

COVER SHEET

SEC Registration Number

						1	6	3	4	2
--	--	--	--	--	--	----------	----------	----------	----------	----------

COMPANY NAME

[illegible]**PRINCIPAL OFFICE** (No. / Street / Barangay / City / Town / Province)[illegible]

Form Type

1	7	-	Q	
---	---	---	---	--

Department requiring the report

--	--	--	--

Secondary License Type, If Applicable

--	--	--	--

COMPANY INFORMATION

Company's Email Address

Company's Telephone Number

857-0100

Mobile Number

No. of Stockholders

1,259

Annual Meeting (Month / Day)

[illegible]

Fiscal Year (Month / Day)

06/30

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation.

Name of Contact Person

Mr. Franklin C. Gomez

Email Address

Telephone Number/s

857-0100

Mobile Number

CONTACT PERSON'S ADDRESS

10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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)

857- 0100

(Telephone Number)

December 31

(Year Ending)
(month & day)

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

Form Type

Amendment Designation (If applicable)

June 30, 2020

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, 2020**
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. **857-0100**
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 [☐]

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

- Item 1. Interim Condensed Consolidated Financial Statements
- Interim Consolidated Balance Sheets as at June 30, 2020 (Unaudited),
December 31, 2019 (Audited)
Interim Consolidated Statements of Income for the Six-Month Periods Ended
June 30, 2020 and 2019 (Unaudited)
Interim Consolidated Statements of Changes in Stockholders' Equity for the
Six-Month Periods Ended June 30, 2020 and 2019 (Unaudited)
Interim Consolidated Statements of Cash Flows for the Six-Month Periods Ended
June 30, 2020 and 2019 (Unaudited)
Notes to Interim Condensed Consolidated Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition as at
June 30, 2020 and December 31, 2019 and Result of Operations for the Six-Month
Periods Ended June 30, 2020 and 2019
- Item 3. Aging of Accounts Receivable – Trade as at June 30, 2020

PART II – SIGNATURE

PART I FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Unaudited Interim Condensed Consolidated Financial Statements
as at June 30, 2020 and for the
Six-Month Periods Ended June 30, 2020 and 2019
(with Comparative Audited Consolidated Balance Sheet as at
December 31, 2019)

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
June 30, 2020
With Comparative Audited Figures as at December 31, 2019
(Amounts in Thousands)

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 22)	P50,658,449	P76,213,774
Time deposits (Notes 6 and 22)	30,815	30,488
Financial assets (Notes 7 and 22)	558,532	659,077
Receivables and contract assets (Notes 8 and 22)	68,479,818	53,617,200
Merchandise inventories - at cost (Note 20)	32,543,889	33,157,622
Other current assets (Notes 9 and 22)	85,955,907	84,678,819
Total Current Assets	238,227,410	248,356,980
Noncurrent Assets		
Financial assets - net of current portion (Notes 7 and 22)	26,212,688	24,229,560
Investments in associate companies and joint ventures (Note 10)	282,973,193	280,971,638
Time deposits - net of current portion (Notes 6, 22 and 23)	2,126,205	2,412,972
Property and equipment (Note 11)	24,981,796	24,720,873
Investment properties (Note 12)	345,032,566	338,075,303
Right-of-use assets	39,452,673	37,664,176
Land and development - net of current portion (Note 13)	76,054,191	74,946,694
Intangibles (Note 14)	25,166,810	25,289,609
Deferred tax assets (Note 21)	3,655,710	3,121,117
Other noncurrent assets (Notes 14 and 22)	92,874,524	84,375,645
Total Noncurrent Assets	918,530,356	895,807,587
	P1,156,757,766	P1,144,164,567
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 15, 19 and 22)	P35,997,586	P18,710,465
Accounts payable and other current liabilities (Notes 16 and 22)	122,250,038	141,451,764
Income tax payable	380,481	3,273,872
Current portion of long-term debt (Notes 17, 19, 22 and 23)	58,756,652	29,077,719
Dividends payable	11,789,944	4,204,962
Total Current Liabilities	229,174,701	196,718,782
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17, 19, 22 and 23)	297,268,819	327,358,208
Lease liabilities - net of current portion	26,984,383	27,600,392
Deferred tax liabilities (Note 21)	11,718,040	9,604,043
Tenants' deposits and others (Notes 22 and 23)	52,114,130	46,731,664
Total Noncurrent Liabilities	388,085,372	411,294,307
Total Liabilities	617,260,073	608,013,089

(Forward)

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Equity Attributable to Owners of the Parent		
Capital stock (Note 18)	P12,045,829	P12,045,829
Additional paid-in capital	75,815,923	75,815,923
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	957,255	1,308,228
Net fair value changes on cash flow hedges	(2,836,081)	(1,406,026)
Net unrealized gain on financial assets	14,532,287	14,399,640
Remeasurement loss on defined benefit asset/obligation	(8,633,269)	(8,633,269)
Retained earnings (Note 18):		
Appropriated	37,000,000	37,000,000
Unappropriated	259,519,695	257,546,591
Total Equity Attributable to Owners of the Parent	382,951,798	382,627,075
Non-controlling Interests	156,545,895	153,524,403
Total Equity	539,497,693	536,151,478
	P1,156,757,766	P1,144,164,567

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 June 30	
	2020	2019
	(Unaudited)	(Unaudited)
REVENUES		
Sales:		
Merchandise	P135,565,775	P163,774,269
Real estate	23,505,632	21,032,451
Rent (Note 19)	15,705,904	25,166,705
Equity in net earnings of associate companies and joint ventures	3,526,264	11,757,609
Cinema ticket sales, amusement and others	964,704	3,923,726
Dividend, management fees and others	6,258,149	8,065,974
	185,526,428	233,720,734
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 20)	103,712,921	120,816,597
Real estate (Note 13)	10,685,986	10,005,409
Selling, general and administrative expenses	48,093,572	52,894,604
	162,492,479	183,716,610
OTHER INCOME (CHARGES)		
Interest expense (Note 19)	(8,274,303)	(8,873,418)
Interest income (Note 19)	1,468,597	2,049,460
Gain (loss) on fair value changes on derivatives - net (Note 23)	(714)	101,176
Foreign exchange gain (loss) - net and others (Note 22)	(74,920)	562,214
	(6,881,340)	(6,160,568)
INCOME BEFORE INCOME TAX	16,152,609	43,843,556
PROVISION FOR INCOME TAX (Note 21)		
Current	2,153,675	7,641,588
Deferred	1,385,591	683,133
	3,539,266	8,324,721
NET INCOME	P12,613,343	P35,518,835
Attributable to		
Owners of the Parent	P7,092,581	P23,043,891
Non-controlling interests	5,520,762	12,474,944
	P12,613,343	P35,518,835
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 24)	P5.89	P19.13

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)

