741**
Completed projects transferred from shopping mall complex under construction (see Note 12)	**623,205,710**	**5,275,863,081**	**342,035,774**	**6,241,104,565**
Translation adjustments	**429,132,291**	**1,222,469,363**	**230,210,718**	**1,881,812,372**
Balance at end of year	**11,965,212,242**	**58,843,149,698**	**12,509,447,906**	**83,317,809,846**
Accumulated Depreciation and Amortization				
Balance at beginning of year	**81,224,697**	**8,898,246,755**	**4,822,588,150**	**13,802,059,602**
Depreciation and amortization	**24,667,859**	**1,774,141,956**	**867,497,708**	**2,666,307,523**
Translation adjustments	**18,827,649**	**88,383,453**	**49,655,220**	**156,866,322**
Balance at end of year	**124,720,205**	**10,760,772,164**	**5,739,741,078**	**16,625,233,447**
Net Book Value	**₱11,840,492,037**	**₱48,082,377,534**	**₱6,769,706,828**	**₱66,692,576,399**

	2007 (As restated - see Note 5)			
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	₱9,144,755,506	₱46,263,826,235	₱9,621,470,932	₱65,030,052,673
Additions	761,105,588	1,221,238,209	1,147,006,842	3,129,350,639
Completed projects transferred from shopping mall complex under construction (see Note 12)	356,475,020	4,146,650,066	563,532,182	5,066,657,268
Translation adjustments	515,278	2,053,425	318,885	2,887,588
Balance at end of year	10,262,851,392	51,633,767,935	11,332,328,841	73,228,948,168
Accumulated Depreciation and Amortization				
Balance at beginning of year	51,308,161	7,171,869,634	4,079,565,325	11,302,743,120
Depreciation and amortization	29,895,635	1,726,284,172	742,958,161	2,499,137,968
Translation adjustments	20,901	92,949	64,664	178,514
Balance at end of year	81,224,697	8,898,246,755	4,822,588,150	13,802,059,602
Net Book Value	₱10,181,626,695	₱42,735,521,180	₱6,509,740,691	₱59,426,888,566

Included under "Land" account are the 223,474 square meters of real estate properties with a carrying value of ₱505 million and ₱413 million of December 31, 2008 and 2007, respectively, and a fair value of ₱13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to ₱10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under "Investment properties - net" account and a corresponding liability equivalent to the same amount is shown as part of "Other noncurrent liabilities" account in the consolidated balance sheets (see Note 5).

A portion of investment properties located in China with a carrying value of ₱678 million and ₱561 million as of December 31, 2008 and 2007 and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

The fair value of investment properties amounted to ₱193,689 million as of December 31, 2006 as determined by an independent appraiser. The valuation of investment properties was based on market values. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

While fair value of the investment properties was not determined as of December 31, 2008 and 2007, the Company's management believes that there were no conditions present in 2008 and 2007 that would significantly reduce the fair value of the investment properties from that determined in 2006.

12. Shopping Mall Complex Under Construction

The movements of this account follow:

	2008	2007 (As restated - see Note 5)
Balance at beginning of year	**₱6,393,481,283**	₱5,006,047,122
Additions	**8,114,905,744**	6,453,924,129
Completed projects transferred to investment properties (see Note 11)	**(6,241,104,565)**	(5,066,657,268)
Translation adjustments	**214,050,280**	167,300
Balance at end of year	**₱8,481,332,742**	₱6,393,481,283

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

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

Shopping mall under construction includes cost of land amounting to ₱2,173 million and ₱2,210 million as of December 31, 2008 and 2007, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱8,902 million and ₱3,048 million as of December 31, 2008 and 2007, 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, 2008 and 2007 are valued at ₱1,361 million and ₱1,303 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,064 million and ₱1,207 million in 2008 and 2007, respectively. Capitalization rates used were 8.67% in 2008 and 9.01% in 2007.

