

SEC Number 16342
PSE Disclosure Security Code _____

SM INVESTMENTS CORPORATION

(Company's Full Name)

**10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-IA, Pasay City 1300**

(Company's Address)

8857- 0100

(Telephone Number)

December 31

(Year Ending)
(month & day)

**SEC Form 17-Q
2nd Quarter Report**

Form Type

Amendment Designation (If applicable)

June 30, 2022

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended June 30, 2022
2. Commission Identification Number 016342 3. BIR Tax Identification No. 169-020-000
4. Exact name of registrant as specified in its charter SM INVESTMENTS CORPORATION
5. PHILIPPINES
Province, Country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-IA, Pasay City
1300
Address of principal office Postal Code
8. 8857-0100
Registrant's telephone number, including area code
9. Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the
RSA

Title of Each Class	Number of Shares of Common Stock Outstanding	Amount of Debt Outstanding
COMMON STOCK P10 PAR VALUE	1,204,582,867	N.A.

11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes No
12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 11 of the Securities Regulation Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
Yes No
(b) has been subject to such filing requirements for the past 90 days.
Yes No

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Unaudited Interim Condensed Consolidated Financial Statements
as at June 30, 2022 and for the
Six-Month Periods Ended June 30, 2022 and 2021
(with Comparative Audited Consolidated Balance Sheet as at
December 31, 2021)

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 20 and 23)	₱103,760,134	₱88,744,225
Time deposits (Notes 7, 20 and 23)	7,709,593	311,233
Financial assets at fair value through other comprehensive income (FVOCI) (Note 8)	536,184	547,041
Receivables and contract assets (Notes 9 and 20)	84,490,636	74,599,491
Inventories (Note 10)	97,117,837	86,767,188
Other current assets (Notes 11 and 20)	53,257,397	51,088,161
Total Current Assets	346,871,781	302,057,339
Noncurrent Assets		
Financial assets at FVOCI - net of current portion (Notes 8 and 24)	21,510,674	27,946,993
Investments in associate companies and joint ventures (Note 12)	309,876,884	305,072,026
Time deposits - net of current portion (Notes 7, 20 and 24)	4,468,127	3,905,618
Property and equipment (Note 13)	37,708,242	38,555,519
Investment properties (Note 14)	483,046,071	463,765,374
Right-of-use assets (Note 22)	45,111,840	44,775,919
Intangibles (Note 15)	31,539,045	31,615,767
Other noncurrent assets (Notes 15, 20, 21 and 24)	119,680,308	123,892,119
Total Noncurrent Assets	1,052,941,191	1,039,529,335
	₱1,399,812,972	₱1,341,586,674
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 16, 20 and 23)	₱24,189,188	₱26,232,427
Accounts payable and other current liabilities (Notes 17, 20, and 22)	155,498,096	167,085,517
Income tax payable	2,575,146	2,224,660
Current portion of long-term debt (Notes 18, 20, and 23)	89,297,269	63,706,559
Total Current Liabilities	271,559,699	259,249,163
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18, 20, 23 and 24)	405,097,189	374,155,880
Lease liabilities - net of current portion (Notes 22 and 24)	32,595,010	31,061,609
Deferred tax liabilities (Note 21)	15,652,197	15,796,870
Tenants' deposits and others (Notes 22 and 24)	46,946,467	48,883,227
Total Noncurrent Liabilities	500,290,863	469,897,586
Total Liabilities	771,850,562	729,146,749

(Forward)

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Equity Attributable to Owners of the Parent		
Capital stock (Note 19)	₱12,045,829	₱12,045,829
Additional paid-in capital	75,836,956	75,827,181
Equity adjustments from common control transactions	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)
Cumulative translation adjustment	2,522,037	2,193,170
Fair value changes on cash flow hedges	1,601,811	(980,127)
Unrealized gain on financial assets at FVOCI	2,048,532	15,171,942
Remeasurement loss on defined benefit asset/obligation	(8,317,835)	(8,317,835)
Retained earnings (Note 19):		
Appropriated	37,000,000	37,000,000
Unappropriated	326,933,252	308,946,422
Total Equity Attributable to Owners of the Parent	444,220,741	436,436,741
Non-controlling Interests	183,741,669	176,003,184
Total Equity	627,962,410	612,439,925
	₱1,399,812,972	₱1,341,586,674

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands Except Per Share Data)

	Six-Month Periods Ended		Three-Month Periods Ended	
	June 30		June 30	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES				
Sales:				
Merchandise and processed food	₱167,536,572	₱135,141,205	₱91,293,816	₱67,031,311
Real estate	17,708,202	24,093,246	5,959,271	12,343,837
Shipping, logistics and other services	6,357,325	761,387	3,452,122	761,387
Rent (Notes 20 and 22)	21,912,106	13,419,590	12,340,299	6,047,638
Equity in net earnings of associate companies and joint ventures	15,847,581	13,408,976	8,166,234	7,263,924
Cinema, ticket sales, amusement and others	1,610,585	143,511	1,093,717	41,213
Dividends, service and royalty fees and others (Note 20)	7,507,728	6,510,973	4,033,917	3,106,754
	238,480,099	193,478,888	126,339,376	96,596,064
COST AND EXPENSES				
Cost of sales:				
Merchandise and processed food (Note 10)	122,193,530	102,100,370	65,775,285	50,886,515
Real estate (Note 10)	7,933,808	10,394,204	2,540,432	5,261,810
Cost of services	7,314,402	839,439	4,591,281	839,439
Selling, general and administrative expenses	53,287,827	42,515,635	28,521,905	20,618,197
	190,729,567	155,849,648	101,428,903	77,605,961
OTHER INCOME (CHARGES)				
Interest expense (Note 20)	(8,594,019)	(8,015,012)	(4,257,586)	(4,088,934)
Interest income (Note 20)	1,348,170	1,034,893	697,326	532,704
Gain (loss) from fair value changes on derivatives - net (Note 24)	320,691	160,760	132,932	(648)
Foreign exchange gain - net and others (Note 23)	1,024,346	329,079	872,755	312,041
	(5,900,812)	(6,490,280)	(2,554,573)	(3,244,837)
INCOME BEFORE INCOME TAX	41,849,720	31,138,960	22,355,900	15,745,266
PROVISION FOR INCOME TAX (Note 21)				
Current	6,730,221	2,714,512	4,625,526	1,189,861
Deferred	(282,496)	850,164	(900,990)	434,085
	6,447,725	3,564,676	3,724,536	1,623,946
NET INCOME	₱35,401,995	₱27,574,284	₱18,631,364	₱14,121,320
Attributable to				
Owners of the Parent	₱25,514,549	₱20,089,690	₱13,515,713	₱10,619,477
Non-controlling interests	9,887,446	7,484,594	5,115,651	3,501,843
	₱35,401,995	₱27,574,284	₱18,631,364	₱14,121,320
Basic/Diluted Earnings Per Common Share				
Attributable to Owners of the Parent (Note 25)	₱21.18	₱16.68	₱11.22	₱8.82

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
(Amounts in Thousands)

	Six-Month Periods Ended June 30		Three-Month Periods Ended June 30	
	2022 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2021 (Unaudited)
NET INCOME	₱35,401,995	₱27,574,284	₱18,631,364	₱14,121,320
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified to profit or loss in subsequent periods				
Share in unrealized gain (loss) on financial assets of associates at FVOCI	(7,943,346)	(1,454,935)	(3,995,368)	713,740
Cumulative translation adjustment	51,529	627,742	722,547	409,246
Fair value changes on cash flow hedges	3,630,435	651,327	1,072,648	(645,608)
	(4,261,382)	(175,866)	(2,200,173)	477,378
Items not to be reclassified to profit or loss in subsequent periods				
Remeasurement gain on defined benefit obligation	—	31,498	—	31,498
Unrealized gain (loss) on financial assets at FVOCI	(5,896,356)	(163,050)	(6,074,311)	986,352
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(424,079)	(155,503)	(192,101)	1,299,485
	(6,320,435)	(287,055)	(6,266,412)	2,317,335
TOTAL COMPREHENSIVE INCOME	₱24,820,178	₱27,111,363	₱10,164,779	₱16,916,033
Attributable to				
Owners of the Parent	₱15,301,944	₱19,510,506	₱5,809,943	₱13,310,721
Non-controlling interests	9,518,234	7,600,857	4,354,836	3,605,312
	₱24,820,178	₱27,111,363	₱10,164,779	₱16,916,033

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands Except Per Share Data)