	Three-Month Periods Ended June 30	
	2020	2019
	(Unaudited)	(Unaudited)
REVENUES		
Sales:		
Merchandise	P57,276,176	P87,715,003
Real estate	12,211,667	11,922,652
Rent	4,629,756	12,695,198
Equity in net earnings of associate companies and joint ventures	(1,772,045)	6,222,458
Cinema ticket sales, amusement and others	9,064	2,230,972
Dividend, management fees and others	2,019,317	3,886,806
	74,373,935	124,673,089
COST AND EXPENSES		
Cost of sales:		
Merchandise	44,277,923	65,026,411
Real estate	5,721,950	5,648,259
Selling, general and administrative expenses	21,542,891	27,274,744
	71,542,764	97,949,414
OTHER INCOME (CHARGES)		
Interest expense (Note 19)	(4,081,587)	(4,579,300)
Interest income (Note 19)	703,971	1,050,513
Gain (loss) on fair value changes on derivatives - net (Note 23)	(1,186)	45,898
Foreign exchange gain (loss) - net and others (Note 22)	(64,823)	292,940
	(3,443,625)	(3,189,949)
INCOME BEFORE INCOME TAX	(612,454)	23,533,726
PROVISION FOR INCOME TAX (Note 21)		
Current	(573,725)	3,931,495
Deferred	1,124,821	459,444
	551,096	4,390,939
NET INCOME	(1,163,550)	19,142,787
Attributable to		
Owners of the Parent	(1,914,696)	P12,353,671
Non-controlling interests	751,146	6,789,116
	(1,163,550)	P19,142,787
Basic/Diluted Earnings Per Common Share		
Attributable to Owners of the Parent	(P1.59)	P10.26

See accompanying notes to Interim Consolidated Financial Statements.

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

	Six-Month Periods Ended June 30	
	2020	2019
	(Unaudited)	(Unaudited)
NET INCOME	P12,613,343	P35,518,835
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods		
Share in unrealized gain on financial assets of associates	1,045,817	3,470,777
Cumulative translation adjustment	(553,698)	(323,145)
Net fair value changes on cash flow hedges	(1,705,460)	(1,161,330)
	(1,213,341)	1,986,302
Items not to be reclassified to profit or loss in subsequent periods		
Net unrealized gain (loss) on financial assets	(766,569)	1,113,794
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(193,812)	383,839
	(960,381)	1,497,633
TOTAL COMPREHENSIVE INCOME	P10,439,621	P39,002,770
Attributable to		
Owners of the Parent	P5,444,200	P26,901,699
Non-controlling interests	4,995,421	12,101,071
	P10,439,621	P39,002,770

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

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

	Three-Month Periods Ended June 30	
	2020	2019
	(Unaudited)	(Unaudited)
NET INCOME	(P1,163,550)	P19,142,787
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods		
Share in unrealized gain on available-for-sale investments of associates - net	3,906,000	1,264,554
Cumulative translation adjustment	(322,251)	(633,137)
Net fair value changes on cash flow hedges	(1,521,369)	(679,262)
	2,062,380	(47,845)
Items not to be reclassified to profit or loss in subsequent periods		
Net unrealized gain (loss) on financial assets	8,225,249	(969,858)
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(64,194)	82,478
	8,161,055	(887,380)
TOTAL COMPREHENSIVE INCOME	P9,059,885	P18,207,562
Attributable to		
Owners of the Parent	P7,066,686	P12,134,998
Non-controlling interests	1,993,199	6,072,564
	P9,059,885	P18,207,562

See accompanying Notes to Interim Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent											Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total		
As at December 31, 2019 (Audited)	P12,045,829	P75,815,923	(P5,424,455)	(P25,386)	P1,308,228	(P1,406,026)	P14,399,640	(P8,633,269)	P37,000,000	P257,546,591	P382,627,075	P153,524,403	P536,151,478
Net income	—	—	—	—	—	—	—	—	—	7,092,581	7,092,581	5,520,762	12,613,343
Other comprehensive income	—	—	—	—	(350,973)	(1,430,055)	132,647	—	—	—	(1,648,381)	(525,341)	(2,173,722)
Total comprehensive income	—	—	—	—	(350,973)	(1,430,055)	132,647	—	—	7,092,581	5,444,200	4,995,421	10,439,621
Cash dividends - P4.25 per share	—	—	—	—	—	—	—	—	—	(5,119,477)	(5,119,477)	—	(5,119,477)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(2,688,897)	(2,688,897)
Increase in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	714,968	714,968
As at June 30, 2020 (Unaudited)	P12,045,829	P75,815,923	(P5,424,455)	(P25,386)	P957,255	(P2,836,081)	P14,532,287	(P8,633,269)	P37,000,000	P259,519,695	P382,951,798	P156,545,895	P539,497,693
As at December 31, 2018 (Audited)	P12,045,829	P75,815,520	(P5,424,455)	(P25,386)	P2,014,573	P62,444	P11,748,980	(P2,063,358)	P37,000,000	P222,213,054	P353,387,201	P138,902,811	P492,290,012
Net income	—	—	—	—	—	—	—	—	—	23,043,891	23,043,891	12,474,944	35,518,835
Other comprehensive income	—	—	—	—	(165,724)	(879,791)	4,903,323	—	—	—	3,857,808	(373,873)	3,483,935
Total comprehensive income	—	—	—	—	(165,724)	(879,791)	4,903,323	—	—	23,043,891	26,901,699	12,101,071	39,002,770
Realized gain on sale of financial assets at FVOCI	—	—	—	—	—	—	(1,749,741)	—	—	1,749,741	—	—	—
Sale of non-controlling interests	—	403	—	—	—	—	—	—	—	—	403	(81,462)	(81,059)
Cash dividends - P9.12 per share	—	—	—	—	—	—	—	—	—	(10,984,448)	(10,984,448)	—	(10,984,448)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(6,063,231)	(6,063,231)
Increase in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	158,450	158,450
As at June 30, 2019 (Unaudited)	P12,045,829	P75,815,923	(P5,424,455)	(P25,386)	P1,848,849	(P817,347)	P14,902,562	(P2,063,358)	P37,000,000	P236,022,238	P369,304,855	P145,017,639	P514,322,494