13. 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%. 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 from 2009 up to 2011 at par. 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 ₱69 million and ₱58 million as of December 31, 2008 and 2007, respectively. The amount is deferred under stockholders' equity, net of deferred tax liability amounting to ₱21 million and ₱17 million, respectively.

14. Loans Payable

Loans payable consist of unsecured Philippine peso-denominated loans, with maturities of less than one year, obtained from banks amounting to ₱2,830 million as of December 31, 2008 and Philippine peso-denominated and U.S. dollar-denominated loans amounting to ₱400 million and ₱832 million (US$20.1 million), respectively, as of December 31, 2007. The loans bear interest ranging from 8.5% to 9.0% in 2008 and 4.9% to 5.6% in 2007.

15. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007 (As restated - see Note 5)
Trade	**₱2,317,620,956**	₱1,580,842,409
Accrued interest (see Notes 14, 16 and 21)	**348,849,937**	348,475,525
Accrued operating expenses and others (see Note 21)	**1,475,348,278**	1,183,225,900
	₱4,141,819,171	₱3,112,543,834

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

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

16. Long-term Debt

This account consists of:

	2008	2007 (As restated - see Note 5)
Parent Company:		
U.S. dollar-denominated five-year syndicated loan	**₱7,089,004,155**	₱6,103,973,522
U.S. dollar-denominated five-year, three-year and two-year bilateral loans	**3,513,895,390**	–
Philippine peso-denominated loans:		
Five-year floating rate notes	**3,975,094,444**	3,970,505,799
Five-year, seven-year and ten-year fixed rate notes	**2,976,017,384**	–
Five-year bilateral loan	**2,986,513,483**	2,980,917,334
Five-year syndicated loan	**–**	423,120,933
Other bank loans	**2,184,847,577**	2,186,907,500
Subsidiaries:		
China yuan renminbi-denominated loans:		
Ten-year bilateral loan	**3,445,150,500**	–
Eight-year loan	**1,009,185,500**	875,781,000
Five-year syndicated loan	**–**	1,977,570,000
Philippine peso-denominated loans:		
Five-year syndicated loans	**296,772,198**	691,645,967
Five-year bilateral loan	**248,500,000**	248,100,000
	27,724,980,631	19,458,522,055
Less current portion	**7,784,521,000**	1,405,645,000
	₱19,940,459,631	₱18,052,877,055

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 24).

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

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 Philippine Dealing System Treasury Fixing (PDST-F) plus an agreed margin.

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

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 21 and 24).

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 to expense 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 24).

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

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

- Two-year and five-year unsecured loans obtained on December 1, 2004 amounting to ₱466 million and ₱534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The ₱466 million loan matured on December 1, 2006. The Company prepaid the ₱534 million loan on June 1, 2007, with an original maturity date of December 1, 2009. The related unamortized balance of debt issuance costs charged to expense amounted to ₱1 million.

Subsidiaries

China Yuan Renminbi-denominated Ten-Year Bilateral Loan
This represents a ten-year loan obtained on June 11, 2008 amounting to ¥500 million to finance the construction of shopping malls. The loan is payable in annual installments until 2017. The interest rates range from 7.128% to 9.396% in 2008.

China Yuan Renminbi-denominated Eight-Year Loan
This represents eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rates ranging from 6.156% to 7.047% in 2008 and 5.508% to 6.156% in 2007.

China Yuan Renminbi-denominated Five-Year Syndicated Loan
This represents a five-year syndicated loan obtained on June 9, 2006 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in equal quarterly installments until June 9, 2011. The interest rate is based on the applicable basic rate at drawdown dates and is fixed for one year. The loan bears interest rates ranging from 6.75% to 6.93%. The loan was prepaid in June 2008.

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

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, investments held for trading and temporary investments totaling ₱1,388 million 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 21).

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

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2008 and 2007, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱169 million and ₱162 million as of December 31, 2008 and 2007, respectively (see Note 23). Amortization of debt issuance costs amounted to ₱88 million, ₱78 million and ₱68 million in 2008, 2007 and 2006, respectively.