Equity Attributable to Owners of the Parent

	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Fair Value Changes on Cash Flow Hedges	Unrealized Gain on Financial Assets at FVOCI	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at December 31, 2021 (Audited)	₱12,045,829	₱75,827,181	(₱5,424,455)	(₱25,386)	₱2,193,170	(₱980,127)	₱15,171,942	(₱8,317,835)	₱37,000,000	₱308,946,422	₱436,436,741	₱176,003,184	₱612,439,925
Net income	-	-	-	-	-	-	-	-	-	25,514,549	25,514,549	9,887,446	35,401,995
Other comprehensive income	-	-	-	-	328,867	2,581,938	(13,123,410)	-	-	-	(10,212,605)	(369,212)	(10,581,817)
Total comprehensive income	-	-	-	-	328,867	2,581,938	(13,123,410)	-	-	25,514,549	15,301,944	9,518,234	24,820,178
Cash dividends - ₱6.25 per share (Note 19)	-	-	-	-	-	-	-	-	-	(7,527,719)	(7,527,719)	-	(7,527,719)
Transactions with non-controlling interests	-	9,775	-	-	-	-	-	-	-	-	9,775	14,715	24,490
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,740,140)	(1,740,140)
Decrease in previous year's non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(54,324)	(54,324)
As at June 30, 2022 (Unaudited)	₱12,045,829	₱75,836,956	(₱5,424,455)	(₱25,386)	₱2,522,037	₱1,601,811	₱2,048,532	(₱8,317,835)	₱37,000,000	₱326,933,252	₱444,220,741	₱183,741,669	₱627,962,410
As at December 31, 2020 (Audited)	₱12,045,829	₱75,823,506	(₱5,424,455)	(₱25,386)	₱895,922	(₱2,741,387)	₱16,506,435	(₱6,066,075)	₱37,000,000	₱275,818,556	₱403,832,945	₱160,894,953	₱564,727,898
Net income	-	-	-	-	-	-	-	-	-	20,089,690	20,089,690	7,484,594	27,574,284
Other comprehensive income	-	-	-	-	387,670	528,209	(1,591,928)	96,865	-	-	(579,184)	116,263	(462,921)
Total comprehensive income	-	-	-	-	387,670	528,209	(1,591,928)	96,865	-	20,089,690	19,510,506	7,600,857	27,111,363
Cash dividends - ₱4.25 per share (Note 19)	-	-	-	-	-	-	-	-	-	(5,118,849)	(5,118,849)	-	(5,118,849)
Effect of business combination (Note 4)	-	-	-	-	-	-	-	-	-	-	-	2,352,991	2,352,991
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,338,663)	(1,338,663)
Decrease in previous year's non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(205,760)	(205,760)
As at June 30, 2021 (Unaudited)	₱12,045,829	₱75,823,506	(₱5,424,455)	(₱25,386)	₱1,283,592	(₱2,213,178)	₱14,914,507	(₱5,969,210)	₱37,000,000	₱290,789,397	₱418,224,602	₱169,304,378	₱587,528,980

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Six-Month Periods Ended June 30	
	2022	2021
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱41,849,720	₱31,138,960
Adjustments for:		
Equity in net earnings of associate companies and joint ventures	(15,847,581)	(13,408,976)
Depreciation and amortization (Notes 13, 14, 15 and 22)	10,874,119	9,245,308
Interest expense	8,594,019	8,015,012
Interest income	(1,348,170)	(1,034,893)
Gain on fair value changes on derivatives - net	(320,691)	(160,760)
Unrealized foreign exchange gain and others	(271,932)	(234,199)
Dividends, service and royalty fees and others	(196,416)	(176,583)
Income before working capital changes	43,333,068	33,383,869
Decrease (increase) in:		
Receivables and contract assets	(2,457,143)	9,547,326
Inventories	(19,342,506)	(18,303,642)
Other current assets	(206,352)	(3,560,100)
Increase (decrease) in:		
Accounts payable and other current liabilities	(2,539,408)	(5,924,993)
Tenants' deposits and others	758,109	2,178,171
Net cash generated from operations	19,545,768	17,320,631
Income tax paid	(6,387,026)	(3,796,440)
Net cash provided by operating activities	13,158,742	13,524,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Property and equipment	60,109	183,447
Investment properties	5,282	11,725
Additions to:		
Investment properties (Note 14)	(24,786,801)	(23,239,941)
Property and equipment (Note 13)	(2,960,579)	(2,708,396)
Financial assets at fair value through other comprehensive income (FVOCI)	—	(1,427)
Investments in associate companies and joint ventures	—	(100,620)
Decrease (increase) in:		
Time deposits	(7,621,069)	(788,325)
Other noncurrent assets	6,134,910	(7,112,012)
Purchase consideration, net of cash from acquisition of a subsidiary	—	(2,591,041)
Dividends received	4,477,076	2,781,066
Interest received	1,400,269	982,600
Net cash used in investing activities	(23,290,803)	(32,582,924)

(Forward)

	Six-Month Periods Ended June 30	
	2022	2021
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Long-term debt	₱80,537,686	₱84,663,985
Bank loans	27,513,514	15,263,052
Payments of:		
Long-term debt	(33,352,198)	(59,465,000)
Bank loans	(29,591,012)	(27,891,000)
Dividends	(10,996,360)	(7,494,209)
Interest	(7,460,748)	(7,698,313)
Lease liabilities	(2,325,705)	(2,868,872)
Net cash provided by (used in) financing activities	24,325,177	(5,490,357)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,193,116	(24,549,090)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	822,793	309,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	88,744,225	78,159,197
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	₱103,760,134	₱53,919,251

See accompanying Notes to Interim Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960.

SMIC is one of the largest publicly listed companies in the Philippines with interests in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The accompanying unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on August 3, 2022.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) are prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through other comprehensive income (FVOCI) and liabilities which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest thousand Peso except when otherwise indicated.

The interim condensed consolidated financial statements have been prepared on the going concern assumption.

Statement of Compliance

The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at December 31, 2021.

Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. As at June 30, 2022, there were no significant changes in the Parent Company's ownership interest in its subsidiaries except as discussed in Note 4.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. Changes in these estimates and assumptions could result in outcomes that may require material adjustments to the carrying amounts of the affected assets or liabilities in the future.

The impact of COVID-19 has been considered in the significant judgments, estimates and assumptions in the Group's consolidated financial statements as at June 30, 2022 and December 31, 2021. Except as otherwise stated, there were no significant changes in accounting judgments, estimates, and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes.

3. Summary of Significant Accounting Policies, Changes and Improvements

The following new PFRSs became effective beginning January 1, 2022

Unless otherwise indicated the Group does not expect the adoption of these new standards, amendments and improvements to standards to have a significant impact on the interim condensed consolidated financial statements.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the 1989 Framework for the Preparation and Presentation of Financial Statements, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising from liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine IFRIC 21, *Levies*, if incurred separately.

The amendments also clarified that contingent assets do not qualify for recognition as at the acquisition date.

The amendments are effective on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit the deduction from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such shall be recognized in profit or loss.

The amendment is effective January 1, 2022, with retroactive modification for items of property, plant and equipment made available for use on or after the beginning of the earliest period presented at the time of adoption.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective beginning on or after January 1, 2022.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective on or after January 1, 2022, with early adoption permitted.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period at the time of first adoption.

The amendment is effective on or after January 1, 2022, with early adoption permitted.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

The amendment is to be applied prospectively on or after January 1, 2022, with early adoption permitted.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

These amendments are effective on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

Those amendments are effective on or after January 1, 2023, with early adoption permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. These amendments are effective on or after January 1, 2023, with early adoption permitted.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and

- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024 instead of January 1, 2023.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short duration contracts

On December 15, 2021, the Financial Reporting Standards Council (FRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Business Combination

Acquisition

2GO Group, Inc. (2GO). In April and June 2021, the Parent Company acquired additional 551.4 million common shares of 2GO increasing its equity interest in 2GO to 52.9% from 30.5% previously. 2GO is the largest integrated supply chain operator in the Philippines offering shipping, freight forwarding, warehousing, and express delivery services.

Beginning June 1, 2021, 2GO became a subsidiary in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition. As at December 31, 2021, Goodwill of ₱3.6 billion was recognized for the transaction.

Goldilocks Bakeshop, Inc. (GBI). In August 2021, the Parent Company acquired additional 224.5 million common shares of GBI increasing its equity interest in GBI to 74.1% from 34.1% previously. GBI is primarily engaged in the purchase and sale, manufacture and production, import and export, and distribution of food items such as cakes, pastries, bread and candies on wholesale, retail or franchising; operation of restaurants, refreshment parlors or food outlets; and serving, arranging and catering food, drinks and refreshments.

Beginning August 1, 2021, GBI became a subsidiary in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition. As at December 31, 2021, Goodwill of ₱2.9 billion was recognized for this transaction.

5. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and banking and others.