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	
	2020	2019
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P16,152,609	P43,843,556
Adjustments for:		
Depreciation and amortization (Notes 11, 12 and 14)	9,311,872	8,996,614
Equity in net earnings of associate companies and joint ventures	(3,526,264)	(11,757,609)
Interest expense	8,274,303	8,873,418
Interest income	(1,468,597)	(2,049,460)
Unrealized foreign exchange (gain) loss and others	218,456	(422,699)
Dividend, management fees and others	(186,914)	(103,629)
Gain (loss) on fair value changes on derivatives - net	714	(101,176)
Income before working capital changes	28,776,179	47,279,015
Decrease (increase) in:		
Receivables and contract assets	(15,011,063)	(7,148,413)
Merchandise inventories	613,732	(2,294,854)
Other current assets	(3,578,268)	(384,297)
Land and development	(8,896,019)	(12,268,095)
Increase (decrease) in:		
Accounts payable and other current liabilities	(10,935,485)	6,079,072
Tenants' deposits and others	3,779,857	1,526,262
Net cash generated from (used in) operations	(5,251,067)	32,788,690
Income tax paid	(5,038,173)	(7,847,406)
Net cash provided by (used in) operating activities	(10,289,240)	24,941,284
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Investment properties	2,007	5,875
Financial assets	—	3,771,616
Property and equipment	50,733	13,680
Additions to:		
Investment properties (Note 12)	(10,659,437)	(13,101,469)
Property and equipment (Note 11)	(2,416,657)	(2,769,310)
Financial assets	(2,854,936)	—
Investments in associate companies and joint ventures	(37,500)	(6,889,704)
Decrease (increase) in:		
Time deposits	4,690	6,039,334
Other noncurrent assets	(8,548,834)	1,757,913
Dividends received	2,250,222	2,582,242
Interest received	1,484,507	2,062,513
Net cash used in investing activities	(20,725,205)	(6,527,310)

(Forward)

	Six-Month Periods Ended June 30	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Bank loans	P49,628,112	P3,469,500
Long-term debt	25,800,412	17,740,330
Payments of:		
Long-term debt	(24,794,019)	(10,810,833)
Bank loans	(32,329,683)	(8,084,783)
Interest	(10,496,470)	(10,686,051)
Lease liabilities	(1,556,306)	(1,434,599)
Dividends	(223,392)	(18,116,720)
Net cash provided by (used in) financing activities	6,028,654	(27,923,156)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,985,791)	(9,509,182)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(569,534)	(439,463)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD (Note 5)	76,213,774	79,313,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 5)	P50,658,449	P69,364,570

See accompanying Notes to Interim Condensed 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. On December 27, 2019, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation changing its corporate life to perpetual. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

SMIC is the largest publicly listed company in the Philippines that is invested 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 5, 2020.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The interim condensed consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which are measured at fair value.

The 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 are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

The accompanying interim condensed consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite the challenges posed by the COVID-19 pandemic. Whilst the pandemic may adversely impact short-term business results, long-term prospects remain attractive. The Group maintains a conservative Balance Sheet and is confident it would be able to navigate through these challenges and take on opportunities as these arise.

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, 2019.

Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. As at June 30, 2020, there were no significant changes in the Parent Company's ownership interest in its subsidiaries.

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.

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. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective except for the amendments to PFRS 16, *Leases*.

Unless otherwise indicated, adoption of these new standards did not have an impact on the interim condensed consolidated financial statements of the Group.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output; that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs which apply to all hedging relationships that are directly affected by the interest rate benchmark reform in case the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of "material" that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments beginning January 1, 2020. These amendments have no significant impact on the interim consolidated financial statements as at June 30, 2020.

4. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and financial services 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 financial services 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, 2020 (Unaudited)					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	P41,150,264	P139,065,132	P5,311,032	P-	P185,526,428
Inter-segment	5,045,086	-	1,118,343	(6,163,429)	-
	P46,195,350	P139,065,132	P6,429,375	(P6,163,429)	P185,526,428
Segment results:					
Income before income tax	P13,719,000	P1,216,608	P1,217,001	P-	P16,152,609
Provision for income tax	(2,757,830)	(644,615)	(136,821)	-	(3,539,266)
Net income	P10,961,170	P571,993	P1,080,180	P-	P12,613,343
Net income attributable to:					
Owners of the Parent	P5,593,336	P470,570	P1,028,675	P-	P7,092,581
Non-controlling interests	5,367,834	101,423	51,505	-	5,520,762

Six-Month Period Ended June 30, 2019 (Unaudited)					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	P51,683,565	P169,477,222	P12,559,947	P-	P233,720,734
Inter-segment	7,175,337	104,390	1,520,565	(8,800,292)	-
	P58,858,902	P169,581,612	P14,080,512	(P8,800,292)	P233,720,734
Segment results:					
Income before income tax	P25,166,841	P9,674,085	P9,002,630	P-	P43,843,556
Provision for income tax	(5,184,979)	(3,002,859)	(136,883)	-	(8,324,721)
Net income	P19,981,862	P6,671,226	P8,865,747	P-	P35,518,835
Net income attributable to:					
Owners of the Parent	P9,723,399	P4,589,065	P8,731,427	P-	P23,043,891
Non-controlling interests	10,258,463	2,082,161	134,320	-	12,474,944

Disaggregated revenue is consistent with the business segment revenues presented above.

Seasonality

Sales of the retail segment are cyclical and driven by seasonality. Historically, sales peak during the month of December for the Christmas period and in the month of 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, 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.

5. Cash and Cash Equivalents

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Cash on hand and in banks (Note 19)	P8,219,139	P19,218,912
Temporary investments (Note 19)	42,439,310	56,994,862
	P50,658,449	P76,213,774

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.

6. Time Deposits

This account consists of time deposits as follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Current	P30,815	P30,488
Noncurrent	2,126,205	2,412,972
	P2,157,020	P2,443,460

The time deposits bear interest ranging from 1.2% to 3.2% in 2020 and 2019.

7. Financial Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Financial assets at fair value through other comprehensive income (FVOCI):		
Shares of stock		
Listed	P24,087,076	P22,240,653
Unlisted	2,668,844	2,635,484
Club shares	15,300	12,500
	26,771,220	24,888,637
Less current portion	558,532	659,077
Noncurrent portion	P26,212,688	P24,229,560

8. Receivables and Contract Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Trade:		
Real estate buyers*	P82,203,558	P66,679,220
Third party tenants	8,711,620	8,469,829
Related party tenants (Note 19)	272,769	432,513
Others	42,430	66,747
Due from related parties (Note 19)	1,405,565	1,079,944
Management and service fees (Note 19)	2,571,365	2,212,623
Dividends (Note 19)	926,427	610,649
	96,133,734	79,551,525
Less allowance for expected credit loss (ECL)	1,152,847	1,053,549
	94,980,887	78,497,976
Less noncurrent portion of receivables from real estate buyers (Note 14)	26,501,069	24,880,776
Current portion	P68,479,818	P53,617,200

* Includes unbilled revenue from sale of real estate amounting to P61,850.2 million and P59,903.2 million as at June 30, 2020 and December 31, 2019, respectively.

Allowance for ECL pertains to receivables from tenants which were identified to be impaired based on specific assessment. Receivables other than those identified as impaired, are assessed as good and collectible.