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

Year	Amount
2009	₱7,784,521,000
2010	1,326,095,500
2011	4,975,293,000
2012	4,601,667,000
2013	3,605,594,000
2014 to 2016	5,601,165,500
	₱27,894,336,000

17. Stockholders' Equity

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2008 and 2007 are 13,348,191,367 shares.

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

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

"Additional paid-in capital - net" account includes paid-in subscriptions in excess of par value amounting to ₱10,312 million, net of equity adjustment from business combinations amounting to ₱4,818 million (see Note 5).

The retained earnings account is restricted for the payment of dividends to the extent of ₱3,628 million and ₱3,279 million as of December 31, 2008 and 2007, respectively, representing the cost of shares held in treasury (₱101 million in 2008 and 2007) and accumulated equity in net earnings of the subsidiaries totaling ₱3,527 million and ₱3,178 million as of December 31, 2008 and 2007, 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.

18. Operating Expenses

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

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Depreciation and amortization (see Note 11)	**₱2,666,307,523**	₱2,499,137,968	₱1,972,808,845
Administrative (see Notes 20, 21 and 22)	**2,234,579,230**	1,819,324,119	1,785,848,715
Film rentals	**978,937,584**	965,464,907	846,217,683
Business taxes and licenses	**1,095,863,965**	906,915,236	705,126,726
Others (see Note 21)	**1,232,400,779**	948,343,915	735,186,422
	₱8,208,089,081	₱7,139,186,145	₱6,045,188,391

19. **Income Tax**

The components of deferred tax assets and liabilities follow:

	2008	2007 (As restated - see Note 5)
Deferred tax assets -		
Accrued expenses, unrealized foreign exchange loss and others	**₱209,171,802**	₱143,590,230
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	**₱1,087,254,617**	₱880,296,636

On May 24, 2005, Republic Act No. 9337 (R.A.) was enacted into law which took effect on November 1, 2005. The R.A. introduced changes in regular corporate income tax rate for domestic corporations, and residents and non-residents foreign corporations from 32% to 35% beginning November 1, 2005 and from 35% to 30% beginning January 1, 2009. The change in enacted tax rate effective January 1, 2009 was included in the computation of deferred tax assets and liabilities.

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

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Statutory tax rates	**35.0%**	35.0%	35.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	**(1.4)**	(2.8)	(3.5)
Change in enacted tax rates and others	**(4.6)**	(3.1)	(3.0)
Effective tax rates	**29.0%**	29.1%	28.5%

20. **Pension Cost**

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

Net Pension Cost

	2008	2007	2006
Current service cost	**₱2,728,816**	₱2,518,520	₱582,378
Interest cost on benefit obligation	**2,056,792**	1,544,607	640,148
Expected return on plan assets	**(719,745)**	(593,527)	(398,371)
Net actuarial loss recognized	**401,546**	368,777	7,799
Net pension cost	**₱4,467,409**	₱3,838,377	₱831,954
Actual return on plan assets	**(₱477,554)**	₱619,837	₱290,949

Net Pension (Asset) Liability

	2008	2007	2006
Defined benefit obligation	**₱18,098,581**	₱24,632,241	₱18,632,172
Fair value of plan assets	**(15,807,447)**	(7,706,515)	(4,946,058)
Unfunded obligation	**2,291,134**	16,925,726	13,686,114
Unrecognized net actuarial losses	**(4,055,842)**	(14,509,600)	(12,926,517)
Net pension (asset) liability	**(₱1,764,708)**	₱2,416,126	₱759,597

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:

	2008	2007	2006
Defined benefit obligation, January 1	**₱24,632,241**	₱18,632,172	₱5,334,567
Current service cost	**2,728,816**	2,518,520	582,378
Interest cost on benefit obligation	**2,056,792**	1,544,607	640,148
Benefits paid	**(69,757)**	(41,228)	–
Actuarial losses (gains) on obligation	**(11,249,511)**	1,978,170	12,075,079
Defined benefit obligation, December 31	**₱18,098,581**	₱24,632,241	₱18,632,172