The property segment is involved in mall, residential and commercial development and hotel and convention center operations. The mall segment develops, conducts, operates and maintains 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 and cinemas within the compound of the shopping centers. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The banking and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

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

Operating Segment Financial Data

	Six-Month Period Ended June 30, 2022 (Unaudited)				
	Property	Retail	Banking and Others	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenues:					
External customers	₱43,742,891	₱163,449,824	₱31,287,384	₱-	₱238,480,099
Revenues from contracts with customers	19,318,787	159,705,716	14,188,181	-	193,212,684
Merchandise sales and processed food sales	-	159,705,716	7,830,856	-	167,536,572
Real estate sales	17,708,202	-	-	-	17,708,202
Shipping, logistics and other services	-	-	6,357,325	-	6,357,325
Cinema, ticket sales, amusement and others	1,610,585	-	-	-	1,610,585
Rent	20,168,489	585,724	1,157,893	-	21,912,106
Equity in net earnings of associate companies and joint ventures	803,653	472,295	14,571,633	-	15,847,581
Dividends, service and royalty fees and others	3,451,962	2,686,089	1,369,677	-	7,507,728
Inter-segment	5,847,785	113,951	1,496,270	(7,458,006)	-
	₱49,590,676	₱163,563,775	₱32,783,654	(₱7,458,006)	₱238,480,099
Segment results:					
Income before income tax	₱18,583,011	₱10,138,481	₱13,128,228	₱-	₱41,849,720
Provision for income tax	3,844,946	2,471,127	131,652	-	6,447,725
Net income after tax	₱14,738,065	₱7,667,354	₱12,996,576	₱-	₱35,401,995
Net income attributable to:					
Owners of the Parent	₱7,208,563	₱5,454,075	₱12,851,911	₱-	₱25,514,549
Non-controlling interests	7,529,502	2,213,279	144,665	-	9,887,446

Six-Month Period Ended June 30, 2021 (Unaudited)					
	Property	Retail	Banking and Others	Eliminations	Consolidated
	<i>(In Thousands)</i>				
Revenues:					
External customers	₱39,616,268	₱138,068,258	₱15,794,362	₱-	₱193,478,888
Revenues from contracts with customers	24,236,757	134,632,252	1,270,340	-	160,139,349
Merchandise sales	-	134,632,252	508,953	-	135,141,205
Real estate sales	24,093,246	-	-	-	24,093,246
Shipping, logistics and other services	-	-	761,387	-	761,387
Cinema, ticket sales, amusement and others	143,511	-	-	-	143,511
Rent	12,022,446	806,153	590,991	-	13,419,590
Equity in net earnings of associate companies and joint ventures	711,164	48,562	12,649,250	-	13,408,976
Dividends, service and royalty fees and others	2,645,901	2,581,291	1,283,781	-	6,510,973
Inter-segment	4,432,515	81,909	1,018,315	(5,532,739)	-
	₱44,048,783	₱138,150,167	₱16,812,677	(₱5,532,739)	₱193,478,888
Segment results:					
Income before income tax	₱14,554,719	₱5,162,244	₱11,421,997	₱-	₱31,138,960
Provision for income tax	2,844,664	1,171,336	(451,324)	-	3,564,676
Net income after tax	₱11,710,055	₱3,990,908	₱11,873,321	₱-	₱27,574,284
Net income attributable to:					
Owners of the Parent	₱5,579,447	₱2,842,775	₱11,667,468	₱-	₱20,089,690
Non-controlling interests	6,130,608	1,148,133	205,853	-	7,484,594

The disaggregation of revenues is as indicated in the interim consolidated statements of income and in the operating segment financial data.

Seasonality

Sales of the retail segment are cyclical and are driven by seasonality. Historically, sales peak in December for the Christmas season and in May, prior to the opening of schools in June. Except for the impact of COVID-19 pandemic to the Group's operations starting March 2020, with the disruptions that go with the switching levels of community quarantine from month to month, there were no trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

6. Cash and Cash Equivalents

This account consists of:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
<i>(In Thousands)</i>		
Cash on hand and in banks (Note 20)	₱17,127,428	₱28,563,623
Temporary investments (Note 20)	86,632,706	60,180,602
	₱103,760,134	₱88,744,225

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates.

7. Time Deposits

This account consists of time deposits as follows:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
<i>(In Thousands)</i>		
Current	₱7,709,593	₱311,233
Noncurrent	4,468,127	3,905,618
	₱12,177,720	₱4,216,851

The time deposits bear interest ranging from 0.5% to 3.8% in 2022 and 2021.

Time deposits with various maturities within one year were used as collateral for some credit lines.

8. Financial Assets at FVOCI

This account consists of:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
<i>(In Thousands)</i>		
Shares of stock		
Listed	₱20,522,911	₱26,764,759
Unlisted	1,504,247	1,714,725
Club shares	19,700	14,550
	22,046,858	28,494,034
Less current portion	536,184	547,041
Noncurrent portion	₱21,510,674	₱27,946,993

9. Receivables and Contract Assets

This account consists of:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Trade:		
Real estate buyers*	₱107,692,181	₱110,932,754
Third-party tenants	8,996,032	7,473,461
Shipping and logistics**	3,409,239	3,111,428
Related party tenants (Note 20)	515,737	380,963
Others	359,363	366,205
Royalty and service fees (Note 20)	2,456,482	1,980,327
Dividends (Note 20)	1,028,452	579,053
Due from related parties (Note 20)	638,210	617,465
	125,095,696	125,441,656
Less allowance for expected credit loss (ECL)	1,281,771	1,323,187
	123,813,925	124,118,469
Less noncurrent portion of receivables from real estate buyers (Note 15)	39,323,289	49,518,978
Current portion	₱84,490,636	₱74,599,491

* Includes unbilled revenues from sales of real estate amounting to ₱95.7 billion and ₱98.6 billion as at June 30, 2022 and December 31, 2021, respectively.

** Includes contract assets representing shipping and logistics services delivered but not yet invoiced amounting to ₱750.9 million and ₱822.8 million as at June 30, 2022 and December 31, 2021, respectively.

Allowance for ECL is provided for receivables from sales of real estate, receivable from tenants, shipping and logistics, and other receivables which were identified to be impaired based on specific and collective assessment.

Receivable from real estate buyers pertain mostly to sale of condominium and residential units at various terms of payment that are non-interest bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, nil and ₱358.9 million as at June 30, 2022 and December 31, 2021, respectively, and on with recourse basis, ₱155.5 million and ₱324.2 million as at June 30, 2022 and December 31, 2021, respectively. The corresponding liability from the assignment of receivables on with recourse basis bears interest at 3.8% and 4.5% as at June 30, 2022 and December 31, 2021, respectively.

Receivables other than those identified as impaired, are assessed as good and collectible.

10. Inventories

This account consists of:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Land and development - current	₱42,865,253	₱37,229,527
Merchandise inventories	31,277,263	29,446,572
Condominium and residential units for sale	22,286,167	19,351,999
Food supplies and processed food	689,154	739,090
	₱97,117,837	₱86,767,188

Inventories are stated at cost as at June 30, 2022 and December 31, 2021.

Land and Development

The movements in “Land and development - current” accounted as real estate inventories follow:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	₱37,229,527	₱34,933,442
Development cost incurred	14,613,255	25,409,833
Transfer from investment properties	1,775,926	5,448,334
Cost of real estate sold	(3,639,155)	(16,867,820)
Transfer to condominium and residential units for sale	(7,132,326)	(12,318,589)
Reclassification and others	18,026	624,327
Balance at end of period	₱42,865,253	₱37,229,527

Land and development includes the cost of land as well as construction cost of ongoing residential projects.

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱1.1 billion and ₱1.8 billion as at June 30, 2022 and December 31, 2021, respectively, representing the unamortized portion of land cost.

The estimated cost to complete the projects amounted to ₱112.4 billion and ₱111.5 billion as at June 30, 2022 and December 31, 2021, respectively.

Condominium and Residential Units for Sale

The movements in this account follow:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	₱19,351,999	₱8,770,039
Transfer from land and development	7,132,326	12,318,589
Cost of real estate sold	(4,294,653)	(1,819,337)
Translation adjustment	(14,330)	-
Repossessed inventories and others	110,825	82,708
Balance at end of period	₱22,286,167	₱19,351,999

11. Other Current Assets

This account consists of:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Prepaid taxes and other prepayments	₱19,502,340	₱18,465,016
Bonds and deposits	12,027,355	9,912,846
Non-trade receivables	6,498,683	8,280,351
Input tax	4,853,527	4,078,202
Receivables from banks	3,429,946	5,406,748
Derivative assets	2,733,771	753,506
Uniform and supplies inventory	1,134,552	1,032,107
Escrow fund (Note 20)	357,905	335,583
Accrued interest receivable (Note 20)	318,812	370,911
Others	2,400,506	2,452,891
	₱53,257,397	₱51,088,161

12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	₱305,072,026	₱296,265,722
Additions	-	358,120
Business combination (Note 4)	-	(9,265,436)
Reclassifications	-	(12,427)
Equity in net earnings	15,847,581	26,768,811
Dividends received and others	(4,730,059)	(4,973,879)
Share in other comprehensive loss of associate companies	(6,349,622)	(4,185,761)
Translation adjustment	36,958	116,876
Balance at end of period	₱309,876,884	₱305,072,026

Investment in associate companies amounted to ₱300.3 billion and ₱295.7 billion as at June 30, 2022 and December 31, 2021, respectively.