9. Other Current Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Land and development (Note 13)	P35,765,967	P37,935,968
Prepaid taxes and other prepayments	14,533,008	13,985,109
Bonds and deposits	12,975,841	9,519,229
Condominium and residential units for sale (Note 13)	5,239,197	6,026,426
Non-trade receivables	4,990,417	4,362,489
Input tax	4,863,018	4,261,278
Receivable from banks	4,341,884	5,497,587
Accrued interest receivable (Note 19)	176,589	192,499
Escrow fund (Note 19)	143,040	117,985
Others	2,926,946	2,780,249
	P85,955,907	P84,678,819

10. Investments in Associate Companies and Joint Ventures

The ₱2.0 billion increase in this account pertains mainly to equity in earnings and share in net comprehensive income, net of dividends of associate companies and joint ventures.

11. Property and Equipment

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>									
Cost									
As at December 31, 2018	P13,655,272	P3,662,606	P7,836,767	P9,563,662	P9,422,640	P18,812,117	P964,311	P1,514,504	P65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination	—	—	750	86,517	14,443	—	1,562	—	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019 (Audited)	14,326,958	4,010,449	8,588,993	9,884,981	10,337,665	20,599,451	1,047,794	2,718,921	71,515,212
Additions	363,382	31,536	184,047	371,285	321,354	207,769	3,712	933,572	2,416,657
Effect of business combination	—	111	—	—	—	—	—	—	111
Reclassifications	44,340	5,172	(27,314)	488,173	53,678	245,612	—	(173,882)	635,779
Disposals/retirements	(7,199)	(4,550)	(97,592)	(47,985)	(44,447)	(752,347)	(300)	(2,730)	(957,150)
As at June 30, 2020 (Unaudited)	P14,727,481	P4,042,718	P8,648,134	P10,696,454	P10,668,250	P20,300,485	P1,051,206	P3,475,881	P73,610,609
Accumulated Depreciation and Amortization									
As at December 31, 2018	P5,873,280	P2,562,697	P6,199,111	P6,955,402	P6,218,401	P13,867,319	P554,002	P—	P42,230,212
Depreciation and amortization	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	—	4,934,250
Effect of business combination	—	—	205	33,216	2,643	—	1,157	—	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	—	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	—	(295,374)
As at December 31, 2019 (Audited)	6,524,772	2,847,421	6,866,473	8,380,192	7,173,549	14,402,453	599,479	—	46,794,339
Depreciation and amortization	359,718	88,227	337,066	416,152	501,186	692,458	30,187	—	2,424,994
Effect of business combination	—	11	—	—	—	—	—	—	11
Reclassifications	45,715	(3,372)	(14,819)	(761,453)	(23,232)	1,052,447	549	—	295,835
Disposals/retirements	(7,100)	(3,549)	(68,705)	(42,296)	(28,802)	(735,614)	(300)	—	(886,366)
As at June 30, 2020 (Unaudited)	P6,923,105	P2,928,738	P7,120,015	P7,992,595	P7,622,701	P15,411,744	P629,915	P—	P48,628,813
Net Book Value									
As at June 30, 2020 (Unaudited)	P7,804,376	P1,113,980	P1,528,119	P2,703,859	P3,045,549	P4,888,741	P421,291	P3,475,881	P24,981,796
As at December 31, 2019 (Audited)	7,802,186	1,163,028	1,722,520	1,504,789	3,164,116	6,196,998	448,315	2,718,921	24,720,873

12. Investment Properties

The movements in this account follow:

	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, 2018	P71,129,919	P239,322,133	P39,878,182	P38,753,649	P389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	—	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019 (Audited)	75,010,749	256,054,842	42,705,274	54,184,595	427,955,460
Additions	445,291	715,557	567,290	8,931,299	10,659,437
Reclassifications	505,460	4,492,966	245,741	(2,352,256)	2,891,911
Translation adjustment	(41,661)	(1,250,037)	(99,577)	(113,521)	(1,504,796)
Disposals	(81)	—	(27,691)	—	(27,772)
As at June 30, 2020 (Unaudited)	P75,919,758	P260,013,328	P43,391,037	P60,650,117	P439,974,240
Accumulated Depreciation and Amortization					
As at December 31, 2018	P2,153,121	P53,349,433	P24,317,055	P—	P79,819,609
Depreciation and amortization	244,454	7,297,151	3,064,236	—	10,605,841
Reclassifications	7,563	(11,523)	—	—	(3,960)
Effect of common control business combination	—	57,712	—	—	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	—	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	—	(119,973)
As at December 31, 2019 (Audited)	2,366,460	60,326,773	27,186,924	—	89,880,157
Depreciation and amortization	115,434	3,747,491	1,549,089	—	5,412,014
Translation adjustment	(25,530)	(243,446)	(58,396)	—	(327,372)
Disposals	(18)	—	(23,107)	—	(23,125)
As at June 30, 2020 (Unaudited)	P2,456,346	P63,830,818	P28,654,510	P—	P94,941,674
Net Book Value					
As at June 30, 2020 (Unaudited)	P73,463,412	P196,182,510	P14,736,527	P60,650,117	P345,032,566
As at December 31, 2019 (Audited)	72,644,289	195,728,069	15,518,350	54,184,595	338,075,303

Construction in progress pertains to construction costs incurred for new shopping malls, commercial buildings and redevelopment of existing malls.

Interest capitalized to investment properties amounted to P2,735.0 million and P3,143.3 million as at June 30, 2020 and December 31, 2019, respectively. Capitalization rates used range from 2.4% to 4.7% in 2020 and 2.4% to 5.1% in 2019.

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

The fair value of substantially all investment properties amounting to P1,350,307.2 million as at December 31, 2019 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. The emergence of COVID-19 pandemic poses a potential impact in the fair value measurement of investment properties.

The Company has no restriction on the realizability of its investment properties and no obligation to purchase, construct or develop, repair, maintain and/or enhance any of these properties.

13. Land and Development and Condominium and Residential Units for Sale

Land and Development

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

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of period	P37,935,968	P29,486,964
Reclassification to land and development - noncurrent, accounted as investment property	618	(7,227)
Development cost incurred	7,787,688	22,277,052
Transfer from land and development – noncurrent	216	1,810,966
Cost of real estate sold	(9,592,511)	(14,638,083)
Transfer to condominium and residential units for sale	(298,106)	(4,089,397)
Translation adjustment and others	(67,906)	3,095,693
Balance at end of period (Note 9)	P35,765,967	P37,935,968

The movements in “Land and development - noncurrent” accounted as investment property follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of period	P74,946,694	P53,928,447
Reclassification from land and development - current, accounted as real estate inventories	(618)	7,227
Land acquisitions	1,108,331	23,254,266
Reclassification to investment property	–	(432,280)
Transfer to land and development - current	(216)	(1,810,966)
Balance at end of period	P76,054,191	P74,946,694

Not included in land and development - current and noncurrent is the estimated cost to complete the projects amounting to P88,547.7 million and P74,238.1 million as at June 30, 2020 and December 31, 2019, respectively.