The changes in the fair value of plan assets follow:

	2008	2007	2006
Fair value of plan assets, January 1	**₱7,706,515**	₱4,946,058	₱3,319,755
Expected return on plan assets	**719,745**	593,527	398,371
Benefits paid	**(69,757)**	(41,228)	–
Contributions	**8,648,243**	2,181,848	1,335,354
Actuarial gains (losses)	**(1,197,299)**	26,310	(107,422)
Fair value of plan assets, December 31	**₱15,807,447**	₱7,706,515	₱4,946,058

The Company expects to contribute ₱9 million to its defined benefit pension plan in 2009.

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:

	2008	2007	2006
Discount rate	**10.3%**	8.3%	8.3%
Expected rate of return on plan assets	**6.0%**	6.0%	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:

	2008	2007	2006
Defined benefit obligation	**₱18,098,581**	₱24,632,241	₱18,632,172
Plan assets	**15,807,447**	7,706,515	4,946,058
Deficit	**2,291,134**	16,925,726	13,686,114
Experience adjustments on plan liabilities	**1,426,249**	1,895,714	12,075,079
Experience adjustments on plan assets	**1,197,299**	56,146	107,422

21. 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 ₱5,265 million, ₱4,146 million and ₱3,513 million in 2008, 2007 and 2006, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,151 million and ₱947 million as of December 31, 2008 and 2007, 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 ₱158 million, ₱164 million and ₱105 million in 2008, 2007 and 2006, respectively. Rent payable to SMIC and Shoemart, Inc., included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱19 million and ₱16 million as of December 31, 2008 and 2007, 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 ₱508 million, ₱473 million and ₱403 million in 2008, 2007 and 2006, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱42 million and ₱61 million as of December 31, 2008 and 2007, 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 ₱10,349 million and ₱2,115 million as of December 31, 2008 and 2007, respectively. Pledged investments held for trading of ₱1,388 million as of December 31, 2007 are deposited with Banco de Oro (BDO) (see Note 16). Interest income amounted to ₱210 million, ₱386 million and ₱376 million in 2008, 2007 and 2006, respectively. Accrued interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱37 million and ₱16 million as of December 31, 2008 and 2007, respectively.

e. As of December 31, 2008 and 2007, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱4,700 million and ₱367 million, respectively. Interest expense amounted to ₱27 million, ₱115 million and ₱393 million in 2008, 2007 and 2006, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts in the consolidated balance sheets, amounted to ₱4 million and ₱3 million as of December 31, 2008 and 2007, respectively.

f. As of December 31, 2008 and 2007, a portion of AFS investments amounting to ₱2,453 million and ₱2,116 million pertains to mandatorily redeemable preferred shares of BDO (see Note 13). Interest income amounted to ₱154 million, ₱138 million and ₱160 million in 2008, 2007 and 2006, respectively. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱31 million and ₱95 million as of December 31, 2008 and 2007, respectively.

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

h. The total compensation paid to key management personnel of the Company amounted to ₱18 million, ₱16 million and ₱13 million in 2008, 2007 and 2006, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

22. Lease Agreements

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

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

23. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of bank loans, AFS investments, investments held for trading 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 its financial instruments with floating interest and/or fixed interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 8, 13, 14 and 16.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2008 and 2007, after taking into account the effect of interest rate swaps, approximately 42% and 51%, respectively, of the Company's long-term borrowings are at a fixed rate of interest.