13. Property and Equipment

The movements in this account follow:

	Land	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Vessels in Operation	Containers and Reefer Vans	Construction in Progress	Total
<i>(In Thousands)</i>												
Cost												
As at December 31, 2020 (Audited)	₱-	₱15,403,136	₱4,173,568	₱8,908,732	₱11,050,626	₱11,244,832	₱21,088,146	₱1,055,873	₱-	₱-	₱4,509,885	₱77,434,798
Additions	73,712	3,778,529	273,618	1,126,989	760,423	1,065,265	1,331,713	50,369	516,381	26,093	1,445,993	10,449,085
Effect of business combination (Note 4)	1,655,830	581,758	195,673	15,569	255,995	565,060	314,584	119,112	8,292,637	345,843	140,097	12,482,158
Reclassifications	-	58,852	(1,966,055)	45,010	(167,670)	47,570	2,589,222	(20,317)	-	-	(4,279,324)	(3,692,712)
Disposals/retirements	-	(77)	(15,861)	(65,324)	(114,689)	(45,846)	(352,804)	(8,100)	(305,905)	-	(11,734)	(920,340)
As at December 31, 2021 (Audited)	1,729,542	19,822,198	2,660,943	10,030,976	11,784,685	12,876,881	24,970,861	1,196,937	8,503,113	371,936	1,804,917	95,752,989
Additions	-	282,906	107,923	284,965	592,805	376,313	747,158	23,408	237,821	391	306,889	2,960,579
Reclassifications	(9,948)	1,862,034	620,634	107,501	(127,529)	1,406,117	2,000,472	459,303	7,043,799	1,254,435	(977,618)	13,639,200
Disposals/retirements	-	(16,444)	(287,898)	(553,430)	(416,102)	(225,299)	(1,155,578)	(73,628)	-	-	-	(2,728,379)
As at June 30, 2022 (Unaudited)	₱1,719,594	₱21,950,694	₱3,101,602	₱9,870,012	₱11,833,859	₱14,434,012	₱26,562,913	₱1,606,020	₱15,784,733	₱1,626,762	₱1,134,188	₱109,624,389
Accumulated Depreciation and Amortization												
As at December 31, 2020 (Audited)	₱-	₱7,211,624	₱3,201,690	₱7,430,359	₱9,630,337	₱8,157,579	₱15,061,073	₱654,688	₱-	₱-	₱-	₱51,347,350
Depreciation and amortization	-	588,297	218,853	756,204	808,175	1,042,329	1,577,809	100,782	1,077,060	44,531	-	6,214,040
Reclassifications	-	(8,879)	(1,507,780)	(2,947)	(5,488)	3,884	1,711,919	(13,003)	-	-	-	177,706
Disposals/retirements	-	(77)	(9,724)	(62,809)	(95,174)	(39,065)	(329,950)	(4,827)	-	-	-	(541,626)
As at December 31, 2021 (Audited)	-	7,790,965	1,903,039	8,120,807	10,337,850	9,164,727	18,020,851	737,640	1,077,060	44,531	-	57,197,470
Depreciation and amortization	-	385,275	115,489	360,343	406,264	553,014	751,902	48,980	502,715	31,919	-	3,155,901
Reclassifications	-	1,002,242	696,791	148,388	(917,944)	1,344,676	2,967,620	469,562	7,042,231	1,308,767	-	14,062,333
Disposals/retirements	-	(15,903)	(325,262)	(529,896)	(331,664)	(185,137)	(1,068,453)	(43,242)	-	-	-	(2,499,557)
As at June 30, 2022 (Unaudited)	₱-	₱9,162,579	₱2,390,057	₱8,099,642	₱9,494,506	₱10,877,280	₱20,671,920	₱1,212,940	₱8,622,006	₱1,385,217	₱-	₱71,916,147
Net Book Value												
As at June 30, 2022 (Unaudited)	₱1,719,594	₱12,788,115	₱711,545	₱1,770,370	₱2,339,353	₱3,556,732	₱5,890,993	₱393,080	₱7,162,727	₱241,545	₱1,134,188	₱37,708,242
As at December 31, 2021 (Audited)	1,729,542	12,031,233	757,904	1,910,169	1,446,835	3,712,154	6,950,010	459,297	7,426,053	327,405	1,804,917	38,555,519

As at June 30, 2022, a certain vessel is mortgaged as collateral to a long-term debt (see Note 18).

14. Investment Properties

The movements in this account follow:

	Land held for future development	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>						
Cost						
As at December 31, 2020 (Audited)	₱75,622,199	₱77,902,299	₱266,107,008	₱44,970,427	₱70,960,934	₱535,562,867
Additions	10,389,753	6,248,816	2,076,809	1,868,856	21,571,340	42,155,574
Reclassifications	(3,703,930)	(937,539)	12,948,381	1,480,656	(16,339,759)	(6,552,191)
Translation adjustment	–	151,173	3,718,179	292,203	617,031	4,778,586
Disposals	(189,848)	(139,625)	(236)	(310,873)	–	(640,582)
As at December 31, 2021 (Audited)	82,118,174	83,225,124	284,850,141	48,301,269	76,809,546	575,304,254
Additions	11,754,793	1,301,332	284,506	906,079	10,540,091	24,786,801
Reclassifications	(1,292,103)	69,675	12,254,250	1,759,835	(13,543,403)	(751,746)
Translation adjustment	–	43,520	1,052,599	84,734	259,700	1,440,553
Disposals	–	(314,682)	(106,464)	(26,929)	–	(448,075)
As at June 30, 2022 (Unaudited)	₱92,580,864	₱84,324,969	₱298,335,032	₱51,024,988	₱74,065,934	₱600,331,787
Accumulated Depreciation, Amortization and Impairment Loss						
As at December 31, 2020 (Audited)	₱–	₱2,603,882	₱68,028,828	₱29,463,433	₱–	₱100,096,143
Depreciation and amortization	–	281,520	7,695,570	2,589,460	–	10,566,550
Reclassifications	–	–	9,384	(9,728)	–	(344)
Translation adjustment	–	90,772	837,982	183,511	–	1,112,265
Disposals	–	(59,694)	(167)	(175,873)	–	(235,734)
As at December 31, 2021 (Audited)	–	2,916,480	76,571,597	32,050,803	–	111,538,880
Depreciation and amortization	–	131,657	4,094,050	1,484,838	–	5,710,545
Reclassifications	–	(560)	(42,677)	(26,795)	–	(70,032)
Translation adjustment	–	27,363	248,926	52,705	–	328,994
Disposals	–	(163,521)	(37,041)	(22,109)	–	(222,671)
As at June 30, 2022 (Unaudited)	₱–	₱2,911,419	₱80,834,855	₱33,539,442	₱–	₱117,285,716
Net Book Value						
As at June 30, 2022	₱92,580,864	₱81,413,550	₱217,500,177	₱17,485,546	₱74,065,934	₱483,046,071
As at December 31, 2021	82,118,174	80,308,644	208,278,544	16,250,466	76,809,546	463,765,374

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱21.3 billion and ₱12.6 billion for the six month periods ended June 30, 2022 and 2021, respectively. The corresponding direct operating expenses amounted to ₱11.1 billion and ₱7.9 billion for the six month periods ended June 30, 2022 and 2021, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱72.5 billion and ₱74.5 billion as at June 30, 2022 and December 31, 2021, respectively.

Portions of investment properties located in China amounting to ₱1.9 billion as at June 30, 2022 and December 31, 2021, are mortgaged as collaterals to secure domestic short-term and long-term borrowings (see Notes 16 and 18).

Interest capitalized to investment properties amounted to ₱3.7 billion and ₱4.0 billion as at June 30, 2022 and December 31, 2021, respectively. Capitalization rates used range from 1.8% to 5.0% and 2.4% to 4.6% as at June 30, 2022 and December 31, 2021, respectively.

The fair value of investment properties is categorized under Level 3 since valuation is based on unobservable inputs.

As at December 31, 2021, the fair value of substantially all investment properties amounting to ₱1.98 trillion was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date.

Management believes that the impact of COVID-19 on the fair value measurement of investment properties is short-term and temporary.

There is no restriction on the realizability of investment properties and no obligation to purchase, construct or develop, repair, maintain and/or enhance any of these properties.