Land and development is stated at cost. There is no allowance for inventory writedown as at June 30, 2020 and December 31, 2019.

Condominium and Residential Units for Sale

The movements in this account follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of period	P6,026,426	P8,110,504
Transfer from land and development	298,106	4,089,397
Cost of real estate sold	(1,093,475)	(6,168,529)
Repossessed inventories and others	8,140	(4,946)
Balance at end of period (Note 9)	P5,239,197	P6,026,426

The condominium and residential units for sale are stated at cost as at June 30, 2020 and December 31, 2019.

14. Intangibles and Other Noncurrent Assets

Intangible Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Goodwill	P17,456,168	P17,458,431
Less accumulated impairment loss	91,620	91,620
Net book value	17,364,548	17,366,811
Trademarks and brand names	7,802,262	7,922,798
	P25,166,810	P25,289,609

Other Noncurrent Assets

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Bonds and deposits	P56,018,295	P48,643,102
Receivables from real estate buyers (Note 8)	26,501,069	24,880,776
Long-term notes (Notes 19 and 23)	5,848,397	5,942,878
Deferred input value-added tax	1,420,243	1,410,699
Derivative assets (Note 23)	258,226	826,315
Land use rights	352,030	377,722
Escrow fund (Note 19)	132,460	132,460
Defined benefit asset	138,294	95,057
Others	2,205,510	2,066,636
	P92,874,524	P84,375,645

15. Bank Loans

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Parent Company:		
U.S. dollar-denominated	P1,543,804	P–
Peso-denominated	7,500,000	8,829,900
Subsidiaries:		
Peso-denominated	26,953,782	9,880,565
	P35,997,586	P18,710,465

These loans bear interest ranging from 2.2% to 5.3% in 2020 and 3.8% to 7.9% in 2019.

16. Accounts Payable and Other Current Liabilities

This account consists of:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Trade	P 61,167,493	P85,996,862
Tenants and customers' deposits*	14,195,325	12,868,406
Accrued expenses	15,096,493	11,324,572
Nontrade	10,967,908	9,790,527
Payable arising from acquisition of land	5,174,902	4,769,349
Payables to government agencies	4,394,504	6,331,940
Accrued interest (Note 19)	3,068,905	2,833,930
Subscriptions payable	2,021,790	2,021,790
Due to related parties (Note 19)	427,278	1,031,812
Lease liabilities	1,584,711	1,534,154
Gift checks redeemable and others	4,150,729	2,948,422
	P122,250,038	P141,451,764

* Includes unearned revenue from sale of real estate amounting to P7,566.6 million and P6,022.6 million as at June 30, 2020 and December 31, 2019, respectively.

17. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<i>(In Thousands)</i>						
Parent Company						
U.S. dollar-denominated	June 10, 2014 - July 16, 2019	September 18, 2020 - June 28, 2024	Fixed 4.9%; three- month LIBOR + margin; semi-annual and quarterly	Unsecured	P44,207,120	P44,921,283
Peso-denominated	July 16, 2012 - April 2, 2020	August 7, 2020 - August 8, 2025	Fixed 4.5%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	67,010,410	68,498,010
Subsidiaries						
U.S. dollar-denominated	March 21, 2016 - April 15, 2019	January 29, 2021 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	39,132,645	39,749,299
China Yuan Renminbi- denominated	October 16, 2017	October 16, 2022	CBC rate less 10.0%; quarterly; Fixed 5.8%	Secured	2,450,608	2,670,803
Peso-denominated	January 12, 2012 - June 4, 2020	September 28, 2020 - August 7, 2029	Fixed 3.8%-7.6%; BVAL + margin	Unsecured	204,910,243	202,247,332
					357,711,026	358,086,727
Less debt issue cost					1,685,555	1,650,800
					356,025,471	356,435,927
Less current portion					58,756,652	29,077,719
					P297,268,819	P327,358,208

BVAL – Bloomberg Valuation

LIBOR – London Interbank Offered Rate

CBC – Central Bank of China

Repayment Schedule

The repayment schedule of long-term debt as at June 30, 2020 follows:

	Gross Debt	Debt Issue Cost	Net
<i>(In Thousands)</i>			
Within 1 year	P58,822,160	P65,508	P58,756,652
Over 1 year to 5 years	283,247,826	1,582,222	281,665,604
Over 5 years	15,641,040	37,825	15,603,215
	P357,711,026	P1,685,555	P356,025,471

Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime Holdings, Inc. (SM Prime's) loan covenants also include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 70:30 to 75:25, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at June 30, 2020 and December 31, 2019, the Group is in compliance with the terms of its debt covenants.

18. Equity

Capital Stock

a. Common stock

	Number of Shares	
	June 30, 2020 (Unaudited)	December 31, 2019 (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, 2020 and December 31, 2019, 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 1,259 and 1,261 as at June 30, 2020 and December 31, 2019, respectively.

b. Redeemable preferred shares

	Number of Shares	
	June 30, 2020 (Unaudited)	December 31, 2019 (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, 2020 and December 31, 2019.

Retained Earnings

▪ Appropriated

Retained earnings appropriated as at June 30, 2020 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount (In Thousands)
Debt service	2020 - 2023	₱27,000,000
Investments	2020 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declaration follows:

Declaration Date	Record Date	Payment Date	Per Share	Total
<i>(In Thousands)</i>				
June 24, 2020	July 9, 2020	July 23, 2020	P4.25	P5,119,477
April 24, 2019	May 9, 2019	May 23, 2019	9.12	10,985,796

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to P241,634.3 million and P237,286.0 million as at June 30, 2020 and December 31, 2019, 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.

19. 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.

Transactions with related parties are generally unsecured and normally settled in cash unless otherwise indicated in the table below.

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).

- Management and Service Fees

The Parent Company and SM Retail Inc. receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

- Dividend Income

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

- Cash Placements and Loans

The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO Unibank, Inc. and China Banking Corporation. Such accounts earn interest at prevailing market rates.

- Notes Receivable

The Group has certain notes receivable from Carmen Copper Corporation (see Notes 14 and 22).