Interest Rate Risk Table

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

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2008	**100**	**(₱46,855,361)**
	50	**(23,427,680)**
	(100)	**46,855,361**
	(50)	**23,427,680**
2007	100	(25,223,836)
	50	(12,611,918)
	(100)	25,223,836
	(50)	12,611,918

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

	2008		
	1-<2 Years	**2-<3 Years**	**3-<4 Years**
Fixed rate:			
Philippine peso-denominated			
five-year syndicated loan	**₱300,000,000**	**₱–**	**₱–**
Interest rate	**6.75%**		
Philippine peso-denominated			
loans fixed rate notes	**–**	**–**	**–**
Interest rate			
Other bank loans	**–**	**–**	**–**
Interest rate			
Floating rate:			
U.S. dollar-denominated			
five-year syndicated loan	**$150,000,000**	**$–**	**$–**
Interest rate	**LIBOR+margin%**		
U.S. dollar-denominated			
bilateral loans	**$–**	**$20,000,000**	**$30,000,000**
Interest rate		**LIBOR+spread**	**LIBOR+spread**
China yuan renminbi-denominated			
eight-year bilateral loan	**¥30,000,000**	**¥35,000,000**	**¥40,000,000**
Interest rate	**6.16%–7.05%**	**6.16%–7.05%**	**6.16%–7.05%**
China yuan renminbi-denominated			
ten-year loan	**¥10,000,000**	**¥10,000,000**	**¥30,000,000**
Interest rate	**7.13%–9.40%**	**7.13%–9.40%**	**7.13%–9.40%**
Philippine peso-denominated			
five-year floating rate loan	**₱–**	**₱–**	**₱–**
Interest rate			
Philippine peso-denominated			
five-year bilateral loans	**₱78,125,000**	**₱62,500,000**	**₱3,062,500,000**
Interest rate	**PDST-F+margin%**	**PDST-F+margin%**	**PDST-F+margin%**

	2007 (As restated - see Note 5)		
	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%	
China yuan renminbi-denominated			
five-year syndicated loan	¥90,000,000	¥110,000,000	¥100,000,000
Interest rate	6.75%–6.93%	6.75%–6.93%	6.75%–6.93%
China yuan renminbi-denominated			
eight-year bilateral loan	¥10,000,000	¥30,000,000	¥35,000,000
Interest rate	5.51%-6.16%	5.51%-6.16%	5.51%-6.16%
Philippine peso-denominated			
five-year floating rate loan	₱–	₱–	₱–
Interest rate			
Philippine peso-denominated			
five-year bilateral loans	₱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			

	2008					
	4-<5 Years	5-<6 Years	>6 Years	Total	Debt Issuance	Carrying Value
	₱–	₱–	₱–	₱300,000,000	(₱3,227,802)	₱296,772,198
	–	1,000,000,000	2,000,000,000	3,000,000,000	(23,982,616)	2,976,017,384
		9.31%	9.60%-9.85%			
	–	1,000,000,000	1,200,000,000	2,200,000,000	(15,152,423)	2,184,847,577
		7.18%	9.75%			
	$–	$–	$–	7,128,000,000	(38,995,845)	7,089,004,155
	$–	$25,000,000	$–	3,564,000,000	(50,104,610)	3,513,895,390
		LIBOR+spread				
	¥40,000,000	¥–	¥–	1,009,185,500	–	1,009,185,500
	6.16%–7.05%					
	¥40,000,000	¥60,000,000	¥345,000,000	3,445,150,500	–	3,445,150,500
	7.13%–9.40%	7.13%–9.40%	7.13%–9.40%			
	₱3,998,000,000	₱–	₱–	3,998,000,000	(22,905,556)	3,975,094,444
	PDST-F+margin%					
	₱46,875,000	₱–	₱–	3,250,000,000	(14,986,517)	3,235,013,483
	PDST-F+margin%					
				₱27,894,336,000	(₱169,355,369)	₱27,724,980,631

	2007 (As restated - see Note 5)					
	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
	¥50,000,000	¥–	¥–	1,977,570,000	–	1,977,570,000
	6.75%–6.93%					
	¥40,000,000	¥40,000,000	¥–	875,781,000	–	875,781,000
	5.51%-6.16%	5.51%-6.16%				
	₱–	₱4,000,000,000	₱–	4,000,000,000	(29,494,201)	3,970,505,799
		PDST-F+margin%				
	₱3,062,500,000	P46,875,000	₱–	3,250,000,000	(20,982,666)	3,229,017,334
	PDST-F+margin%	PDST-F+margin%				
	P1,000,000,000	–	₱–	1,000,000,000	(3,750,000)	996,250,000
	PDST-F+margin%					
				₱19,620,351,000	(₱161,828,945)	₱19,458,522,055