15. Intangibles and Other Noncurrent Assets

Intangible Assets

This account consists of:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
	<i>(In Thousands)</i>	
Goodwill	₱24,763,540	₱24,766,063
Less accumulated impairment loss	91,620	138,787
Net book value	24,671,920	24,627,276
Trademarks, brand names and copyright	6,867,125	6,988,491
	₱31,539,045	₱31,615,767

Other Noncurrent Assets

This account consists of:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
	<i>(In Thousands)</i>	
Bonds and deposits	₱66,763,881	₱59,598,624
Receivables from real estate buyers (Note 9)*	39,323,289	49,518,978
Derivative assets (Note 24)	5,284,338	965,006
Deferred tax assets (Note 21)	4,446,303	4,732,558
Deferred input VAT	1,957,210	2,092,464
Defined benefit asset	777,963	753,637
Land use rights	345,888	353,626
Escrow fund (Note 20)	132,460	132,460
Long-term notes (Notes 20 and 24)	–	5,371,668
Others	648,976	373,098
	₱119,680,308	₱123,892,119

* Pertains to noncurrent portion of unbilled revenues from sales of real estate (see Note 9).

16. Bank Loans

This account consists of:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
	<i>(In Thousands)</i>	
Parent Company:		
Peso-denominated loans	₱10,271,000	₱12,250,000
Subsidiaries:		
China Yuan renminbi-denominated loans	3,454,688	3,882,427
Peso-denominated loans	10,463,500	10,100,000
	₱24,189,188	₱26,232,427

The Peso loans bear interest ranging from 2.0% to 6.5% and 1.0% to 4.5% in June 30, 2022 and December 31, 2021, respectively.

These loans have maturities of less than one year.

17. Accounts Payable and Other Current Liabilities

This account consists of:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
	<i>(In Thousands)</i>	
Trade*	₱85,859,611	₱93,232,308
Accrued expenses	19,194,121	18,880,701
Tenants and customers' deposits**	11,970,255	13,770,713
Nontrade	11,638,257	10,797,606
Payable arising from acquisition of land	6,029,792	7,918,778
Payables to government agencies	5,748,264	6,345,264
Accrued interest (Note 20)	3,626,799	3,017,462
Lease liabilities (Note 22)	2,902,242	2,553,084
Subscriptions payable	1,966,477	1,966,477
Dividends payable	1,382,347	3,110,847
Due to related parties (Note 20)	120,989	872,591
Gift checks redeemable and others	5,058,942	4,619,686
	₱155,498,096	₱167,085,517

* Includes unearned revenues from shipping and logistics amounting to ₱98.8 million and ₱59.5 million as at June 30, 2022 and December 31, 2021, respectively.

** Includes unearned revenues from sale of real estate amounting to ₱4.0 billion and ₱6.1 billion as at June 30, 2022 and December 31, 2021, respectively.

18. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
<i>(In Thousands)</i>						
Parent Company						
U.S. dollar-denominated	June 10, 2014 - July 16, 2019	March 28, 2022 - June 28, 2024	Fixed 4.9%; Three-Month LIBOR + margin; semi-annual and quarterly	Unsecured	₱41,734,752	₱44,224,229
Peso-denominated	July 16, 2012 - February 18, 2022	January 22, 2022 - May 14, 2031	Fixed 2.9%-6.9%; Three-Month PHP BVAL + margin; semi-annual and quarterly	Unsecured	72,011,510	65,173,610
Subsidiaries						
U.S. dollar-denominated*	May 8, 2017 - June 30, 2022	March 27, 2022 - June 9, 2027	LIBOR + spread; semi-annual and quarterly; SOFR + spread; quarterly	Unsecured	95,300,172	73,177,366
China Yuan Renminbi-denominated**	October 16, 2017 - June 24, 2022	October 16, 2022 - December 31, 2036	Fixed 5.8%; LPR; annually	Secured	8,625,145	8,497,291
Peso-denominated***	June 3, 2013 - June 24, 2022	April 11, 2022 - December 15, 2031	Fixed 2.5%-6.5%; BVAL + margin	Unsecured /Secured	279,894,300	249,461,959
					497,565,879	440,534,455
Less debt issue cost					3,171,421	2,672,016
					494,394,458	437,862,439
Less current portion					89,297,269	63,706,559
					₱405,097,189	₱374,155,880

BVAL – Bloomberg Valuation

LIBOR – London Interbank Offered Rate

LPR – China Loan Prime Rate

SOFR – Secured Overnight Financing Rate

**Hedged against foreign exchange and interest rate risks using derivative instruments (see Note 24)*

***Secured by portions of investment properties located in China (see Note 14)*

****Secured by portions of property and equipment (see Note 13)*

Repayment Schedule

The repayment schedule of long-term debt as at June 30, 2022 follows:

	Gross Debt	Debt Issue Cost	Net
<i>(In Thousands)</i>			
Within 1 year	₱90,085,915	₱788,646	₱89,297,269
Over 1 year to 5 years	357,478,879	2,157,743	355,321,136
Over 5 years	50,001,085	225,032	49,776,053
			₱497,565,879
			₱3,171,421
			₱494,394,458

Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. As at June 30, 2022 and December 31, 2021, the Group is in compliance with the terms of its debt covenants with the exception of 2GO, which is covered with a waiver from its creditor bank.

19. Equity

Capital Stock

a. Common stock

	Number of Shares	
	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Authorized - ₱10 par value per share	2,790,000,000	2,790,000,000
Issued and subscribed	1,204,582,867	1,204,582,867

As at June 30, 2022 and December 31, 2021, the Parent Company is compliant with the minimum public float as required by the PSE.

The total number of shareholders of the Parent Company is 1,252 and 1,261 as at June 30, 2022 and December 31, 2021, respectively.

b. Redeemable preferred shares

	Number of Shares	
	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Authorized - ₱10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at June 30, 2022 and December 31, 2021.

Retained Earnings

▪ Appropriated

Retained earnings appropriated as at June 30, 2022 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount <i>(In Thousands)</i>
Debt service	2022 - 2024	₱27,000,000
Investments	2022 - 2024	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company declared cash dividends in 2022 and 2021 with details as follows:

Declaration Date	Record Date	Payment Date	Per Share	Total
				<i>(In Thousands)</i>
April 27, 2022	May 13, 2022	May 26, 2022	₱6.25	₱7,528,643
April 28, 2021	May 13, 2021	May 27, 2021	4.25	5,119,477

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱296.4 billion and ₱274.7 billion as at June 30, 2022 and December 31, 2021, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

20. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group has a policy that requires approval of related party transaction by the Related Party Transactions Committee of the BOD when these breach certain limits and/or when these are not of a usual nature.

The significant transactions with related parties follow:

- Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Royalty and Service Fees

The Parent Company and SM Retail receive service fees from retail entities under common stockholders for management, consultancy, manpower and other services. In addition to service fees, the Parent Company also receives royalty fees from related parties.

- Dividend Income

The Group earns dividend income from related parties under common stockholders.

- Cash Placements and Loans

The Group maintains bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

The Group has notes receivable from Carmen Copper Corporation as at December 31, 2021 (see Notes 15 and 23).

- Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount		Outstanding Amount		Terms	Conditions
	Six-Month Periods Ended		June 30, 2022 (Unaudited)	December 31, 2021 (Audited)		
	2022 (Unaudited)	June 30 2021 (Unaudited)				
<i>(In Thousands)</i>						
Banking Group						
Cash placement and investment in marketable securities			₱97,745,664	₱69,348,747	Interest-bearing at prevailing rates	Unsecured; no impairment
Interest receivable			127,197	56,294	–	–
Interest income	₱782,086	₱631,694			–	–
Interest-bearing debt			55,870,492	57,560,251	Interest-bearing	Unsecured
Interest payable			210,330	157,990	–	–
Interest expense	1,125,898	872,871			–	–
Rent receivable			244,746	115,722	Noninterest-bearing	Unsecured; no impairment
Rent income	538,634	330,998			–	–
Receivable financed	–	358,861			Without recourse	Unsecured
Dividends receivable			623,608	–	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits			19,241,250	17,849,650	Interest-bearing 4.5%	Unsecured; no impairment
Royalty and service fee receivable			8,441	8,441	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	59,454	22,703			–	–
Escrow fund			490,365	298,044	Interest-bearing at prevailing rates	Unsecured; no impairment
Retail and Other Entities						
Rent receivable			270,991	265,241	Noninterest-bearing	Unsecured; no impairment
Rent income	838,355	509,126			–	–
Royalty and service fee receivable			2,430,163	1,951,068	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	954,867	769,962			–	–
Due from related parties			638,210	617,465	Noninterest-bearing	Unsecured; no impairment
Due to related parties			120,989	872,591	Noninterest-bearing	Unsecured
Interest receivable			–	8,244	–	–
Interest income	237,830	171,334			–	–
Dividends receivable			352,277	329,800	Noninterest-bearing	Unsecured; no impairment
Notes receivable			–	5,371,668	Interest-bearing 5.4%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

Outstanding balances at the end of the period are unsecured and are normally settled in cash. The Group did not make any provision for impairment loss relating to amounts owed by related parties.