- 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
	June 30, 2020	June 30, 2019	June 30, 2020	December 31, 2019		
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)		
<i>(In Thousands)</i>						
Banking Group						
Cash placement and investment in marketable securities			₱44,458,070	₱60,819,475	Interest-bearing at prevailing rates	Unsecured; no impairment
Interest receivable			96,174	96,400	—	—
Interest income	₱894,251	₱1,027,351			—	—
Interest-bearing debt			38,311,557	25,787,720	Interest-bearing	Unsecured
Interest payable			98,889	85,185	—	—
Interest expense	814,987	600,829			—	—
Rent receivable			96,086	130,907	Noninterest-bearing	Unsecured; no impairment
Rent income	237,253	504,872			—	—
Dividends receivable			605,698	13,462	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits			17,440,500	17,722,250	Interest-bearing 4.5%	Unsecured; no impairment
Management and service fee receivable			8,459	16,882	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	97	1,613			—	—
Escrow fund			275,500	250,445	Interest-bearing at prevailing rates	Unsecured; no impairment
Retail and Other Entities						
Rent receivable			176,683	301,606	Noninterest-bearing	Unsecured; no impairment
Rent income	523,298	1,027,523			—	—
Management and service fee receivable			1,839,480	1,938,102	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	603,077	444,742			—	—
Due from related parties			1,405,565	1,079,944	Noninterest-bearing	Unsecured; no impairment
Due to related parties			427,278	1,031,812	Noninterest-bearing	Unsecured
Interest receivable			10,235	9,905	—	—
Interest income	196,164	186,492			—	—
Dividends receivable			274,720	369,988	Noninterest-bearing	Unsecured; no impairment
Notes receivable			5,848,397	5,942,878	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

The Group did not make any provision for impairment loss relating to amounts owed by related parties.

20. Cost of Merchandise Sales

This account consists of:

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
	<i>(In Thousands)</i>	
Merchandise inventories at beginning of period	P33,157,622	P31,836,333
Purchases	103,099,188	123,111,451
Total goods available for sale	136,256,810	154,947,784
Less merchandise inventories at end of period	32,543,889	34,131,187
	P103,712,921	P120,816,597

21. Income Tax

Deferred tax assets of P3,655.7 million and P3,121.1 million as at June 30, 2020 and December 31, 2019, 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, lease liabilities and net operating loss carry over.

Deferred tax liabilities of P11,718.0 million and P9,604.0 million as at June 30, 2020 and December 31, 2019, respectively, consist of the tax effects of appraisal increment on investment property, right-of-use assets, 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 exempt from tax.

22. 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 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 each of 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 17).

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. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at June 30, 2020 and December 31, 2019, after taking into account the effect of the swaps, approximately 76.3% and 79.0%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

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, 2020, the Group's foreign currency-denominated assets and liabilities amounted to ₱26,484.8 million (\$531.5 million) and ₱25,295.2 million (\$507.6 million), respectively.

As at December 31, 2019, the Group's foreign currency-denominated assets and liabilities amounted to ₱25,817.4 million (\$509.9 million) and ₱24,115.0 million (\$476.3 million), respectively.

As at June 30, 2020 and December 31, 2019, approximately 22.2% and 23.1%, 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, 2020	December 31, 2019
Philippine Peso to U.S. Dollar	₱49.83	₱50.64

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, 2020 and December 31, 2019, 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, 2020 (Unaudited)	December 31, 2019 (Audited)
Gross	42%	41%
Net	39%	36%

23. 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, 2020 (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	P24,087,076	P24,087,076	P24,087,076	P-	P-
Unlisted shares of stock	2,668,844	2,668,844	-	-	2,668,844
Club shares	15,300	15,300	-	15,300	-
Derivative assets	1,002,585	1,002,585	-	1,002,585	-
	27,773,805	27,773,805	24,087,076	1,017,885	2,668,844
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,126,205	2,126,205	-	-	2,126,205
Other noncurrent assets:					
Bonds and deposits	17,440,500	20,379,913	-	-	20,379,913
Long-term notes	5,848,397	7,694,736	-	-	7,694,736
	25,415,102	30,200,854	-	-	30,200,854
	P53,188,907	P57,974,659	P24,087,076	P1,017,885	P32,869,698
Liabilities Measured at Fair Value					
Derivative liabilities	P3,806,967	P3,806,967	P-	P3,806,967	P-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion, net of debt issue cost)	297,268,819	298,050,583	-	-	298,050,583
Lease liabilities - noncurrent portion	26,984,383	37,843,227	-	-	37,843,227
Tenants' deposits and others*	37,422,781	35,064,960	-	-	35,064,960
	361,675,983	370,958,770	-	-	370,958,770
	P365,482,950	P374,765,737	P-	P3,806,967	P370,958,770

*Excluding nonfinancial liabilities amounting to P7,154.1 million.

		December 31, 2019 (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	P22,240,653	P22,240,653	P22,240,653	P-	P-
Unlisted shares of stock	2,635,484	2,635,484	-	-	2,635,484
Club shares	12,500	12,500	-	12,500	-
Derivative assets	826,315	826,315	-	826,315	-
	25,714,952	25,714,952	22,240,653	838,815	2,635,484
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,412,972	2,386,637	-	-	2,386,637
Other noncurrent assets:					
Bonds and deposits	17,722,250	19,763,982	-	-	19,763,982
Long-term notes	5,942,878	7,577,904	-	-	7,577,904
	26,078,100	29,728,523	-	-	29,728,523
	P51,793,052	P55,443,475	P22,240,653	P838,815	P32,364,007
Liabilities Measured at Fair Value					
Derivative liabilities	P1,966,090	P1,966,090	P-	P1,966,090	P-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	327,358,208	331,463,306	-	-	331,463,306
Lease liabilities - noncurrent portion	27,600,392	38,144,838	-	-	38,144,838
Tenants' deposits and others*	35,607,059	32,355,186	-	-	32,355,186
	390,565,659	401,963,330	-	-	401,963,330
	P392,531,749	P403,929,420	P-	P1,966,090	P401,963,330

*Excluding nonfinancial liabilities amounting to P5,086.4 million.

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at June 30, 2020 and December 31, 2019.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Noncurrent portion of time deposits	3.2% - 5.5%	4.4% - 4.7%
Long-term notes included under “Other noncurrent assets” account	0.2% - 0.3%	1.7% - 1.9%
Tenants’ deposits	1.8% - 5.5%	3.1% - 4.7%

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 0.2% to 4.6% and 1.7% to 6.5% as at June 30, 2020 and December 31, 2019, 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 2.3% to 6.3% and 3.0% to 7.0% as at June 30, 2020 and December 31, 2019, respectively.

Derivative Instruments Accounted for as Cash Flow Hedges

As at June 30, 2020, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount			Principal	Fair Value	Receive	Pay	US\$:PhP	US\$:CN¥	Maturity
	(In US\$)	(In PhP)	(In CN¥)							
	(In Thousands)									
Parent:										
	\$53,000	₱2,761,300		₱ 2,640,990	(₱296,537)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		4,983,000	(698,435)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,798,390	(521,782)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		4,983,000	(630,044)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		4,983,000	(593,992)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,491,500	(442,720)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		2,989,800	(532,930)	LIBOR + spread	6.4%	53.32		June 14, 2023
	25,000		¥172,100	1,245,750	(24,743)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,245,750	(24,072)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,491,500	87,721	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,491,500	38,080	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,491,500	51,146	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,491,500	35,514	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,491,500	27,967	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,491,500	38,500	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,793,880	28,113	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value		Interest Rate	US\$:CNY	Maturity
			Principal Only Swap	Interest Rate Swap			
			(In Thousands)				
SM Prime	US\$270,000	₱13,454,089	₱ 744,359	(₱89,984)	6.2%	¥6.458-¥6.889	January 29, 2021

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges are assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the interim consolidated statements of income amounted to nil in 2020 and ₱22.0 million gain in 2019.