Foreign Currency Risk

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱6,716 million (US$141 million) and ₱7,500 million (US$158 million), respectively, as of December 31, 2008 and ₱3,687 million (US$89 million) and ₱3,665 million (US$89 million), respectively, as of December 31, 2007.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱47.52 to US$1.00 and ₱41.28 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2008 and 2007, 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
2008	**₱1.50**	₱13,036,240
	1.00	8,690,827
	(1.50)	(13,036,240)
	(1.00)	(8,690,827)
2007	**1.50**	(14,474,864)
	1.00	(9,649,909)
	(1.50)	14,474,864
	(1.00)	9,649,909

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 24.

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

Credit Quality of Financial Assets

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

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

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

As of December 31, 2008 and 2007, the credit quality of the Company's financial assets is as follows:

	2008			
	Neither Past Due Nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**But Not Impaired**	**Total**
Cash and cash equivalents	**₱10,737,196,836**	**₱–**	**₱–**	**₱10,737,196,836**
Investments held for trading	**143,857,296**	**–**	**–**	**143,857,296**
Receivables	**678,202,262**	**2,504,676,635**	**162,863,161**	**3,345,742,058**
AFS investments	**2,552,699,740**	**–**	**–**	**2,552,699,740**
Derivative assets	**34,130,728**	**–**	**–**	**34,130,728**
	₱14,146,086,862	**₱2,504,676,635**	**₱162,863,161**	**₱16,813,626,658**

	2007 (As restated - see Note 5)			
	Neither Past Due Nor Impaired		Past Due	
	High Quality	Standard Quality	But Not Impaired	Total
Cash and cash equivalents	₱2,504,180,947	₱–	₱–	₱2,504,180,947
Investments held for trading	149,688,504	–	–	149,688,504
Receivables	768,853,833	2,046,009,750	169,855,465	2,984,719,048
AFS investments	2,218,254,419	–	–	2,218,254,419
Derivative assets	347,248,200	–	–	347,248,200
	₱5,988,225,903	₱2,046,009,750	₱169,855,465	₱8,204,091,118

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:

	2008			
	Less than 12 Months	**2 to 5 Years**	**More than 5 Years**	**Total**
Loans payable	**₱2,924,884,028**	**₱–**	**₱–**	**₱2,924,884,028**
Accounts payable and other current liabilities	**4,141,819,171**	**–**	**–**	**4,141,819,171**
Long-term debt (including current portion)	**9,674,452,851**	**19,229,151,578**	**6,690,172,021**	**35,593,776,450**
Derivative liability	**901,634,262**	**–**	**–**	**901,634,262**
Tenants' deposits	**–**	**4,865,774,815**	**–**	**4,865,774,815**
Other noncurrent liabilities*	**–**	**4,825,437,836**	**–**	**4,825,437,836**
	₱17,642,790,312	**₱28,920,364,229**	**₱6,690,172,021**	**₱53,253,326,562**

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

	2007 (As restated - see Note 5)			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	₱1,273,449,263	₱–	₱–	₱1,273,449,263
Accounts payable and other current liabilities	3,112,543,834	–	–	3,112,543,834
Long-term debt (including current portion)	2,586,284,315	19,324,054,281	1,665,167,917	23,575,506,513
Derivative liability	–	1,768,518,516	–	1,768,518,516
Tenants' deposits	–	4,328,461,010	–	4,328,461,010
Other noncurrent liabilities*	–	940,509,370	–	940,509,370
	₱6,972,277,412	₱26,361,543,177	₱1,665,167,917	₱34,998,988,506

**Excluding nonfinancial liabilities amounting to P413 million.*

Capital Management

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

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, 2008 and 2007, 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