21. Income Tax

Deferred tax assets of ₱4.4 billion and ₱4.7 billion as at June 30, 2022 and December 31, 2021, respectively, consist of the tax effects of unrealized gain on intercompany sale of investment properties, unamortized past service cost and defined benefit liability, provision for doubtful accounts and others, accrued leases, minimum corporate income tax (MCIT), deferred rent expense and net operating loss carryover (NOLCO).

Deferred tax liabilities of ₱15.7 billion and ₱15.8 billion as at June 30, 2022 and December 31, 2021, respectively, consist of the tax effects of appraisal increment on investment property and property and equipment, trademarks and brand names, capitalized interest, unrealized gross profit on sale of real estate, accrued/deferred rent income and unamortized past service cost and defined benefit asset. The disproportionate relationship between income before income tax and the provision for income tax is due to various factors such as interest income already subjected to final tax, non-deductible interest expense, equity in net earnings of associates, and dividend income that are exempt from tax.

Corporate Recovery and Tax Incentives for Enterprises Act

On March 26, 2021, the President of the Philippines signed into law Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which took effect on April 11, 2021. The CREATE Act introduces reforms to the corporate income tax and incentive systems by implementing changes to the current tax regulations. Some of these changes, which became effective beginning July 1, 2020, are as follows:

- Reduction in the Regular corporate income tax (RCIT) rate from 30% to 20% for entities with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding the value of land on which the business entity's office, plant and equipment are situated);
- Reduction in the RCIT from 30% to 25% for all other corporations;
- Reduction in the MCIT rate from 2% to 1% of gross income for 3 years or until June 30, 2023; and
- Repeal of the imposition of 10% improperly accumulated earnings tax (IAET).

22. Lease Agreements

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated with reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

As Lessee. The Group leases certain parcels of land where some of its malls are situated as well as retail store, office spaces, warehouses, containers, reefer vans, ISO tanks, cargo handling equipment, transportation equipment and container yards. The terms of the lease are for periods ranging from one to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

There are also non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options and those that provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The rollforward analysis of ROU assets follows:

	June 30, 2022 (Unaudited)		
	Land Use Rights	Retail Stores, Office Spaces, Warehouses and Others	Total
	<i>(In Thousands)</i>		
Cost			
As at beginning of year	₱26,952,441	₱27,137,300	₱54,089,741
Additions	1,138,124	2,149,441	3,287,565
Translation adjustment	326,342	–	326,342
Reclassifications	(1,299,899)	–	(1,299,899)
Retirements	–	(644,270)	(644,270)
As at end of period	27,117,008	28,642,471	55,759,479
Accumulated Depreciation and Amortization			
As at beginning of year	1,589,882	7,723,940	9,313,822
Depreciation and amortization	317,367	1,569,196	1,886,563
Translation adjustment	11,662	–	11,662
Retirements	–	(564,408)	(564,408)
As at end of period	1,918,911	8,728,728	10,647,639
Net Book Value	₱25,198,097	₱19,913,743	₱45,111,840

	December 31, 2021 (Audited)		
	Land Use Rights	Retail Stores, Office Spaces, Warehouses and Others	Total
	<i>(In Thousands)</i>		
Cost			
As at beginning of year	₱24,343,193	₱23,428,730	₱47,771,923
Additions	1,631,609	2,420,420	4,052,029
Effect of business combination	–	1,699,473	1,699,473
Translation adjustment	1,173,704	–	1,173,704
Retirements	(196,065)	(411,323)	(607,388)
As at end of year	26,952,441	27,137,300	54,089,741
Accumulated Depreciation and Amortization			
As at beginning of year	1,014,825	4,778,069	5,792,894
Depreciation and amortization	592,597	3,078,340	3,670,937
Translation adjustment	34,084	–	34,084
Retirements	(51,624)	(132,469)	(184,093)
As at end of year	1,589,882	7,723,940	9,313,822
Net Book Value	₱25,362,559	₱19,413,360	₱44,775,919

The rollforward analysis of lease liabilities follows:

	June 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
As at beginning of year	₱33,614,693	₱30,879,878
Additions	3,287,565	4,052,029
Effect of business combination	-	1,906,990
Interest expense	1,018,621	1,994,871
Concessions	(6,345)	(207,182)
Terminations	(91,577)	(381,609)
Payments	(2,325,705)	(4,630,284)
As at end of period	35,497,252	33,614,693
Less current portion (Note 17)	2,902,242	2,553,084
Noncurrent portion	₱32,595,010	₱31,061,609

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased assets portfolio. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised.

Tenants' deposits amounted to ₱23.4 billion and ₱22.2 billion as at June 30, 2022 and December 31, 2021, respectively.

23. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* 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. Repricing of floating rate financial instruments is mostly done at intervals of three months or six months.
- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime Holdings, Inc. (SM Prime) have investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.
- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing these risks.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 18).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount.

After taking into account the effect of the swaps, approximately 79.4% and 82.7% of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates as at June 30, 2022 and December 31, 2021, respectively.

Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

As at June 30, 2022, the Group's foreign currency-denominated assets and liabilities amounted to ₱29.8 billion (\$541.9 million) and ₱27.6 billion (\$501.4 million), respectively.

As at December 31, 2021, the Group's foreign currency-denominated assets and liabilities amounted to ₱28.5 billion (\$558.1 million) and ₱24.7 billion (\$484.1 million), respectively.

As at June 30, 2022 and December 31, 2021, approximately 28.5% and 27.7%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The following exchange rates were used in translating foreign currency-denominated assets and liabilities into Pesos.

	June 30, 2022	December 31, 2021
Philippine Peso to U.S. Dollar	₱54.975	₱50.999

Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or sales of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fundraising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits, and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at June 30, 2022 and December 31, 2021, the financial assets, except for some receivables, are generally viewed by the management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Equity Price Risk

Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

Capital Management

The primary objective of the Group'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 Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or payoff existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

The Group's gearing ratios follow:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Gross	45%	43%
Net	39%	38%

24. Financial Instruments

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

June 30, 2022 (Unaudited)					
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	P20,522,911	P20,522,911	P20,522,911	P-	P-
Unlisted shares of stock	1,504,247	1,504,247	-	-	1,504,247
Club shares	19,700	19,700	-	19,700	-
Derivative assets	8,018,109	8,018,109	-	8,018,109	-
	30,064,967	30,064,967	20,522,911	8,037,809	1,504,247
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	4,468,127	4,468,127	-	4,468,127	-
Other noncurrent assets:					
Bonds and deposits	19,241,250	19,671,073	-	-	19,671,073
	23,709,377	24,139,200	-	4,468,127	19,671,073
	P53,774,344	P54,204,167	P20,522,911	P12,505,936	P21,175,320
Liabilities Measured at Fair Value					
Derivative liabilities	P855,048	P855,048	P-	P855,048	P-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	405,097,189	400,020,699	-	-	400,020,699
Lease liabilities - noncurrent portion	32,595,010	34,637,809	-	-	34,637,809
Tenants' deposits and others*	32,778,373	30,012,562	-	-	30,012,562
	470,470,572	464,671,070	-	-	464,671,070
	P471,325,620	P465,526,118	P-	P855,048	P464,671,070

*Excluding nonfinancial liabilities amounting to P10.5 billion.

December 31, 2021 (Audited)					
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	P26,764,759	P26,764,759	P26,764,759	P-	P-
Unlisted shares of stock	1,714,725	1,714,725	-	-	1,714,725
Club shares	14,550	14,550	-	14,550	-
Derivative assets	1,718,512	1,718,512	-	1,718,512	-
	30,212,546	30,212,546	26,764,759	1,733,062	1,714,725
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	3,905,618	3,905,618	-	3,905,618	-
Other noncurrent assets:					
Bonds and deposits	17,849,650	19,348,542	-	-	19,348,542
Long-term notes	5,371,668	6,075,947	-	-	6,075,947
	27,126,936	29,330,107	-	3,905,618	25,424,489
	P57,339,482	P59,542,653	P26,764,759	P5,638,680	P27,139,214

(Forward)

	December 31, 2021 (Audited)				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Liabilities Measured at Fair Value					
Derivative liabilities	₱3,427,991	₱3,427,991	₱-	₱3,427,991	₱-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	374,155,880	393,546,958	-	-	393,546,958
Lease liabilities - noncurrent portion	31,061,609	39,909,300	-	-	39,909,300
Tenants' deposits and others*	31,717,585	31,556,541	-	-	31,556,541
	436,935,074	465,012,799	-	-	465,012,799
	₱440,363,065	₱468,440,790	₱-	₱3,427,991	₱465,012,799

*Excluding nonfinancial liabilities amounting to ₱10.6 billion.

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at June 30, 2022 and December 31, 2021.