24. EPS Computation

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
	(In Thousands Except Per Share Data)	
Net income attributable to owners of the Parent (a)	₱7,092,581	₱23,043,891
Weighted average number of common shares outstanding (b)	1,204,583	1,204,583
EPS (a/b)	₱5.89	₱19.13

25. Other Matters

COVID-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020 and further extended to May 15, 2020. The ECQ shifted to modified enhanced community quarantine (MECQ) until May 31, 2020 and to general community quarantine until June 30, 2020 for NCR and certain provinces. Subsequently, MECQ was once again imposed on select areas including Metro Manila and a few other provinces in the National Capital Region from August 4 to 18, 2020.

The COVID-19 pandemic has caused disruptions in the Group's business activities. As this global problem evolves, the Group would continually adapt and adjust its business model according to the business environment in the areas where the Group operates, in full cooperation with the national and local government units.

Management's Discussion and Analysis or Plan of Operation

Results of Operation

For the Six Months Ended June 30, 2020 and 2019

(amounts in billion pesos)

	Ytd June 2020 (Unaudited)	Ytd June 2019 (Unaudited)	% Change
Revenues	P 185.5	P 233.7	-20.6%
Cost and Expenses	162.5	183.7	-11.6%
Income from Operations	23.0	50.0	-53.9%
Other Charges	6.9	6.2	-11.7%
Provision for Income Tax	3.5	8.3	-57.5%
Net Income After Tax	12.6	35.5	-64.5%
Non-controlling Interests	5.5	12.5	-55.7%
Net Income Attributable to Owners of the Parent	P 7.1	P 23.0	-69.2%

SM Investments Corporation and Subsidiaries (the Group) reported P7.1 billion *Net Income Attributable to Owners of the Parent*, 69.2% lower than 2019, and P185.5 billion *Revenues*, 20.6% lower than 2019, reflecting the impact of COVID-19 global pandemic.

One of the immediate and wide-ranging initiatives of the Philippine government is the imposition of enhanced community quarantine (ECQ) from March 16 to May 15, modified ECQ (MECQ) from May 16 to May 31, 2020, and general community quarantine (GCQ) from June 1, 2020 to August 3, 2020. During these quarantine periods, certain stores and malls of the Group had to temporarily stop operations. The malls had to grant waivers on rent and/or extend rental discounts. In anticipation of delinquencies on receivables, the banks recorded significant impairment provisions in the 2nd quarter. The negative impact of these consequences is manifested in the Group results in the first half of the year.

Merchandise Sales, which decreased by 17.2% to P135.6 billion from P163.8 billion in 2019, accounts for 73.0% of total revenues in 2020. The decrease is attributable mainly to the effect of temporary closure of certain stores relative to the ECQ and MECQ.

Real Estate Sales increased by 11.8% to P23.5 billion from P21.0 billion in 2019 due primarily to higher construction accomplishments of launched projects including *Bloom*, *Vine*, *Spring* and *Lane* and fast take-up of various Ready-For-Occupancy (RFO) projects, particularly those located within Taguig and Mandaluyong. Even with the imposition of the ECQ and MECQ, SM Residences was able to adjust its market reach by maximizing various digital sales platforms and offering flexible payment terms to buyers. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), decreased by 37.6% to P15.7 billion from P25.2 billion in 2019. The decrease is attributable to waivers and/or discount on rentals granted to tenants since the start of the community quarantine.

Cinema Ticket Sales, Amusement and Others decreased by 75.4% to P1.0 billion from P3.9 billion in 2019. The cinema business suspended its operations starting March 15, 2020 relative to the closure of malls during the ECQ and MECQ periods.

Equity in Net Earnings of Associate Companies and Joint Ventures decreased by 70.0% to P3.5 billion from P11.8 billion in 2019 due mainly to the decrease in net income of bank and retail associates.

Dividend, Management Fees and Others decreased by 22.4% to P6.3 billion from P8.1 billion in 2019 resulting mainly from the effects of the closure of certain stores and malls during the ECQ period.

Operating Expenses decreased by 9.1% to P48.1 billion from P52.9 billion in 2019 attributable mainly to the scaled-down operation of certain stores and malls during the ECQ period. Operating expenses include utilities, rent, taxes and licenses, transportation and travel, and manpower costs.

Income from Operations decreased by 53.9% to P23.0 billion from P50.0 billion in 2019. *Operating Margin* and *Net Margin* is at 12.4% and 6.8%, respectively.

Other Charges (net) increased by 11.7% to P6.9 billion from P6.2 billion in 2019. *Interest Expense* decreased by 6.8% to P8.3 billion from P8.9 billion in 2019 while *Interest Income* decreased by 28.3% to P1.5 billion from P2.0 billion in 2019.

Provision for Income Tax decreased by 57.5% to P3.5 billion from P8.3 billion in 2019 due mainly to lower taxable income. The effective income tax rate is 21.9% in 2020 and 19.0% in 2019.

Non-controlling interests decreased by 55.7% to P5.5 billion from P12.5 billion in 2019 due mainly to the decrease in net income of partly-owned subsidiaries.

Financial Position

As at June 30, 2020 and December 31, 2019

(amounts in billion pesos)

	06 / 30 / 2020 (Unaudited)	12 / 31 / 2019 (Audited)	% Change
Current Assets	P 238.2	P 248.4	-4.1%
Noncurrent Assets	918.6	895.8	2.5%
Total Assets	P 1,156.8	P 1,144.2	1.1%
Current Liabilities	P 229.2	P 196.7	16.5%
Noncurrent Liabilities	388.1	411.3	-5.6%
Total Liabilities	617.3	608.0	1.5%
Total Equity	539.5	536.2	0.6%
Total Liabilities and Equity	P 1,156.8	P 1,144.2	1.1%

Total Assets increased by 1.1% to P1,156.8 billion from P1,144.2 billion in 2019. Likewise, total Liabilities increased by 1.5% to P617.3 billion from P608.0 billion in 2019.

Current Assets

Current Assets decreased by 4.1% to P238.2 billion from P248.4 billion in 2019.

Cash and Cash Equivalents decreased by 33.5% to P50.7 billion from P76.2 billion in 2019 due mainly to payments for trade, investments and capital expenditures, partially offset by the proceeds from SM Prime's bond issuance in March 2020.