	2008	2007 (As restated - see Note 5)
Loans payable	**₱2,830,000,000**	₱1,231,957,791
Current portion of long-term debt	**7,784,521,000**	1,405,645,000
Long-term debt - net of current portion	**19,940,459,631**	18,052,877,055
Total interest-bearing debt (a)	**30,554,980,631**	20,690,479,846
Total equity attributable to equity holders of the Parent	**46,828,540,968**	42,518,196,740
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱77,383,521,599**	₱63,208,676,586
Gearing ratio (a/b)	**39%**	33%

Net Interest-bearing Debt to Total Capital

	2008	2007 (As restated - see Note 5)
Loans payable	**₱2,830,000,000**	₱1,231,957,791
Current portion of long-term debt	**7,784,521,000**	1,405,645,000
Long-term debt - net of current portion	**19,940,459,631**	18,052,877,055
Less cash and cash equivalents, investments held for trading and AFS investments	**(13,433,753,872)**	(4,872,123,870)
Total net interest-bearing debt (a)	**17,121,226,759**	15,818,355,976
Total equity attributable to equity holders of the Parent	**46,828,540,968**	42,518,196,740
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	**₱63,949,767,727**	₱58,336,552,716
Gearing ratio (a/b)	**27%**	27%

24. Financial Instruments

Fair Values

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

	2008		2007 (As restated - see Note 5)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱10,737,196,836**	**₱10,737,196,836**	₱2,504,180,947	₱2,504,180,947
Receivables	**3,345,742,058**	**3,345,742,058**	2,984,719,048	2,984,719,048
	14,082,938,894	**14,082,938,894**	5,488,899,995	5,488,899,995
Financial assets at FVPL:				
Investments held for trading	**143,857,296**	**143,857,296**	149,688,504	149,688,504
Derivative assets	**34,130,728**	**34,130,728**	347,248,200	347,248,200
	177,988,024	**177,988,024**	496,936,704	496,936,704
AFS investments	**2,552,699,740**	**2,552,699,740**	2,218,254,419	2,218,254,419
	₱16,813,626,658	**₱16,813,626,658**	₱8,204,091,118	₱8,204,091,118

Forward

	2008		2007 (As restated - see Note 5)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liability	**₱901,634,262**	**₱901,634,262**	₱1,768,518,516	₱1,768,518,516
Other financial liabilities:				
Loans payable	**2,830,000,000**	**2,830,000,000**	1,231,957,791	1,231,957,791
Accounts payable and other current liabilities	**4,141,819,171**	**4,141,819,171**	3,112,543,834	3,112,543,834
Long-term debt (including current portion)	**27,724,980,631**	**28,394,830,575**	19,458,522,055	20,037,792,058
Tenants' deposits	**4,865,774,815**	**4,794,475,073**	4,328,461,010	4,193,356,615
Other noncurrent liabilities*	**4,825,437,836**	**4,747,328,276**	940,509,370	902,071,100
	44,388,012,453	**44,908,453,095**	29,071,994,060	29,477,721,398
	₱45,289,646,715	**₱45,810,087,357**	₱30,840,512,576	₱31,246,239,914

**Excluding nonfinancial liabilities amounting to ₱505 million and ₱413 million as of December 31, 2008 and 2007, respectively .*

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

Cash and Cash Equivalents. 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 3.54% to 8.59% as of December 31, 2008 and 6.19% to 7.95% as of December 31, 2007.

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 Deb*t. 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 5.64% to 11.5% as of December 31, 2008 and 5.18% to 7.36% as of December 31, 2007.
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 usingtheprevailingmarketratefromtheperioduptothenextre-pricingdate.Discount rate used was 0.82% to 2.40% as of December 31, 2008 and 5.20% as of December 31, 2007.

Tenants' Deposits and Other Noncurrent Liabilities. Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 7.24% to 7.44% as of December 31, 2008 and 6.67% to 6.76% as of December 31, 2007.

Derivative Instruments. The fair values of the interest rate swaps and cross currency swaps 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 risk, the Company entered into various derivative transactions such as cross currency swaps, interest rate swaps, foreign currency call options and non-deliverable forwards.