The estimated fair value of the Group's financial instruments is based on the discounted value of future cash flows using the prevailing discount rates as follows:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Other noncurrent assets:		
Bond and deposits	3.3%	1.0%
Long-term notes	-	0.2% - 1.0%
Tenants' deposits	1.4% - 6.4%	1.0% - 4.6%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	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 1.3% to 8.0% and 0.3% to 6.2% as at June 30, 2022 and December 31, 2021, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 5.1% to 6.5% and 4.3% to 5.2% as at June 30, 2022 and December 31, 2021, respectively.

Derivative Instruments Accounted for as Cash Flow Hedges

As at June 30, 2022, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on foreign currency-denominated debt. Details follow:

	Notional Amount	Agreed Equivalent	Fair Value	Interest Rate	Foreign Exchange Rate	Maturity
		(In Thousands)				
Parent						
Cross Currency Swaps	\$409,159	₱21,226,300	₱1,001,079	5.3% - 6.1%	₱51.15-₱53.42	2023 - 2024
SM Prime						
Cross Currency Swaps	\$360,000	₱17,970,200	₱1,928,561	2.9% - 6.4%	₱48.28 - ₱53.33	2022 - 2024
Cross Currency Swaps	\$286,000	¥1,919,208	(39,778)	3.9% - 4.0%	¥6.6880 - ¥6.7188	2024
Principal Only Swaps	\$270,000	¥1,753,285	(211,677)	—	¥6.3750 - ¥6.6804	2026 - 2027
Foreign Exchange Forward Swaps	\$650,000	₱34,224,750	2,092,279	—	₱50.84 - ₱56.13	2022 - 2026
Interest Rate Swaps	\$670,000	—	2,926,072	2.28 - 2.63%	—	2025 - 2026

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards. In 2022, SM Prime entered into non-deliverable forward contracts with an aggregate notional amount of \$270.0 million, maturing in July to September 2022. Fair value changes from the non-deliverable forwards recognized in the consolidated statements of income amounted to ₱533.5 million loss.

25. EPS Computation

	Six-Month Periods Ended June 30	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>(In Thousands Except Per Share Data)</i>	
Net income attributable to owners of the Parent (a)	₱25,514,549	₱20,089,690
Weighted average number of common shares outstanding (b)	1,204,583	1,204,583
EPS (a/b)	₱21.18	₱16.68

26. Events after the Reporting Period

In August 2022, SMIC received approval from the Securities and Exchange Commission to acquire the 81% stake of related parties in Allfirst Equity Holdings, Inc. (Allfirst). Allfirst is the holding company for Philippine Geothermal Production Company, Inc. (PGPC). This transaction brings SMIC's ownership in PGPC to 100%.

The total consideration paid for 81% of Allfirst is ₱15.8 billion. The transaction involves the issuance of 17.4 million new shares to the sellers, equivalent to 1.4% of shares outstanding in SMIC.

PGPC operates the Tiwi and Mak-Ban steam fields. Tiwi is the first commercial-scale geothermal steam field development in Southeast Asia, followed by Mak-Ban, both in operation since 1979. These two steam fields generate geothermal steam sufficient to produce approximately 300 MW of electricity. In addition to its two producing steam fields, PGPC has several other greenfield concession areas for geothermal steam production which it will develop moving forward.

PART 1 FINANCIAL INFORMATION

Management's Discussion and Analysis or Plan of Operation

Results of Operation

For the Six Months Ended June 30, 2022 and 2021

(amounts in billion pesos)

	YTD June		% Change
	2022 (Unaudited)	2021 (Unaudited)	
Revenues	P 238.5	P 193.5	23%
Cost and Expenses	190.7	155.8	22%
Income from Operations	47.8	37.7	27%
Other Charges	5.9	6.5	-9.1%
Provision for Income Tax	6.5	3.6	81%
Net Income After Tax	35.4	27.6	28%
Non-controlling Interests	9.9	7.5	32%
Net Income Attributable to Owners of the Parent	P 25.5	P 20.1	27%

For YTD June 2022, *SM Investments Corporation and Subsidiaries (the Group)* reported a higher *Net Income Attributable to Owners of the Parent* at P25.5 billion and *Revenues* at P238.5 billion compared to the same period in 2021.

Following is the contribution of each of the major business segments to the consolidated revenues and net income:

	YTD June (Unaudited)			
	Revenues		Net Income	
	2022	2021	2022	2021
Retail	69%	73%	20%	14%
Property	18%	21%	26%	28%
Banks	6%	6%	48%	58%
Portfolio	7%		6%	

Retail

For YTD June 2022, SM Retail reported *Revenues* of P163.7 billion, 18% higher compared to the same period in 2021 indicating strong consumer spending momentum across all store formats. The Non-Food stores reported a 41% growth in *Sales* driven by the SM Stores, SM Appliances, Sports Central and Toy Kingdom/Pet Express. The Food Stores reported an 8% growth in *Sales* at P100.2 billion.

SM Retail generated P7.0 billion of *Net Income*, 91% higher compared to the same period in 2021: Food Stores with a 32% growth, Specialty Stores with 77% growth and the SM Stores with 240% growth.

Property

For YTD June 2022, SM Prime reported *Revenues* of P46.3 billion and *Net Income* of P14.1 billion, 21% higher compared to the same period in 2021.

The Philippine malls reported *Revenues* of P20.6 billion at 92% growth. This is attributable to the easing of community quarantine levels in key areas of the country which allowed more tenants to operate. Mall rental income grew 80% to P18.6 billion.

SM Prime's residential business, led by SM Development Corporation (SMDC), reported *Revenues* of P18.2 billion, 25% lower than in the same period in 2021. This is partly due to sales cancellations relative to the expiration of Bayanihan Act which gave some reprieve to unit buyers in terms of amortization payments. SMDC's reservation sales grew 49% in unit sales to 12,327 which translates to an 8% growth at P59.4 billion.

SM Prime's other key businesses which include offices, hotels and convention centers reported a 49% growth in *Revenues* to P4.5 billion.

Banks

For YTD June 2022, BDO reported a *Net Income* of P23.9 billion at 12% growth on strong results across its core businesses. BDO maintained its conservative credit and provisioning policy with provisions at P8.2 billion compared to P6.8 billion in the same period in 2021, resulting in higher non-performing loans (NPL) coverage at 138%.

China Bank, on the other hand, reported a *Net Income* of P10.1 billion for YTD June 2022 at 39% growth driven by higher net interest income and core fee income. NPL coverage remained above industry average at 128%.

Portfolio Investments

The 6% net income contribution of Portfolio investments is attributable to the Neo Group, Atlas Consolidated Mining and Development Corporation and Belle Corporation.

Profit & Loss Statement - Account Analysis

Merchandise and Processed Food Sales, which increased by 24% to P167.5 billion from P135.1 billion in 2021, accounted for 70% of total revenues in 2022.

In the six months ended June 30, 2022, SM Retail and its affiliates added 147 stores. This brought total stores to 3,336 which include 69 *SM Stores*, 1,543 *Specialty Retail*, 62 *SM Supermarket*, 52 *SM Hypermarket*, 214 *Savemore*, 1,320 *Alfamart* and 75 *WalterMart* stores.

Rent Revenues, derived mainly from the mall operations of SM Prime, increased by 63% to P21.9 billion from P13.4 billion in 2021. The increase reflects the impact of more relaxed community quarantine levels in the country.

As of June 30, 2022, there were 86 malls in operation, 79 in the Philippines with total GFA of 8.9 million square meters and 7 in China with total GFA of 1.3 million square meters.

Real Estate Sales decreased by 27% to P17.7 billion from P24.1 billion in 2021 due mainly to sales cancellations relative to the expiration of Bayanihan Act which gave some reprieve to unit buyers in terms of amortization payments. The residential units covered by the sales cancellations reverted to real estate inventories available for sale.

Shipping, Logistics and Other Services of P6.4 billion in 2022 represents 6 months of operation whereas P0.8 billion in 2021 represents only 2 months of operation. (see Note 4 of the unaudited interim consolidated financial statements).

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 18.2% to P15.8 billion from P13.4 billion in 2021, mainly coming from BDO and China Bank.

Dividends, Service and Royalty Fees and Others increased by 15.3% to P7.5 billion from P6.5 billion in 2021. *Other Revenues* include income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, and food and beverage of the Hotel Group.

Selling, General and Administrative Expenses increased by 25% to P53.3 billion from P42.5 billion in 2021. The increase is relative to the increase in revenue.

Income from Operations increased by 27% to P47.8 billion from P37.6 billion in 2021. *Operating Margin* and *Net Margin* in 2022 is at 20% and 15%, respectively.

Other Charges (net) decreased by 9.1% at P5.9 billion from P6.5 billion in 2021. *Interest Expense* increased to P8.6 billion from P8.0 billion in 2021 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* increased by 30% to P1.3 billion from P1.0 billion in 2021 due mainly to higher average balance of cash and time deposits.

Provision for Income Tax increased by 81% to P6.5 billion from P3.6 billion in 2021 due mainly to higher taxable income in 2022 and the adoption of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) in 2021.