Receivables and Contract Assets increased by 27.7% to P68.5 billion from P53.6 billion in 2019 due mainly to the increase in receivables from real estate buyers and to the impact of the Bayanihan to Heal as One Act mandating an extended grace period for the payment of loan amortizations that matured during the ECQ.

Other Current Assets increased by 1.5% to P86.0 billion from P84.7 billion in 2019 due mainly to the increase in advances and deposits to suppliers and contractors.

Noncurrent Assets

Noncurrent Assets increased by 2.5% to P918.6 billion from P895.8 billion in 2019.

Financial assets increased by 8.2% to P26.2 billion from P24.2 billion due mainly to additional investments.

Investments in Associate Companies and Joint Ventures increased by 0.7% to P283.0 billion from P281.0 billion in 2019. The increase mainly represents equity in net earnings of associates, partly offset by dividends received in 2020 and fair value loss on the financial assets of associates.

Investment Properties increased by 2.1% to P345.0 billion from P338.1 billion in 2019 due mainly to ongoing new mall projects and commercial building construction as well as the redevelopment of *SM Mall of Asia* and other existing malls.

Other Noncurrent Assets increased by 10.1% to P92.9 billion from P84.4 billion in 2019 due mainly to additional bonds and deposits for real estate acquisitions and construction for the period.

Current Liabilities

Current Liabilities increased by 16.5% to P229.2 billion from P196.7 billion in 2019.

Bank Loans increased by 92.4% to P36.0 billion from P18.7 billion in 2019 due to new loan availments, partly offset by payments during the period.

Accounts Payable and Other Current Liabilities decreased by 13.6% to P122.2 billion from P141.5 billion in 2019 due mainly to the settlement of trade payables partly offset by the increase in payable to contractors and suppliers related to ongoing projects and customers' deposits.

Current Portion of Long-term Debt increased by 102.1% to P58.8 billion from P29.1 billion in 2019 due mainly to the reclassification from noncurrent of maturing loans.

Dividends Payable increased by 180.4% to P11.8 billion from P4.2 billion in 2019. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities decreased by 5.6% to P388.1 billion from P411.3 billion in 2019.

Long-term Debt - Net of Current Portion decreased by 9.2% to P297.3 billion from P327.4 billion in 2019 due mainly to maturing debts reclassified to current, partly offset by new debt availments.

Deferred tax liabilities increased by 22.0% to P11.7 billion from P9.6 billion due mainly to unrealized gross profit on sale of real estate for income tax purposes.

Tenants' Deposits and Others increased by 11.5% to P52.1 billion from P46.7 billion in 2019. This account includes deposits from residential buyers and tenants in new malls and office buildings.

Equity

Total *Equity* increased by 0.6% to P539.5 billion from P536.2 billion in 2019.

Equity Attributable to Owners of the Parent increased by 0.1% to P383.0 billion from P382.6 billion in 2019.

Non-controlling Interests increased by 2.0% to P156.5 billion from P153.5 billion in 2019 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

The COVID-19 pandemic has caused disruptions to the various businesses of the group - retail, property and banking. With the uncertain environment, the Group will continually adapt its business model to serve and fulfill the needs of customers. The Group will continue to prioritize the health and safety of all stakeholders as well as the convenience of customers.

The Group has no known direct or contingent financial obligation that is material to the Group operations, including any default or acceleration of an obligation. The Group has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the Group's continuing operations other than those mentioned above.

Key Performance Indicators
As at June 30, 2020 and 2019 and December 31, 2019

The key financial ratios of the Group follow:

	06/30/2020 (Unaudited)	12/31/2019 (Audited)
Current Ratio	1.0	1.3
Asset to Equity	2.1	2.1
Debt – Equity Ratios:		
On Gross Basis	42 : 58	41 : 59
On Net Basis	39 : 61	36 : 64
Return on Equity	7.5%	11.9%

	Ytd June 2020 (Unaudited)	Ytd June 2019 (Unaudited)
Revenue Growth	-20.6%	14.4%
Net Margin	6.8%	15.2%
Net Income Growth	-69.2%	27.4%
EBITDA (<i>In Billions of Pesos</i>)	32.3B	59.0B
Interest Cover	3.9x	6.7x

Current Ratio decreased to 1.0 from 1.3 in 2019 due mainly to the 4.1% decrease in *Current Assets* vs. 16.5% increase in *Current Liabilities*.

Gross Debt - Equity Ratio increased to 42:58 in 2020 due mainly to the 4.5% increase in gross debt.

Net Debt - Equity Ratio increased to 39:61 from 36:64 in 2019 due mainly to the 13.7% increase in net debt.

Return on equity decreased to 7.5% from 11.9% in 2019 due mainly to the drop in net income growth in the second quarter of 2020.

Revenue Growth decreased to 20.6% from 14.4% in 2019 due mainly to the significant drop in merchandise sales and rental revenues during the quarantine period relative to the COVID-19 pandemic.

The negative *Net Income Growth* of -69.2% in 2020 is the result of the -20.6% decrease in revenues.

The -45.2% drop in EBITDA reflects the significant drop in revenues.

Interest Cover decreased to 3.9x from 6.7x in 2019 due to the 45.2% decrease in EBITDA vs. 6.8% decrease 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. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
3. Debt – Equity Ratio
 - a. Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity} + \text{Total Interest Bearing Debt}}$
 - b. Net Basis $\frac{\text{Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investment in Bonds}}{\text{Total Equity} + \text{Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investments in Bonds}}$
4. Revenue Growth $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
5. Net Margin $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
6. Net Income Growth $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
7. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
8. EBITDA
Income from Operations + Depreciation & Amortization
9. Interest Cover $\frac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects in 2020

SM Prime, which comprise bulk of the Group's capital expenditures, is continuing with its landbanking activities and construction projects. It is utilizing its Retained Earnings appropriation to cover part of the funding requirements of these projects.

PART I FINANCIAL INFORMATION

Item 3. Aging of Accounts Receivable - Trade

As of June 30, 2020

(in Thousands)

Receivable from tenants		
Third party	P	8,711,620
Related party		272,769
Receivable from real estate buyers		
- net of noncurrent portion		55,702,489
Other trade receivables		42,430
Total	P	<u>64,729,308</u>

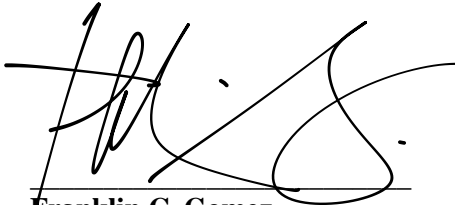
Aging:

Neither past due nor impaired	P	58,706,249
31-90 days		376,397
91-120 days		844,322
Over 120 days		3,649,492
Impaired		1,152,848
Total	P	<u>64,729,308</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**

A handwritten signature in black ink, appearing to read 'F. Gomez', is written over a horizontal line.

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

Date: 8-12-20