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

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

	2007	
	<1 Year	>1-<2 Years
Cross-Currency Swap		
Floating-Fixed:		
Notional amount	$70,000,000	$70,000,000
Receive-floating rate	6 months LIBOR+margin%	6 months 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 LIBOR+margin%	6 months LIBOR+margin%
Pay-fixed rate	5.34%	5.34%

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, 2008 and 2007, the cross currency swaps have negative fair values of ₱861 million and ₱1,496 million, respectively.

Interest Rate Swaps. In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million. Under these agreements, the Parent Company effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013. As of December 31, 2008, the fixed to floating interest rate swaps have positive fair values of ₱34 million.

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 16, 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.

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, 2008 and 2007, the floating to fixed interest rate swaps have negative fair values of ₱41 million and positive fair value of ₱20 million, respectively.

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

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

In these trades, the Parent Company will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the exchange rate between U.S. dollar (US$) and the Philippine peso (₱) trade above the strike price on the two dates, the Parent Company will have to pay a penalty based on an agreed formula. As of December 31, 2007, the positive fair value of the currency option is ₱55 million. Realized loss from currency option contracts amounted to ₱17 million in 2008.

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

The net unrealized marked-to-market gain (loss) on derivative transactions, shown as part of "Amusement and others" account in the consolidated statements of income, amounted to ₱609 million, (₱568 million) and (₱277 million) for the years ended December 31, 2008, 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:

	2008	2007
Balance at beginning of year	**(₱1,421,270,316)**	(₱276,560,613)
Net changes in fair value during the year	**608,707,480**	(567,691,997)
Fair value of settled contracts	**(54,940,698)**	(577,017,706)
Balance at end of year	**(₱867,503,534)**	(₱1,421,270,316)

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

	2008	2007
Derivative assets	**₱34,130,728**	₱347,248,200
Derivative liabilities	**(901,634,262)**	(1,768,518,516)
	(₱867,503,534)	(₱1,421,270,316)

25. Basic/Diluted EPS Computation

Basic EPS is computed as follows:

	2008	2007	2006
Net income attributable to equity holders of the Parent (a)	**₱6,412,215,308**	₱5,972,394,019	₱5,854,664,702
Common shares issued at beginning of year, as previously reported	**–**	10,848,191,367	9,935,294,155
Issuance of shares to Grand China and Oriental Land (see Notes 5 and 17)	**–**	–	912,897,212
Common shares issued at beginning of year, as restated	**13,348,191,367**	10,848,191,367	10,848,191,367
Effect of stock dividends in 2007 (see Note 17)	**–**	2,500,000,000	2,500,000,000
Common shares issued at end of year	**13,348,191,367**	13,348,191,367	13,348,191,367
Less weighted average number of treasury shares acquired during the year	**18,857,000**	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	**13,329,334,367**	13,329,334,367	13,329,334,367
Earnings per share (a/b)	**₱0.481**	₱0.448	₱0.439

26. Other Matters

The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the vatability of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The motion for reconsideration of the Bureau of Internal Revenue (the Respondent) was denied on December 18, 2006. The Respondent filed an appeal on January 19, 2007, which the CTA nullified in its decision dated April 30, 2008 and resolution dated June 24, 2008. Likewise, on December 18, 2008, the CTA also dismissed a similar case for lack of merit. The Respondent has yet to file a motion for reconsideration as of February 19, 2009. 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.

PRIMER

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Bank of the Philippine Islands
China Banking Corporation
Citibank, N.A.
Hongkong and Shanghai Banking Corporation
Metropolitan Bank & Trust Company
Standard Chartered Bank
Deutsche Bank AG Manila Branch
First Metro Investment Corporation
Royal Bank of Scotland
ING Bank
JP Morgan Chase Bank
Land Bank of the Philippines
Security Bank

Stockholder Inquiries
SM Prime Holdings, Inc.'s 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:

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