Non-controlling interests increased by 32% to P9.9 billion from P7.5 billion in 2021 due mainly to the improved net income of partly-owned subsidiaries.

Financial Position

As at June 30, 2022 and December 31, 2021
(amounts in billion pesos)

	06 / 30 / 2022 (Unaudited)	12 / 31 / 2021 (Audited)	% Change
Current Assets	P 346.9	P 302.1	14.8%
Noncurrent Assets	1,052.9	1,039.5	1.3%
Total Assets	P 1,399.8	P 1,341.6	4.3%
Current Liabilities	P 271.5	P 259.3	4.7%
Noncurrent Liabilities	500.3	469.9	6.5%
Total Liabilities	771.8	729.2	5.9%
Total Equity	628.0	612.4	2.5%
Total Liabilities and Equity	P 1,399.8	P 1,341.6	4.3%

Total *Assets* increased by 4.3% to P1,399.8 billion from P1,341.6 billion in 2021. On the other hand, total *Liabilities* increased by 5.9% to P771.8 billion from P729.2 billion in 2021.

Current Assets

Current Assets increased by 14.8% to P346.9 billion from P302.1 billion in 2021.

Cash and Cash Equivalents increased by 16.9% to P103.8 billion from P88.7 billion in 2021 due mainly to improved operating results and loan availments partly offset by payments for trade and debt servicing.

Receivables and Contract Assets increased by 13.3% to P84.5 billion from P74.6 billion in 2021 due mainly to the increase in receivable from real estate buyers.

Inventories increased by 11.9% to P97.1 billion from P86.8 billion. Bulk of the increase came from the Property Group's real estate inventories as a result of construction accomplishments during the period.

Other Current Assets increased by 4.2% to P53.2 billion from P51.1 billion in 2021 attributable mainly to higher bonds and deposits in 2022.

Noncurrent Assets

Noncurrent Assets increased by 1.3% to P1,052.9 billion from P1,039.5 billion in 2021.

Financial Assets at Fair Value through Other Comprehensive Income decreased by 23% to P21.5 billion from P27.9 billion in 2021 due mainly to the decline in market value of certain investments in shares of stock.

Investments in Associate Companies and Joint Ventures increased by 1.6% to P309.9 billion from P305.1 billion in 2021. The increase mainly represents the Group's equity in net earnings of its associate companies particularly the banks, partly offset by dividends received and share in comprehensive loss of its associate companies.

Time Deposits (current and noncurrent) increased by 189% to P12.2 billion from P4.2 billion in 2021. This is attributable mainly to loan proceeds.

Property and Equipment decreased by 2.2% to P37.7 billion from P38.6 billion due mainly to depreciation and disposals.

Investment Properties increased by 4.2% to P483.0 billion from P463.8 billion in 2021 due mainly to land banking and ongoing new mall projects, redevelopment of *SM Mall of Asia* and other existing malls, and commercial building construction, net of depreciation expense.

Other Noncurrent Assets decreased by 3.3% to P115.2 billion from P119.2 billion in 2021 due to the reclassification to current of receivable from real estate buyers representing projects that are nearing completion or turnover, partly offset by the increase in bonds and deposits and derivative assets.

Liabilities

Interest-bearing debt increased by 11.7% to P518.6 billion from P464.1 billion in 2021 due to net debt availments in 2022.

Accounts Payable and Other Current Liabilities decreased by 6.0% to P154.1 billion from P164.0 billion in 2021 due mainly to payments for trade and liability for purchased land and payments to contractors and suppliers related to ongoing projects.

Income Tax Payable increased by 15.8% to 2.6 billion from P2.2 billion is attributable mainly to higher taxable income during the period.

Equity

Total *Equity* increased by 2.5% to P628.0 billion from P612.4 billion in 2021.

Equity Attributable to Owners of the Parent increased by 1.8% to P444.2 billion from P436.4 billion in 2021. This increase resulted mainly from the P25.5 billion net income partly offset by the P7.5 billion dividend declaration that is reflected in *Retained earnings* and the decrease in *Unrealized Gain on Financial Assets at FVOCI* to P2.0 billion from P15.2 billion in 2021 due to lower market valuation of certain investments.

Non-controlling Interests increased by 4.4% to P183.7 billion from P176.0 billion in 2021 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

Key Performance Indicators

The key financial ratios of the Group follow:

	06 / 30 / 2022	12 / 31 / 2021
Current Ratio	1.3	1.2
Acid Test Ratio	0.7	0.6
Solvency Ratio	10.7%	10.1%
Asset to Equity	2.2	2.2
Debt - Equity Ratios:		
On Gross Basis	45 : 55	43 : 57
On Net Basis	39 : 61	38 : 62
Return on Equity	10.0%	9.1%
Return on Assets	4.5%	4.1%
	Unaudited YTD June	
	2022	2021
Revenue Growth	23%	4.3%
Net Margin	14.8%	14.3%
Net Income Growth	27%	183%
EBITDA (<i>In Billions of Pesos</i>)	58.6B	46.9B
Interest Cover	6.8x	5.8x

Current Ratio increased to 1.3 from 1.2 in 2021 due to the 14.8% increase in *Current Assets* with only 4.7% increase in *Current Liabilities*.

Acid Test Ratio slightly increased to 0.7 from 0.6 in 2021 due to the 19.7% increase in *Quick Assets* with only 4.7% increase in *Current Liabilities*.

Solvency Ratio increased to 10.7% from 10.1% in 2021 due to the 12.9% increase in *Net income after tax* and depreciation vs. 5.9% increase in *Total Liabilities*.

Debt - Equity Ratios increased to 45:55 and 39:61 in 2022 from 43:57 and 38:62 in 2021, Gross and Net, respectively. This is attributable to the 11.7% increase in Gross debt, 25.7% increase in cash and cash equivalents vs 2.5% increase in *Equity*.

Return on Equity increased to 10.0% from 9.1% due to the 14.1% increase in net income attributable to owners of the parent vs. 3.7% increase in average equity.

Return on assets increased to 4.5% from 4.1% due to the 14.8% increase in net income after tax vs 5.5% increase in average assets.

Revenue Growth increased to 23% from 4.3% in 2021 due mainly to the 24% increase in *Merchandise and Processed Food* sales, 735% increase in *Shipping, Logistics and Other Services*, and 63% increase in *Rent Income*.

EBITDA increased by 25% due to the P10.1 billion reflecting the increase in income from operations.

Interest Cover increased to 6.8x from 5.8x in 2021 due to the 25% increase in *EBITDA* vs. 7.2% increase in interest expense.

The manner by which the Group calculates the foregoing indicators is as follows:

1. Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Acid Test Ratio $\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$
3. Solvency Ratio $\frac{\text{Net Income After Tax + Depreciation and Amortization}}{\text{Total Liabilities}}$
4. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
5. Debt – Equity Ratio
 - a. Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity + Total Interest-bearing Debt}}$
 - b. Net Basis $\frac{\text{Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investment in Bonds}}{\text{Total Equity + Total Interest-bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investments in Bonds}}$
6. Revenue Growth $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
7. Net Margin $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
8. Net Income Growth $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
9. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
10. Return on Assets $\frac{\text{Net Income after Tax}}{\text{Total Assets}}$
11. EBITDA Income from Operations + Depreciation & Amortization
12. Interest Cover $\frac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects in 2022

In 2022, expansion and construction of malls, residential and commercial properties, opening of new retail stores across the various formats, mainly in the Retail Food Group, and selectively in the Retail Non-Food Group, as well as expansion of the Group's logistics capacity will continue.

SMPHI intends to open 3 new malls in the Philippines in the second half of 2022. This and the ongoing expansion of existing malls will add about 0.2 million square meters to GFA.

Investments in new business ventures would be pursued as opportunities arise.

PART I FINANCIAL INFORMATION

Item 3. Aging of Accounts Receivable - Trade
As of June 30, 2022
(In Thousands)

Receivable from tenants		
Third party	₱	8,996,032
Related party		515,737
Receivable from real estate buyers		
- net of noncurrent portion		68,368,892
Shipping and logistics		3,409,239
Other trade receivables		<u>359,363</u>
Total	₱	<u><u>81,649,263</u></u>

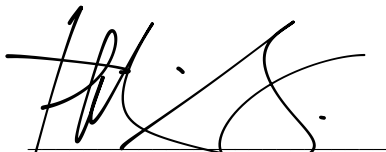
Aging:

Neither past due nor impaired	₱	69,074,875
Less than 30 days		2,604,572
31-90 days		2,626,013
91-120 days		1,842,647
Over 120 days		4,219,385
Impaired		<u>1,281,771</u>
Total	₱	<u><u>81,649,263</u></u>

PART II - SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **SM INVESTMENTS CORPORATION**



Franklin C. Gomez
Senior Vice President – Finance
Corporate Information Officer

Date: 08-09-2022